

# **CHAPTER 1**

## **INTRODUCTION**

### **A. BACKGROUND OF STUDY**

Poverty is a common occurred and one of concerns existing in developing countries, in Indonesia. Most of people have low incomes are hardly to increase their incomes. Several factors that might trigger Poverty existing in Indonesia are larger population with unequal access and No vacant employment for rural residents. Benchmark of a successful development can be seen from the decrease in the amount of poverty in a country. It can be said that development in a country is successful if the number or poverty rate decreases, conversely if the poverty rate jumps up, then development in a country is said to fail. Other factors that cause poverty are high unemployment in a country, low investment, low human resource quality or human development index (HDI), and slow or low economic growth. Of the above factors, it is expected that there will be an improvement in the quality of human life. This is due to the heterogeneity of individuals, geographic disparities as well as various social conditions or conditions in society which result in income levels becoming the main benchmark for successful development although the success of human development cannot be separated from the performance of the government which plays a role in creating regulations for achieving social order (Dewi, 2017).

The root of this poverty problem can be illustrated as follows: first, because someone is poor, someone must have a small income. Because the income is small, the purchasing power of information and knowledge is low. This low purchasing power of knowledge and information will result in the poor not having enough knowledge. Lack of knowledge will cause one's productivity to be small. Because of their small productivity, they will again fall into poverty. Second, being poor, someone will only have a small savings. Because they have small savings, it will make a person's capital ownership low which will result in low production and small income. Because the income is small, it will cause you to fall into poverty again. Third, being poor, someone will only have low consumption ability. Low consumption ability will make a person unable to meet their needs for housing, clothing and food properly (Gandasari & Sayifullah, 2016).

**Table 1.1**  
**Number of Poor Population in Central Java in 2014-2018**

Year	Total of Poor population (individual)
2014	4561.82
2015	4577.00
2016	4506.89
2017	4450.72
2018	3897.20

Source: (Data Tingkat Kemiskinan di Provinsi Jawa Tengah pada Tahun 2014-2018, 2019)

Based on table 1.1, it shows that the number of poor people in 2014 amounted to 4561.82 million people and experienced an increase in 2015 amounted to 4577.00 million people. Then, in 2016 and 2017 it was decreased by 4506.89 and

4450.72 million people. In the end in 2018, the lowest number compared to the previous 4 years was 3897.20 million people. The problem of poverty was caused by many factors such as the Human Development Index (HDI), the minimum wage in a district or a city and the unemployment rate.

**Table 1.2**

**Human Development Index in Central Java in 2014-2018**

<b>Year</b>	<b>IPM (%)</b>
2014	68.78
2015	69.49
2016	69.98
2017	70.52
2018	71.12

Source: (Data Indeks Pembangunan Manusia Tahun 2014-2018, 2019)

One of the factors causing poverty was the quality of human resources. The quality of human resources can be seen from the human development index. If the quality of human resources is low, it will affect the level of work productivity and their income or salary. This is one of the factors increasing poverty In a certain area.

Poverty can occur due to individual, cultural and structural factors. Individual perception about the importance of efforts to improve the quality of life through an increase in the work ethic and learning ethic in some Indonesian people is still weak. Therefore, that the work productivity of Indonesian is still relatively

low compared to other countries. This factor is the main cause of the large number of poor people in Indonesia

Table 1.2 shows that the human development index in Central Java Province has increased every year, from 2014 to 2018. In 2014, the human development index in Central Java was 68.78%. and in 2014, 2015 and 2016 amounted to 69.49%, 69.98% and 70.52%. Then, in 2018 it was also increased by 71.12%.

**Table 1.3**

**Regional Minimum Wages in Central Java in 2014-2018**

<b>Year</b>	<b>Regional Minimum Wage (in rupiah)</b>
2014	910 000.00
2015	910 000.00
2016	1 367 000.00
2017	1 486 065.00
2018	1 605 396.00

Source: (Data Upah Minimum di Provinsi Jawa Tengah tahun 2014-2018, 2019)

Table 1.3 shows regional minimum wages in Central Java from 2014-2018. In 2014 and 2015, the regional minimum wage in Central Java was equal to Rp. 910 000.00., whereas in 2016 to 2018 there was a change, an increase of Rp. 1 367 000.00 in 2016, Rp. 1 486 065.00 in 2017 and in 2018 the regional minimum wage in Central Java Province was Rp. 1 605 396.00. The regional minimum wage is increased from year to year as a community increasing income. If the welfare of people's lives increases, poverty will also decrease

**Table 1.4****Unemployment Rate in Central Java, 2014-2018**

<b>Year</b>	<b>Unemployment Rate (%)</b>
2014	5.68
2015	4.99
2016	4.99
2017	4.57
2018	4.51

Source: (Data Tingkat Pengangguran di Jawa Tengah Tahun 2014-2018, 2019)

Based on the table above, the unemployment rate in Central Java from 2014-2018 decreased. In 2014, the unemployment rate was 5.68% but in 2015 it decreased by 4.99% and in 2016 the unemployment rate was the same as the previous year, by 4.99%. Later, the unemployment rate was decreased by 4.57% in 2017 and by 4.51% in 2018. The unemployment rate is also one of the factors of the high or low poverty in an area. If the government can balance the number of jobs demand, the unemployment rate will decrease and that means the poverty rate will decrease.

BPS data in 2018 shows the number of poverty in Indonesia reached 25.95 million people or about 9.82% of the population in Indonesia. Central Java is one of the provinces periode that also experiences poverty in Indonesia. In periode of 2014-2018, Central Java experienced a decrease in the number of poverty in a row. Based on this, the author is interested in developing and analysing factors that can

affect poverty, including the Human Development Index, Regional Minimum Wage and Unemployment Rate in Central Java in 2014-2016.

## **B. The Scope and Limitation of Study**

The limitation of this study are only examining the factors that influence poverty rate in Central Java Province. The independent variables are the Human Development Index, Minimum Wage of District/ City, and Unemployment Rate, whereas the poverty rate as the dependent variable. This study used panel data methods from data collected in 2014-2018.

## **C. Problem Formulation**

The problem formulation of the are:

1. What is the effect of the Human Development Index (HDI) on the Poverty Rate in Central Java?
2. How does the district / city minimum wage affect poverty rate in Central Java?
3. How does the Unemployment Rate affect Poverty Rate in Central Java?

## **D. Research Objectives**

The Research Objectives are:

1. To analyze the effect of the Human Development Index (HDI) on poverty rate in Central Java.

2. To analyze the effect of Minimum Wages of District/ City on poverty rate in Central Java.
3. To analyze the effect of the Unemployment Rate on poverty rate in Central Java.

#### **E. Significance of the Study**

It is expected that this study can be useful for the writer, researchers, and community.

1. For the writer, this study is expected to improve knowledge about various factors influencing the poverty rate.
2. For researchers, this study is expected to be used as a reference to conduct similar research.
3. For Community, this research is expected to be a source of knowledge about the economy in order to understand what factors can affect poverty in Indonesia, especially in Central Java.