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Increasing Financial Inclusion Towards Reducing Poverty Levels in Indonesia: A Literatur Review

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Abstract.
Financial inclusion has risen to the top of the global reform agenda, owing to its ability to break the cycle of poverty and reduce income disparities. The purpose of this study is to look into promoting financial inclusion in order to reduce poverty levels in Indonesia. A literature study from national and international journal sources was employed in this research, with a time frame of 2019-2023. The research findings indicate that financial inclusion is critical since it refers to the general public's and businesses' access to and utilization of acceptable financial services. Financial inclusion can promote economic growth while enhancing the economy for society. In addition, financial inclusion is a strategy that the government can use with private support to overcome poverty through the National Strategy Program for Financial Inclusion and Improvement of Banking Infrastructure.
Keywords: *financial inclusion, poverty, Indonesia.*

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1. Introduction

Poverty represents a pervasive issue that impacts nations globally, as articulated in the Sustainable Development Goals (SDGs), with the initial objective being the complete elimination of poverty in its various manifestations. This demonstrates the gravity and commitment of governments worldwide in their efforts to mitigate poverty. According to Sari et al. (2022), poverty is characterized by the incapacity to fulfill essential food and non-food requirements, typically measured as a daily caloric intake of 2100 kcal per capita. The issue of extreme poverty continues to persist in Indonesia, given its status as a developing nation. In accordance with the 2020-2024 RPJM, the Indonesian government is diligently and

resolutely striving to eliminate poverty. One of the key objectives of national development is the reduction of poverty (Prakarsa & Bintoro, 2023).

According to the Central Statistics Agency's data (2023), the poverty rate in March 2023 stood at 25.90 million individuals, reflecting a decrease of 0.46 million individuals compared to September 2022 and a decrease of 0.26 million individuals compared to March 2022. In March 2023, the poverty rate stood at 9.36 percent, indicating a decrease of 0.21 percentage points compared to September 2022 and a decrease of 0.18 percentage points compared to March 2022.

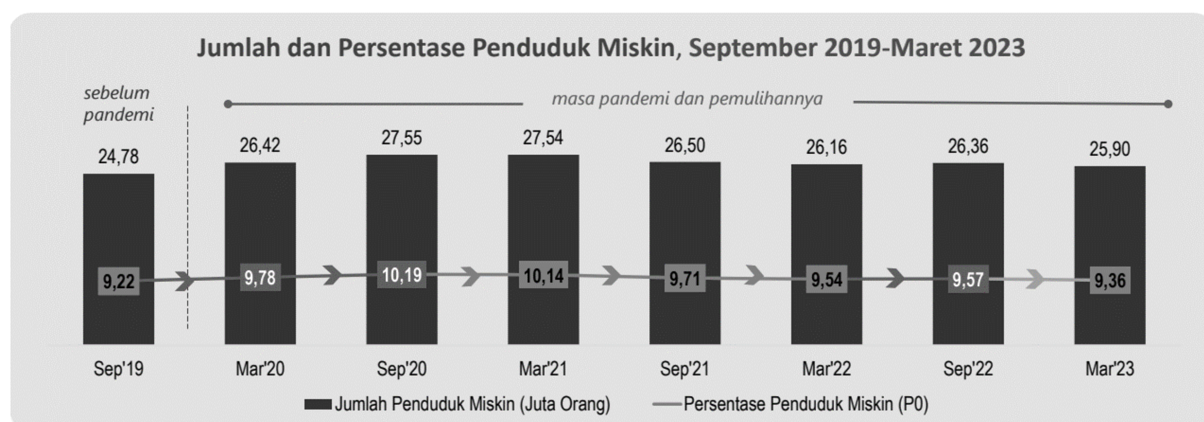

Figure 1. Number and Percentage of Poor Population
Source: (Central Statistics Agency [BPS], 2023)

The achievement of reducing or eradicating absolute poverty hinges upon the attainment of sustainable levels of economic growth and the equitable distribution of its resultant benefits within society. According to Amar et al. (2020), various studies have indicated that economic growth can contribute to the reduction of poverty levels. In a recent study conducted by Omar & and Inaba (2020), it was found that the pace of poverty reduction in developing nations is decelerating as a result of the pronounced levels of income inequality. This disparity in income distribution is widely recognized as a significant impediment to economic advancement. In pursuit of this objective, the World Bank has established a target of eradicating extreme poverty by the year 2030, while concurrently fostering inclusive growth for the bottom 40% of the population in all nations using mitigating income disparities.

Hence, the issue of financial inclusion has emerged as a prominent item on the global reform agenda, garnering significant attention due to its capacity to disrupt the detrimental cycle of poverty and mitigate disparities in income distribution. The current state of the financial system in reality remains significantly lacking in inclusivity. As a result, there is a growing focus on the concept of financial inclusion, recognizing its potential to drive transformative progress towards inclusive development. This study seeks to investigate the relationship between enhancing financial inclusion and alleviating poverty rates in Indonesia, concerning the aforementioned background information.

2. Research Method

The research employed a literature review methodology, which involved conducting an online search using various journal search websites including Google Scholar, Science

Direct, and the Garuda Portal. The purpose of the search was to identify relevant national and international scientific journal articles.

A subject-based search was conducted using the keywords "Financial Inclusion," "Poverty," and "Economic Growth" as the primary focus. The search results primarily prioritize scientific articles that stem from research reports or publications in scholarly journals. The search excludes articles that solely consist of abstract concepts and restricts the subjects of the articles to the period between 2019 and 2023.

3. Results and Discussion

Table 1. Literature Review Results

No	Author, Year	Title	Method	Conclusion
1	(Shofawati, 2019)	*The Role of Digital Finance to Strengthen Financial Inclusion and the Growth of SMEs in Indonesia*	Qualitative	The availability of digital finance can encourage financial inclusion, making it easier for people to obtain funding, especially for SMEs, the majority of whom are not yet familiar with the banking system. This is how digital finance can strengthen financial inclusion and SME growth in Indonesia. SMEs can obtain money and funding for operations, investment, and growth opportunities based on financial inclusion based on digital finance.
2	(MacHdar, 2020)	*Financial inclusion, financial stability and sustainability in the banking sector: The case of Indonesia*	Quantitative	The research results show that (a) financial inclusion does not affect sustainable economic growth in Indonesian banking companies, and (b) financial system stability mediates the effect of financial inclusion on sustainable economic growth in Indonesian banking companies.
3	(Andrian et al., 2021)	*Financial inclusion and its effect on poverty in Indonesia*	Random Effects Model (REM) Approach	In 33 provinces in Indonesia from 2014 to 2018, the credit/GRDP ratio varied significantly and had a negative impact on poverty levels. Meanwhile, the economic growth variable has a detrimental but small impact on poverty levels. The inflation factor has a detrimental but negligible impact on the poverty rate. During the research period, the poverty rate in 33 provinces in Indonesia was positively and significantly impacted by the unemployment rate variable.
4	(Fauzan et al., 2020)	*Regional financial inclusion and poverty: Evidence from Indonesia*	spatial panel econometric	One of the main causes of low financial system inclusion in various provinces and its negative impacts is poverty. Changes in

No	Author, Year	Title	Method	Conclusion
			approach	poverty levels in a province have an impact on financial inclusion not only in that province but also indirectly in other provinces. In DI Yogyakarta Province, for example, a 1% reduction in the poverty rate tends to increase the financial inclusion index by 0.8%, while lower increases occur in other provinces.
5	(Erlando et al., 2020)	*Financial inclusion, economic growth, and poverty alleviation: evidence from eastern Indonesia*	Toda-Yamamoto VAR and dynamic Panel Vector Autoregression (PVAR) bivariate causality models	The findings of the bivariate causality model show that in Eastern Indonesia there is a strong correlation between financial inclusion, economic growth, poverty, and income distribution. The level of financial inclusion is positively impacted by socio-economic growth, while poverty is negatively impacted. Income inequality is widespread in Eastern Indonesia as a result of the positive impact of financial inclusion on inequality.
6	(Jaya, 2019)	*The Impact of Financial Inclusion on Public Financial Services Education through Financial Technology in Sleman Regency, Indonesia*	Quantitative-Literature study	First, it is known that the financial inclusion variable does not have a large enough influence on the education of the population of Sleman Regency in the field of public financial services in 2018. Second, in Sleman Regency in 2018, the financial inclusion factor was proven to have a good and quite large impact on financial technology. Third, financial technology has had a positive and significant influence on public financial services education in Sleman Regency in 2018 as a result of financial inclusion.
7	(Nizam et al., 2020)	*Financial inclusiveness and economic growth: new evidence using a threshold regression analysis*	Quantitative	There is a threshold effect on the relationship between financial inclusiveness and economic growth. In terms of policy implications, this research shows that policy formulation in the context of financial inclusion is based on improving the financial inclusion index.

(Source: Processed data, 2023)

The Importance of Financial Inclusion

Financial inclusion, as defined by Bank Indonesia, encompasses the systematic endeavor to eradicate both price and non-price obstacles that hinder the general populace

from embracing and utilizing financial services. Financial inclusion refers to the systematic implementation of regulations pertaining to financial services, to eliminate any societal perceptions that hinder the provision of equitable pricing, appropriate practices, and timely access to such services (Machdar, 2020).

Financial inclusion has become a prevalent objective among central banks in developing nations. The conventional concept of inclusive finance entails facilitating individuals' access to and utilization of a wide range of financial services that are convenient and cost-effective. Moreover, the accessibility and utilization of financial services play a pivotal role in fostering economic development. Increased financial accessibility will have a more pronounced effect on the expansion of Gross Domestic Product (GDP). Inclusive finance refers to the provision of financially sustainable, contextually appropriate, cost-efficient, and impactful financial services to underserved communities and individuals residing in rural areas. Financial inclusivity encompasses a comprehensive range of endeavors aimed at ensuring that formal financial services are made readily available, easily accessible, and economically feasible for all strata of society (Nizam et al., 2020).

Hence, the significance of financial inclusion lies in its ability to ensure sufficient accessibility and effective implementation of financial services among households and businesses. This is crucial for societal advancement as it enables impoverished families to enhance their livelihoods while fostering economic development. The concept of budget integration encompasses the presence of established financial management practices within a community, such as the administration of shop and bank accounts, installment management, credit utilization, and insurance. It further implies that community members possess the necessary knowledge and skills to actively and effectively utilize these services to fulfill their financial requirements. In contrast, financial inclusion refers to the modification or enhancement of financial services to cater to the requirements of various segments of society as a whole (Shofawati, 2019).

The Impact of Financial Inclusion on Economic Growth

Basically, the impact of financial inclusion on economic growth is poverty alleviation. Nevertheless, Boukhatem's study eliminates the growth assumption, thereby establishing a direct connection between financial inclusion and poverty alleviation. The data used in this research is derived from 67 low and middle-income countries during the period of 1988-2012. The findings indicate that there exists a significant correlation between the level of financial development and the extent to which poverty is alleviated. The aforementioned phenomenon pertains to the expansion of the money supply or banking credit, which plays a role in enhancing the well-being of individuals with lower socioeconomic status. Additionally, it facilitates an increase in financial transactions, thereby creating avenues for the accumulation of capital, equitable distribution of income, and seamless consumption (Fauzan et al., 2020).

The extent of sustainable economic growth and its impact on societal welfare will ultimately determine the potential for reducing or eradicating absolute poverty. Simultaneously, the process of economic expansion played a significant role in the reduction of poverty levels. Nevertheless, it is worth noting that income inequality does not exert a significant influence on this particular scenario. The undeniable assertion is that the distribution of income plays a significant role in the interplay between economic growth and

the mitigation of poverty (Amar et al., 2020). Hence, the extent to which economic growth contributes to the reduction of poverty is contingent upon the level of income inequality. This observation demonstrates that despite similar levels of economic growth, countries experience varying degrees of poverty.

Financial inclusion is a strategic approach aimed at enhancing the stability of the financial system, fostering economic growth, alleviating poverty, and reducing income inequality within society. This approach is in line with the provisions outlined in Presidential Regulation Number 114 of 2020, which pertains to the National Strategy for Financial Inclusion. The government introduced a comprehensive approach to financial inclusion, encompassing six key pillars: public financial facilities, financial education, financial information mapping, supporting policies, intermediary facilities, distribution channels, and consumer protection. According to Ayu Az Zahra and Ajija (2023), the objective of these six pillars is to enhance public awareness regarding the presence of financial institutions and broaden their sphere of impact, thereby enabling diverse segments of society to derive advantages from them.

Afolabi (2020) examines the impact of inclusive finance on inclusive economic growth in other countries. According to the findings of Afolabi's (2020) study, there exists a positive correlation between inclusive economic growth and factors such as rural credit, bank branch offices, and liquidity levels. The researcher discovered that the provision of fair and just financial services has the potential to enhance the overall productivity of a nation and foster inclusive economic growth. In the present study conducted by Machdar (2020), it was found that the impact of financial inclusion on sustainable economic growth in Indonesian banking companies is negligible. Additionally, the study revealed that the relationship between financial inclusion and sustainable economic growth is mediated by the stability of the financial system in Indonesian banking companies. Financial inclusion refers to the provision of comprehensive and accessible financial services to individuals and communities.

Increasing Financial Inclusion towards Reducing Poverty Levels

Digital finance is presented by the private sector as a viable means to enhance financial inclusion. Private sector entities, including Fintech and financial services firms, possess the ability to provide digital financial products and services to individuals who are economically disadvantaged and marginalized. This can serve as a means to incentivize their involvement in the formal financial sector, utilizing digital platforms accessible through mobile devices. In the event that marginalized populations possess digital banking credentials, encompassing online banking login passwords and other forms of digital access credentials, they possess the ability to establish a connection between their bank accounts and digital payment channels, thereby facilitating the execution of fundamental financial transactions. Furthermore, the inclusion of low-income and impoverished individuals within the digital financial system will be facilitated by the affordability of accessing digital finance (Ozili, 2018).

In the past 17 years, there has been a noticeable acceleration in the financial development of Indonesia. Based on data from Bank Indonesia (2018), the number of commercial bank accounts in 2017 was recorded at 315 million, indicating a significant increase from the 66 million accounts reported in 2000. The disparity in the distribution and

accessibility of formal financial services across different regions is evident through various indicators obtained from the banking financial system. As an illustration, it can be observed that the adult population residing in the provinces of East Nusa Tenggara and DKI Jakarta possess a substantial number of financial institution accounts, with each adult having more than four such accounts on average. This is determined by calculating the ratio of savings accounts to the total adult population in these regions. According to Andrian et al. (2021), individuals in other regions typically possess a limited number of accounts, ranging from one to two, within regulated financial institutions.

The anticipated enhancement in financial inclusion has not been realized despite the implementation of various measures to improve banking infrastructure, such as the establishment of additional branch offices and the deployment of ATMs. Due to the predominant concentration of these branch offices within urban regions, a considerable portion of the population residing in rural areas across numerous small islands in Indonesia encounter limited accessibility to banking services. The National Strategy for Financial Inclusion (SNKI) represents a key initiative undertaken by the Indonesian government to enhance financial inclusion within the country. The implementation of the National Strategy for Financial Inclusion (SNKI) program by the Indonesian government serves as a strategic approach to address poverty reduction and the mitigation of disparities through the promotion of financial inclusion. The Indonesian government is currently implementing reforms through the ratification of Presidential Regulation Number 114 of 2020, which pertains to the National Strategy for Financial Inclusion (SNKI). (Prakarsa & Bintoro, 2023)

Savings products provided by both banks and non-bank financial institutions serve as the primary avenue through which individuals may access formal financial services. The act of saving can contribute to the development and maintenance of effective money management skills, as well as the establishment of well-organized personal financial records. Through this approach, individuals have the opportunity to advance to the subsequent stage, characterized by the allocation of resources towards the enhancement of their well-being, acquisition of knowledge, and exploration of entrepreneurial opportunities. Having a favorable credit history can facilitate the acquisition of credit and funding for aspiring entrepreneurs, including government-sponsored credit programs like People's Business Credit (KUR) and other business credit options, which typically offer reasonable interest rates. Saving, investing, and credit/financing are among the financial activities that ought to be employed to enhance income and enhance overall welfare. Inclusive finance has the potential to foster economic growth using expanding financial markets, ensuring financial stability, reducing reliance on external capital, and mitigating the occurrence of cascading effects (Susanto, 2020).

The study conducted by Shofawati (2019) revealed that financial inclusion serves as a viable approach for mitigating or diminishing poverty; however, it should be noted that it is not the sole strategy in this regard. Additional approaches to tackle poverty encompass governmental intervention in the form of welfare benefits and unemployment benefits, as well as direct or indirect involvement by foreign governments, philanthropists, and charitable organizations. The task of reducing poverty by enhancing financial inclusion can be undertaken by either the public or private sector, or through collaborative efforts involving both sectors.

4. Conclusion

The conclusions drawn by the researchers are based on the findings presented in the discussion section of the study. Financial inclusion holds significant importance as it pertains to the provision of sufficient access and utilization of financial services for both the general populace and enterprises. The promotion of financial inclusion has the potential to enhance societal economic conditions and foster economic expansion. Moreover, the provision of fair and just financial services has the potential to enhance the overall productivity of a nation and foster inclusive economic growth. In addition to this, financial inclusion represents a strategic approach that the government can employ, with private sector assistance, to address poverty through the implementation of the National Strategy Program for Financial Inclusion and the enhancement of banking infrastructure.

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