



# Indonesian Financial Inclusion – Too Slow by Half!



Bringing financial services to people is key to enhancing the opportunities for low-income households to participate in development and reap its fruits. Savers put up their funds while entrepreneurs spot opportunities for their talents. By connecting savers and entrepreneurs, a bank or financial institution connects funds to talent in the best possible way. By giving loans to poor students so that they can pursue their chosen training, these institutions allocate investor funds to create talent and opportunities for the future.

The evidence, however, remains thin on how many people use financial services in developing countries. Recent research suggests that financial inclusion (defined as ‘owning a bank account’) remains low. The Global Financial Inclusion database of the World Bank reveals that in Indonesia, one in three adults of prime age were financially included as of 2014. In comparison, among Indonesia’s East Asia & Pacific neighbours the figures double to two in three, while among lower-middle-income countries worldwide it is generally at 42% (<http://www.worldbank.org/en/programs/globalindex>).

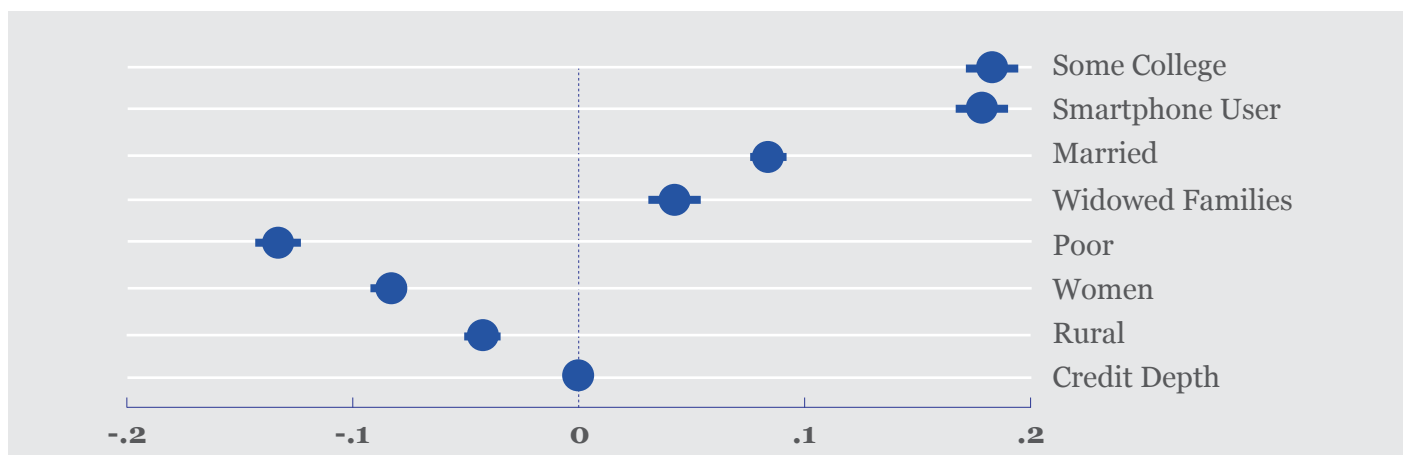
*MicroSave’s* research in Indonesia reveals more details. This is based on three years of Financial Inclusion Insight data. Our Financial Inclusion Insight programme has collected evidence on financial inclusion in eight Asian and African countries since 2013. The Bill & Melinda Gates Foundation has funded the programme (<http://finclusion.org>). In Indonesia, at least 18,000 Indonesians of prime age have shared their financial service information between 2014 and 2016. These annual surveys showed relatively constant financial inclusion figures of 22%, 24%, and 27% – or around one in four.

Because the rates have not changed much over these years, we can pool the surveys to produce a map of financial inclusion across the sprawling Indonesian archipelago. Observers familiar with Indonesian development would not be surprised at the evident spatial disparity. However, uncharacteristically, the Papua provinces which used to lag across many development outcomes reported figures slightly higher than the average.

See map.



What accounts for this spatial disparity in financial inclusion across groups in society? Decentralisation and particularly the politics of local leaders (*orang setempat*) are some of the drivers behind the variations in development, which have a strong spatial character. When this is included in multilevel models,<sup>†</sup> the analysis yields both familiar and novel patterns. See *coefficient plot*.



Income-poor\* families (including student members in their midst) are less likely to have an account, and so are women and rural residents.

However, in cases when widows head families, they are more likely to use financial services and open an account. More generally, married and better-educated people are also more likely to have one. Strikingly, unlike the global story from the World Bank Global Financial Inclusion project, this analysis in Indonesia suggests that credit-depth, measured as the number of loans per population, makes no difference to the probability of being financially included.

Savers, entrepreneurs, investors, students, clients and banks all fundamentally trade on funds and information. Therefore ubiquitous smartphones should make a difference. Indeed, the analysis showed that smartphone use correlates with financial inclusion.

But mobile money has not taken hold yet. Among the income-poor, less than 0.5% used any mobile money services (*uang ponsel*: BBM, Skye, Ovo and others). Among the non-poor, this figure climbs to less than 1%.

Financial inclusion in Indonesia has been growing slowly. More concerted effort including monitoring by collecting this information in the annual socioeconomic survey or *Susenas* is needed to bring the income-poor and other disadvantaged groups into the fold of financial inclusion.

## References

We thank the Bill & Melinda Gates Foundation which provided the data through The Financial Inclusion Insights Programme, InterMedia (<http://finclusion.org>), and Shanti Ottemusu for the credit-depth data.

Note: \*Income-poor is defined by the Financial Inclusion Insight, Intermedia, following Grameen Bank’s work on financial inclusion.

† We had applied multilevel or random intercepts logistic regression since people reside in the provinces. Covariates included age, gender, education, marital status, literacy, financial literacy, family size, widow as family head, residence, credit-depth (circulating credit per thousand adults: Bank Indonesia), five regions of development (Java and Bali, Sumatra, Kalimantan, Sulawesi, and outlying islands).



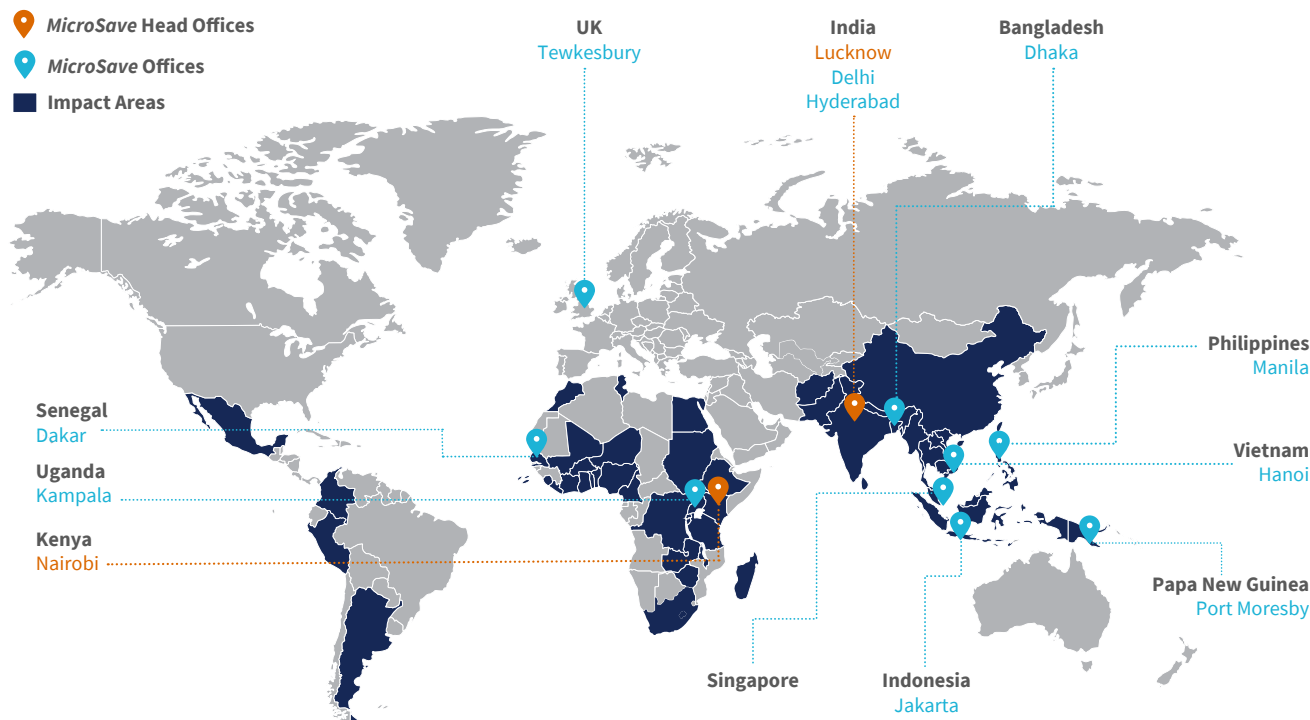
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## About *MicroSave*

*MicroSave* is an international financial inclusion consulting firm with nearly 20 years of experience, operating in eleven offices across Asia and Africa. Our mission is to strengthen the capacity of institutions to deliver market-led, scalable financial services for all. We guide policy, provide customised strategic advice and on the ground implementation support.



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