

A financial inclusion index for Indonesia

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Abstrak

ABSTRAK

Numerous studies have constructed financial inclusion indexes for Indonesia, using a multidimensional approach. However, there is a problem with the methodology, which assumes that all the dimensions play the same role in defining financial inclusion, since they are based on equal weighting criteria. This paper aims to obviate concerns with the methodology by developing a more empirically based index, namely, a weighted multidimensional index of financial inclusion based on two-stage principal component analysis. In other words, we endogenize the weights. We find that usage is the most important dimension in defining financial inclusion in Indonesia, followed by availability and access.