

## **BAB I**

### **INTRODUCTION**

#### **A. BACKGROUND**

Development is a process of change towards a better and sustainable direction to achieve goals. In this case, development in Indonesia is categorized as national development, where one of the goals of national development is to improve the performance of national finance to be able to create jobs and organize a life that benefits people who advance to create the welfare of the Indonesian population. Development is carried out based on its commitment to improving the welfare of the community and the standard of living of the city (Fathurrahman, 2012). Through economic development, overcoming development, and social problems, one of the goals of development is to reduce poverty.

A very complicated problem in developing countries or not is poverty. The term poverty occurs when a person or group of people are unable to meet the level of economic prosperity, which is considered as a minimum requirement of a certain standard of living. The poverty condition of a country or region is also a reflection of the level of welfare of the population living in that country / region (Zuhdiyaty & Kaluge, 2018).

Poverty is not only seen from the inability to fulfill basic needs such as clothing, food, and housing. But more than that, debt can also be seen from the limited access to education, employment, and economic growth (Girsang, 2013). Economic growth in developing regions not only increases regional

income by increasing the production of goods and services, but in this case, there must be an element in the pattern of building people physically, spiritually, and changing their destiny to try to escape poverty and underdevelopment.

Riau is one of the provinces rich in natural resources, making Riau one of the wealthiest areas in the archipelago. Riau has oil palm plantations up to abundant petroleum. However, even though Riau is already rich in natural resources, there are still many Riau people who are classified as weak.

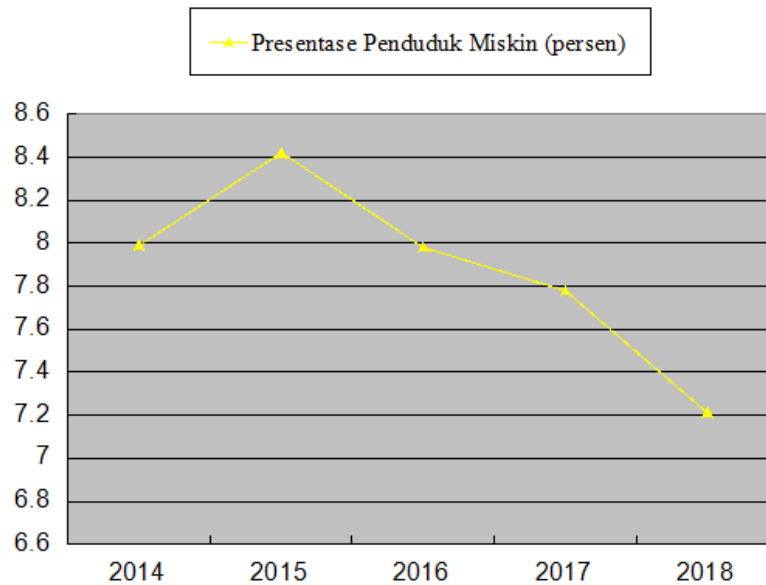
**TABLE 1. 1**

Poverty Rate in Riau Province 2014-2018

Year	Total Population (thousand inhabitants)	Total Poor Population (hundreds inhabitants)	Percentage of Poor Population (percent)
2014	6.188.442	498.28	7,99 %
2015	6.344.402	531.39	8,42 %
2016	6.500.971	515.40	7,98 %
2017	6.657.911	514.62	7,78 %
2018	6.814.909	494.26	7,21 %

*Source: BPS - Statistics Indonesia Riau, 2018*

It can be seen from Table 1.1 that the percentage of the sparse population in Riau Province is quite high. The highest number of poor people from 2014-2018 occurred in 2015, with a total of 531.39 hundreds poor people. Then it decreases every year but is still included in the group of table which are quite high.



Source: BPS - Statistics Indonesia Riau, 2018

**FIGURE 1. 1**

**Poor Population in Riau Province 2014-2018**

By looking at the number of poor people and also the percentage of poor people in figure 1.1 above that is still quite high, it can be assessed that poverty alleviation in Riau Province is still considered insufficient. Government efforts in tackling the problem of poverty are earnest, even one included in the priority program. For the Riau provincial government, poverty alleviation efforts in Riau are implemented through several strategies such as reducing the burden of spending on the poor, increasing the ability and income of the people.

Allah say:

إِنَّ اللَّهَ لَا يُعَيِّرُ مَا بِقَوْمٍ حَتَّىٰ يُعَيِّرُوا مَا بِأَنْفُسِهِمْ

*Indeed, Allah does not change the condition of a people so that they change the situation that exists in themselves (Ar-Ra'd / 13:11).*

**TABLE 1. 2**

### Poverty Rate 12 Regencies in Riau Province 2014-2018

Regency / City	Number of poor people (Thousand People)				
	2014	2015	2016	2017	2018
Kuantan Singingi	33.52	34.10	31.22	31.95	32.10
Indragiri Hulu	29.40	31.63	29.73	29.42	26.42
Indragiri Hilir	52.39	56.85	56.82	55.40	55.45
Pelalawan	42.67	47.53	45.35	44.40	45.50
Siak	22.54	24.81	24.86	26.83	25.63
Kampar	67.61	72.22	67.68	66.33	65.20
Rokan Hulu	58.29	64.74	67.42	69.24	68.72
Bengkalis	38.82	40.00	37.49	38.19	37.49
Rokan Hilir	46.07	49.13	52.40	53.19	52.52
Kepulauan Meranti	61.07	61.64	56.18	53.05	55.72
Pekanbaru	32.29	33.76	32.49	33.09	32.40
Dumai	13.62	14.97	13.76	13.53	13.12

Source: BPS - Statistics Indonesia Riau, 2018

The uneven results of government efforts in overcoming the problem of poverty throughout the districts / cities are still evident from the high number of figures in table 1.2. It can be seen that the level of the sparse population from 12 regencies / cities in Riau province. The poverty level in Meranti District is the highest compared to other districts. Kampar Regency is second only to the Meranti Islands. From these data, it shows that government efforts are still not optimal in increasing the welfare of the community in terms of economic growth.

Economic growth is one of the requirements to see the success of development and is a necessary condition for poverty reduction. One of the criteria for adequacy is human capital itself. Human capital is effective in reducing poverty. That is, social capital becomes an integral part of developing a country's economy because when it has quality human capital, it will make a more significant contribution to economic development (Anwar, 2018). Human

capital can be interpreted as a concept of the labor force in a classical perspective similar to property and conceptualized as a productive capacity of humans that is far greater than all the assets that are shared. Directly, this means that productivity growth needs to be ensured to occur in the sectors the sector where the shoddy work is the agricultural sector or the labor-intensive urban sector. Indirectly, government efforts are needed to distribute growth that might be obtained from new areas such as capital-intensive services.

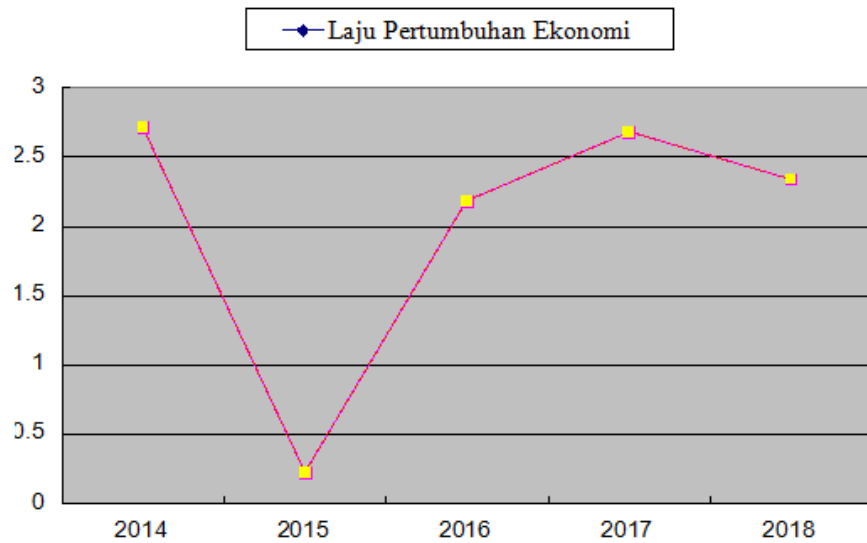
**TABLE 1.3**

Rate of Economic Growth in Riau Province in 2014-2018 (percent)

Period	Percentage
2014	2,71%
2015	0,22%
2016	2,18%
2017	2,68%
2018	2,34%

*Source: BPS - Statistics Riau, 2019*

Table 1.3 shows that until 2018 the rate of economic growth in Riau Province from year to year experienced a cycle of ups and downs from 2,71 percent in 2014 to 2,34 percent in 2018.



*Source: BPS - Statistics Riau, 2019*

**FIGURE 1. 2**

Rate of Economic Growth in Riau Province in 2014-2018

The erratic ups and downs cycle shown in graph 1.2 above has a significant impact on the prosperity of the people of Riau Province, the main slowdown is expected from the slowing down of foreign exports due to contraction in the growth of key commodity prices, as well as the world trade cheer that affects Riau's international exports. In an open economy, economic growth is not only influenced by economic activity in the region but is also affected by the global economy (Wahyudin & Yuliadi, 2013).

**TABLE 1. 4**

Percentage of Economic Growth in 2014-2018 (Percent)

Regency / City	Percentage of Economic Growth in 2014-2018 (Percent)				
	2014	2015	2016	2017	2018
Kuantan Singingi	5,14	-2,14	3,89	4,43	4,65
Indragiri Hulu	5,50	-2,90	3,70	4	3,50
Indragiri Hilir	6,88	2,05	4,68	4,56	6,88
Pelalawan	6,08	2,48	2,96	4,10	3,75
Siak	0,97	0,21	0,35	0,94	1,28
Kampar	3,43	1,09	2,80	0,63	-4,19
Rokan Hulu	6,50	1,98	4,77	5,43	4,17
Bengkalis	-3,85	-2,74	-2,54	-1,71	-1,62
Rokan Hilir	4,81	0,52	1,97	1,59	-0,12
Kepulauan Meranti	4,45	2,85	3,22	3,32	4,01
Pekanbaru	6,90	5,57	5,68	6,12	5,39
Dumai	2,69	2,03	4,14	4,47	5,21

Source: BPS - Statistics Indonesia Riau, 2018

Can be seen from the table above shows that until 2018 the rate of economic growth in Riau Province from year to year experienced a fluctuating cycle. Whereas given its natural wealth, Riau Province is rich in natural resources. The lowest percentage of economic growth was in the Siak district, and the highest rate of economic growth was in Indragiri Hilir. This fluctuating cycle of uncertainty has a significant impact on the prosperity of the people of Riau Province.

Also, what affects the level of poverty is education. Education has a vital role in sustainable development because it is an investment to increase human resources, strengthen physical capital, and the ability to adjust the technical capabilities applied to industrial machines (Rahayu, 2005).

The 1945 Constitution of the Republic of Indonesia Article 31 paragraph 2 states that every citizen is required to take part in primary education, and the

government is obliged to finance it. Law Number 20 of 2003 concerning the National Education System mandates that every citizen aged 7-15 Period must-attend education basic. Article 34 paragraph 2 states that the central and regional governments guarantee the implementation of compulsory education at the minimum level of primary school without charging a fee. In contrast, paragraph 3 states that mandatory training is the responsibility of the state-organized by educational institutions of the central, regional, and community governments. Consequently, the central and local governments are required to provide education services for all students at the level of primary education (elementary and junior high) as well as other educational units of the same level, to be able to continue to a higher level of education.

Development in the field of education determines the progress and future of the nation. The higher the level of knowledge of a country indicates the more senior the growth of the government. Training is essential for poverty alleviation and an increasing standard of living. The way to get something better is by multiplying learning and discussing, and maybe even just an indispensable, but inadequate means of eliminating poverty.

The effort to study the reach of education services in Indonesia aims to increase distribution in the utilization of educational facilities, so that more people can go to school (Rahayu, 2005). Therefore, the government has an important role especially in increasing the development of human capital and encouraging development to increase human productivity.



The structure of the economy in Riau Province is contributed by the economic sectors, which are mostly supported by the agriculture and service industries. Because Riau Province is famous for oil palm, rubber, and sago, industrial companies will get more results by employing labor services with high productivity to increase production output, so the company will also be willing to provide higher salaries for those concerned. In the end, someone who has high productivity will obtain more welfare proper, which is shown through an increase in income and consumption.

**TABLE 1. 5**

Rough Participation Rate of Population Aged 10 Period and Over Who Graduated from Senior High School by Regency / City in Riau Province in 2014-2018 (people)

Regency / City	Rough Participation Rate of Population Aged 10 Period and Over Who Graduated from Senior High School by Regency / City in Riau Province in 2014-2018 (Thousand People)				
	2014	2015	2016	2017	2018
Kuantan Singingi	75.60	80.07	81.45	94.37	91.50
Indragiri Hulu	66.46	66.09	74.44	86.24	84.88
Indragiri Hilir	51.02	52.91	61.14	67.18	61.81
Pelalawan	67.12	65.44	71.39	98.07	84.07
Siak	79.41	88.37	93.17	88.13	89.66
Kampar	59.80	83.02	69.63	84.22	73.08
Rokan Hulu	68.04	75.61	73.42	88.14	88.52
Bengkalis	71.06	75.49	82.71	75.17	84.19
Rokan Hilir	60.91	76.45	76.34	84.29	73.60
Kepulauan Meranti	71.14	86.06	83.78	88.78	83.84
Pekanbaru	84.47	85.76	89.39	92.64	97.52
Dumai	81.91	78.36	87.97	86.19	93.43

Source: BPS - Statistics Indonesia Riau, 2018

The table above shows that poverty in Riau Province is exposed. Although there are some relatively increasing regional points, such as in Pekanbaru, from 84.47 thousand inhabitants in 2014 continued to experience an increasing cycle in 2018, 97.52 thousand inhabitants. However, most in some regions experience ups and downs due to the lack of government attention on access to educational facilities, which proves the fluctuation of the gross enrollment rate.

Public access to educational facilities in Riau Province as a whole can be seen from the high school gross enrollment rate (APK) decreased from 94.14% in 2015 to 92.40% in 2017. This shows that poverty in Riau Province is exposed because of the lack of government attention to access to educational facilities, which proves a decrease in the gross enrollment rate.

Another factor that also influences poverty levels is unemployment. The occurrence of unemployment in a country can be due to the number of employment opportunities in a particular region that cannot meet the name of the workforce, or the demand for jobs for job supply is not balanced (Muslim, 2018). One of the causes of poverty in Riau is because of the many migrants who want to find work in Riau. The more migrants in particular, the greater the size of household expenditure, and the higher the likelihood of falling among the poor, because more resources are needed to meet basic needs.

**TABLE 1. 6**

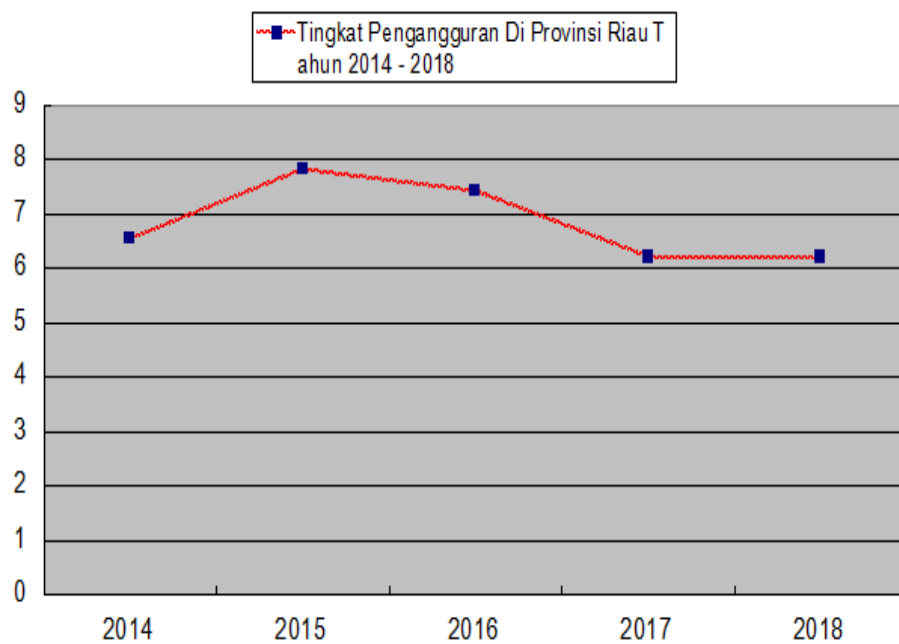
Unemployment Rate in Riau Province from 2014-2018

Period	Percentage
2014	6,56%
2015	7,83%
2016	7,43%
2017	6,22%
2018	6,20%

Source: BPS - Statistics Indonesia Riau, 2018

Table 1.6 shows the unemployment rate in Riau Province is still relatively high, which is still in the range of above 5 percent. The unemployment rate in Riau is unstable, experiencing several up and down phases.

Can be seen in the chart graph 1.3 below.



Source: BPS - Statistics Indonesia Riau, 2018

**FIGURE 1. 3**

Unemployment Rate in Riau Province from 2014-2018

In 2014, the unemployment rate was 6,56 percent, and then it up to 7,43 percent in 2016. The increase in the unemployment rate occurred from 2014 to 2016. And decreased in 2017 to 6,22 percent and 6,20 percent in 2018 but still in the tall category one. The uneven results of government efforts in overcoming the problem of poverty to all districts / cities are the cause, even though the impact of poverty is terrible for the economy.

**TABLE 1. 7**

Open Unemployment Rate by Regency / City in Riau Province in 2014-2018 (percent)

Regency / City	Open Unemployment Rate by Regency / City in Riau Province in 2014-2018 (percent)				
	2014	2015	2016	2017	2018
Kuantan Singingi	6,13	2,60	4,86	6,50	6,05
Indragiri Hulu	3,97	4,82	7,28	4,73	4,7
Indragiri Hilir	4,27	7,16	5,41	4,08	4,08
Pelalawan	3,42	7,61	4,29	3,55	5,3
Siak	3,56	10,02	9,37	5,60	4,13
Kampar	6,10	8,07	7,23	5,93	5,45
Rokan Hulu	7,90	7,82	7,61	6,17	5,4
Bengkalis	7,30	10,08	8,36	8,62	10,05
Rokan Hilir	6,25	8,62	9,13	4,59	6,09
Kepulauan Meranti	11,76	9,37	6,70	4,54	6,84
Pekanbaru	9,20	7,46	8,23	8,91	8,42
Dumai	9,14	11,23	10,68	8,94	6,04

Source: BPS - Statistics Indonesia Riau, 2018

Can be seen from the table above shows the unemployment rate in Riau Province from year to year, experiencing instability in most cities and districts. We can see from the chart above that Dumai City has the highest unemployment rate recorded from 2014-2018 reaching 46,03%. For Pelalawan Regency, it

succeeded in becoming the district that received the lowest unemployment rate from 2014-2018 reaching 24,17%.

For this reason, further research is needed on the factors that can affect poverty levels in all districts / cities, so that it can be used as a policy base for each district / city in efforts to overcome poverty.

Based on the background of the problem above, in the province of Riau in the 2014-2018 period, there was a phenomenon of reducing poverty levels. However, the average level of poverty compared to other areas on the island of Sumatra is still relatively high after Aceh, North Sumatra, and South Sumatra. The uneven results of government efforts in overcoming the problem of poverty to all districts / cities are the cause, even though the impact of poverty is terrible for the economy. For this reason, the author would like to conduct further research on the factors that can affect poverty levels in all districts / cities, so that they can be used as a policy basis for each district / city as an effort to crack poverty.

## **B. Scope of Problem**

Based on the data that has been described, the poverty rate in Riau Province from 2014 to 2018 experienced a fluctuating cycle period because it underwent a downward trend from 7.99 percent in 2014 to 7.21 percent in 2018, and had increased in 2015 to 8.42 percent. Riau's average poverty rate is still high compared to other provinces on the island of Sumatra. The cause is the uneven results of government efforts in overcoming the problem of poverty throughout the district / city.

Based on the above problems, the research problems to be solved in this study are:

1. What is the effect of economic growth on poverty levels in Riau Province in 2014-2018?
2. What is the impact of education on poverty levels in Riau Province in 2014-2018?
3. What is the impact of the unemployment rate on poverty levels in Riau Province in 2014-2018?

### **C. Research Purposes**

Based on the background and formulation of the problem above, the objectives to be achieved in this study are:

1. Analyzing the effect of economic growth on poverty in Riau Province in 2014-2018.
2. Investigating the impact of education on poverty in Riau Province in 2014-2018.
3. Investigating the impact of unemployment on poverty levels in Riau Province in 2014-2018.

### **D. Benefits of Research**

The benefits that can be obtained from this research are:

1. For the authors, this study will be useful in increasing knowledge about various influencing factors and differences in the effects on poverty levels. This research is also one of the requirements for obtaining a bachelor's degree at the Faculty of Economics and Business, Yogyakarta

Muhammadiyah University, especially in the Economics department.

2. For policymakers, this research can provide useful information about the factors that affect poverty levels. Then, it can be identified what triggers poverty and how to overcome the existing poverty problem.
3. For the general public, it is expected to be a source of knowledge and specifically in the economy to understand what factors can affect poverty in Indonesia, especially in Riau province.
4. In general, the results of this study are expected to add to the treasury of economics, especially development economics. The unique benefit of science is that it can complement studies on poverty levels by empirically revealing the factors that influence it.