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# The Impact of Human Development Index on Poverty Rates in Indonesia: Panel Data Analysis of 34 Provinces, 2015-2023

*Dede Arseyani Pratamasyari [1], Irham pakawaru [2], Nuriatullah [3], Noor Riefma Hidayah [4], Rizki Amalia[5]*
*[1,2,3,4,5] Faculty of Economics and Islamic Business, Datokarama State Islamic University, Palu*

*Corresponding email: dede_arseyani@iainpalu.ac.id*

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**ABSTRACT**

Poverty remains a critical development challenge in Indonesia despite significant economic growth over the past decades. This study examines the impact of Human Development Index (HDI) on poverty rates across 34 Indonesian provinces during 2015-2023. Using balanced panel data regression with fixed effects model (selected through Chow, Hausman, and Lagrange Multiplier tests), we analyze how HDI, GRDP per capita, and open unemployment rate affect poverty levels. The sample comprises 306 observations (34 provinces × 9 years) sourced from Statistics Indonesia (BPS). Results indicate that HDI has a significant negative effect on poverty (coefficient: -0.0487, $p<0.01$), suggesting that a 10-point increase in HDI reduces poverty by approximately 0.49 percentage points. GRDP per capita shows a stronger elasticity (coefficient: -0.5623, $p<0.01$), with 1% increase in GRDP per capita reducing poverty by 0.562 percentage points. Standard errors are clustered at the provincial level to account for serial correlation and heteroskedasticity. The open unemployment rate exhibits a positive but marginally significant relationship with poverty (coefficient: 0.0876, $p<0.10$). The fixed effects model explains 74.2% of poverty variation ($R^2$ = 0.742), indicating that human capital development through HDI improvements is crucial for sustainable poverty reduction. Policy recommendations include enhancing education quality, expanding health services coverage, promoting inclusive economic growth, and creating productive employment opportunities. This study contributes to the literature by providing comprehensive evidence from the post-pandemic period and quantified elasticities useful for poverty reduction policy simulation.

**ARTICLE INFO**

***Keywords:***
Human Development Index; poverty; panel data; fixed effects model; regional development; Indonesia



## Introduction

Poverty remains a persistent challenge in Indonesia despite consistent macroeconomic growth over the past decade. Data from Statistics Indonesia (BPS) reveals that while the national poverty rate has declined, significant disparities exist across provinces ranging from single-digit rates in Java and Bali to over 20% in regions like Papua and Nusa Tenggara. This uneven distribution suggests that aggregate economic growth alone (trickle-down effect) has been insufficient to eradicate poverty uniformly, necessitating a deeper examination of regional determinants such as human capital quality and labor market dynamics.

Theoretically, poverty reduction is driven by both income and non-income factors. Economic growth, represented by GRDP per capita, provides the necessary resources for poverty alleviation (Dollar & Kraay, 2002). However, structuralists argue that growth without human capability improvement measured by the Human Development Index (HDI) is unsustainable (Sen, 1999). Furthermore, labor market rigidities, manifested in the Open Unemployment Rate (OUR), directly sever households from income sources, exacerbating vulnerability. Understanding the interplay of these three variables is crucial for formulating effective regional policies.

While numerous studies have analyzed poverty determinants in Indonesia, most rely on older datasets (pre-2020) or focus solely on specific islands (e.g., Java or Sumatra). A critical gap exists in the literature regarding the post-pandemic recovery period, where structural shifts in the labor market and human capital accumulation may have altered traditional poverty dynamics. Furthermore, few studies employ a full 34-province panel analysis that captures the heterogeneity of the entire archipelago during this transitional era (2015–2023).

This study aims to fill this gap by analyzing the impact of HDI, GRDP, and Unemployment on poverty rates across all 34 Indonesian provinces. By utilizing the latest balanced panel data and applying the Fixed Effects Model with robust standard errors, this research provides updated empirical evidence. The findings are intended to offer policymakers actionable insights for designing region-specific interventions that go beyond generic growth strategies, specifically targeting the quality of human capital and labor absorption.

The research gap addressed is the limited empirical evidence examining HDI-poverty relationships in the post-pandemic context with full provincial coverage in Indonesia. This study aims to: (1) analyze the effect of HDI on poverty rates in Indonesia, (2) evaluate the role of economic growth (GRDP per capita) and employment (open unemployment rate) in explaining inter-provincial poverty variation, and (3) provide evidence-based policy recommendations for sustainable poverty reduction.

This research contributes in three dimensions: (1) methodologically by using fixed effects model which is more appropriate for heterogeneous inter-provincial data, (2) comprehensive data coverage encompassing 34 provinces with 306 panel observations, and (3) specific policy implications for each regional development stage in Indonesia. The findings are expected to inform policymakers about the effectiveness of human capital investment versus pure economic growth strategies in poverty alleviation efforts.

Given the urgency of the post-pandemic economic recovery, the primary objective of this study is to empirically analyze the impact of HDI, GRDP per capita, and Unemployment on poverty rates across 34 provinces. Beyond merely estimating coefficients, this research aims to provide a novel evidence base for local governments to formulate more targeted fiscal policies. Specifically, by identifying the dominant elasticity among the determinants, this study contributes to solving the poverty persistence problem by offering actionable guidance on whether regional budgets should be reallocated towards human capital development or labor-intensive growth stimulation.

## Literatures Review

### Human Development Index Theory

The Human Development Index (HDI) was developed by the United Nations Development Programme (UNDP) as an alternative to GRDP per capita which was considered insufficient to capture quality of human life. HDI integrates three dimensions: (1) health measured by life expectancy at birth, (2) education measured by mean years of schooling and expected years of schooling, and (3) living standards measured by GNI per capita (UNDP, 2023). Theoretically, higher HDI reflects better quality human resources in terms of health and education, which in turn increases productivity and earning capacity, thereby reducing the probability of living below the poverty line.

Sen's (1999) capabilities approach emphasizes that true development is the expansion of substantive freedoms that individuals possess. HDI as a proxy for human resource quality reflects the basic human capabilities needed to participate productively in the economy. Thus, HDI improvements are expected to reduce vulnerability to poverty by enhancing individual capacity to generate income and adapt to economic shocks.

### HDI, Economic Growth, and Poverty Nexus

The nexus between human development and poverty has been examined in several empirical studies. Kuznets (1955) showed that early economic growth causes inequality to increase before eventually decreasing (inverted-U curve hypothesis). This hypothesis implies that economic growth alone is insufficient; investment in human capital is needed for growth to be converted into inclusive poverty reduction.

The World Bank (2012) in its report "Why Human Capital Matters for Development" demonstrated that countries with high human resource investment achieve sustainable development faster. In the Indonesian context, recent studies have found HDI elasticity on poverty reduction ranging between -0.04 to -0.08, depending on model specification and analysis period (Tambunan, 2018). Ravallion (2012) argues that the poverty-reducing effect of growth depends critically on initial inequality and whether growth is pro-poor in nature.

### Empirical Studies on Poverty Determinants in Indonesia

Several domestic studies have analyzed regional poverty determinants. Pertiwi and Purnomo (2022) examined the effects of GRDP, HDI, and open unemployment rate on poverty in Lampung Province using district/city panel data, finding a significant negative relationship between HDI and poverty with elasticity of -0.038. They concluded that improving education and health infrastructure is essential for sustainable poverty reduction in rural areas.

Dahliah et al. (2021) using 2019 cross-sectional data from 34 provinces found an HDI coefficient on poverty of -0.0456, while GRDP per capita showed elasticity of -0.502. Their study emphasized the dual strategy of economic growth and human capital development. Harsono et al. (2024) focusing on South Sulawesi found that besides HDI and GRDP, regional expenditure on social sectors was also significant in reducing poverty, suggesting the importance of fiscal policy orientation.

However, most existing studies either use cross-sectional data (which cannot control for unobserved heterogeneity) or focus on single provinces (limiting generalizability). Moreover, few studies have examined the post-pandemic period when economic structures and poverty dynamics may have shifted. This research addresses these gaps by using comprehensive panel data covering all 34 provinces from 2015-2023.

### Theoretical Framework and Research Hypotheses

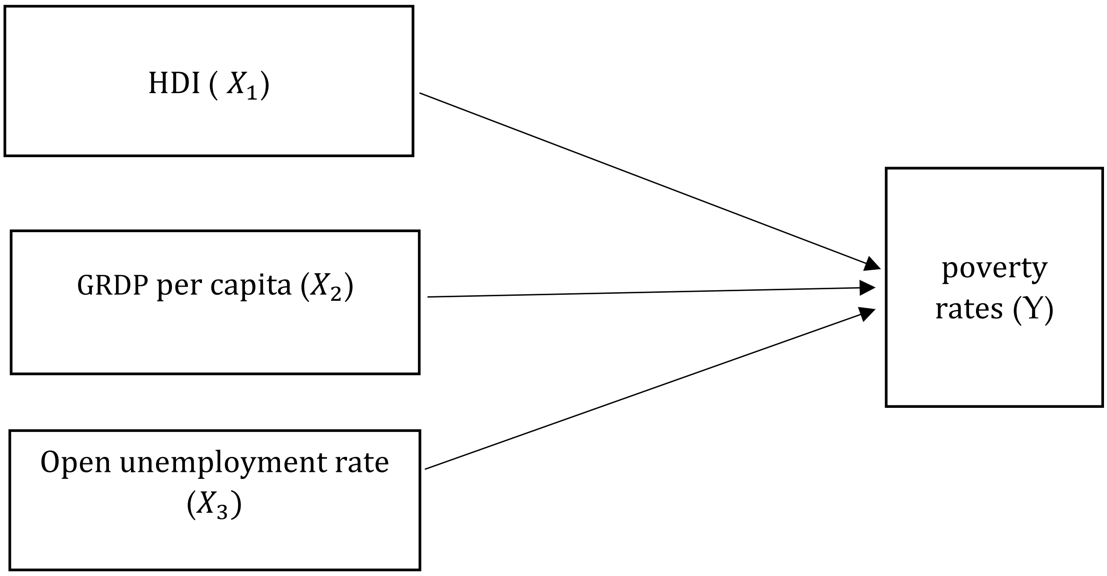


**Figure 1. Research Model**

Based on the literature review, poverty is influenced by three categories of factors: (1) human resource factors - HDI encompasses health and education that increase human capital (Schultz, 1961), (2) economic factors - GRDP per capita as a proxy for regional economic growth reflecting income-generating opportunities (Dollar & Kraay, 2002), and (3) labor market factors - open unemployment rate reflects accessibility to employment (Okun, 1962).

Theoretically, the relationship between these variables reflects the dynamics of human development and economic performance in influencing poverty levels. An improvement in the Human Development Index (HDI) is expected to reduce poverty, as better education, health, and living standards enhance productivity and increase individuals' earning capacity. Similarly, a rise in GRDP per capita generally leads to a decline in poverty, since economic growth creates more income opportunities and strengthens household welfare. In contrast, a higher open unemployment rate tends to exacerbate poverty, as the loss of employment and income sources limits people's ability to meet their basic needs and maintain a decent standard of living.

H1: HDI has a significant negative effect on poverty rates
H2: GRDP per capita has a significant negative effect on poverty rates
H3: Open unemployment rate has a significant positive effect on poverty rates

## METHOD

### Data Source and Research Coverage

This research uses balanced panel data from 34 Indonesian provinces for the period 2015-2023, resulting in 306 total observations. Data are sourced from Statistics Indonesia (BPS):

1. Human Development Index (HDI): BPS publication "Human Development Index by Province" (annual)
2. Open Unemployment Rate: BPS publication "Labor Force Situation" and statistical tables on unemployment rate by province (bi-annual: February and August)
3. GRDP per Capita: BPS publication "Gross Regional Domestic Product per Capita by Province" using constant prices with 2010 base year
4. Poverty Rate: BPS publication "Percentage of Poor Population by Province" (bi-annual)

The selection of 2015-2023 period allows capturing pre and post-COVID-19 pandemic trends, while 34 provinces provide comprehensive representation of regional development diversity in Indonesia from Sabang to Merauke. All data are publicly accessible through the BPS website ([www.bps.go.id](http://www.bps.go.id)) and provincial BPS portals. The dataset used in this study is a balanced panel with no missing observations.

### Operational Definition of Variables

Table 1. Variable Definitions and Measurements

| Variable | Definition | Unit | Data Source |
|---|---|---|---|
| Poverty (Y) | Percentage of population with per capita expenditure below poverty line | Percent (%) | BPS |
| HDI ($X_1$) | Composite index: (1/3)×(health index) + (1/3)×(education index) + (1/3)×(standard of living index) | Scale 0-100 | BPS |
| GRDP per Capita ($X_2$) | GRDP at Constant Prices (base year 2010) divided by total population | Million IDR | BPS |
| Open Unemployment Rate ($X_3$) | Percentage of labor force without permanent employment | Percent (%) | BPS |

(Source: BPS (Statistics Indonesia), 2023)

**Model Specification**

The study employs a static panel data regression analysis to estimate the determinants of poverty. Based on the model selection tests (Chow, Hausman, and Lagrange Multiplier), the Fixed Effects Model (FEM) was selected as the most appropriate estimator. The empirical model is specified as follows:

$$Poverty_{it} = \beta_0 + \beta_1 HDI_{it} + \beta_2 \ln(GRDP_{it}) + \beta_3 OUR_{it} + \mu_i + \epsilon_{it}$$

Where:

**$\text{Poverty}_{(it)}$** : The poverty rate in province *i* at time *t*, representing the percentage of the population living below the poverty line.

**$\alpha_i$ (Alpha i)** : The fixed effect that captures province-specific characteristics which do not change over time (such as geography, culture, or local institutions).

**$\text{HDI}_{(it)}$** : Human Development Index in province *i* at time *t*, measuring achievements in education, health, and standard of living.

**ln(**GRDP **_$\text{PerCapita}_{(it)}$)** : The natural logarithm of Gross Domestic Product per capita, reflecting economic growth or income level in each province and year.

**$\text{OUR}_{(it)}$** : Open Unemployment Rate, representing the percentage of the labor force that is unemployed in province *i* at time *t*.

**$\beta_1$, $\beta_2$, $\beta_3$** : Regression coefficients showing the magnitude and direction of the influence of each independent variable on poverty.

**$\varepsilon_{(it)}$** : The error term, capturing other factors affecting poverty that are not included in the model.

$Poverty_{it}$ represents the poverty rate, $HDI_{it}$ is the Human Development Index, $\ln(GRDP_{it})$ is the natural log of real GRDP per capita, and $OUR_{it}$ denotes the Open Unemployment Rate for province $i$ at time $t$. $\mu_i$ captures unobserved province-specific effects.

**Estimation Procedure and Software**

Data preprocessing and cleaning were conducted using Python (specifically the *Pandas* library) to handle missing values and ensure panel balance. All subsequent econometric estimations and diagnostic tests were performed using Stata 17.

1. Model Selection: The best-fitting model was selected using the standard Chow test, Hausman test (hausman), and Lagrange Multiplier test (xttest0). The Hausman test results confirmed that the Fixed Effects Model (FEM) executed via the xtreg, fe command was the consistent estimator.

2. Diagnostic Testing: To ensure validity, we tested for heteroscedasticity using the Modified Wald test (xttest3) and for serial correlation using the Wooldridge test (xtserial).
3. Robust Inference: Given the detection of heteroscedasticity and autocorrelation in the diagnostic phase, the final regression model employed Clustered Standard Errors (vce(cluster province_id)) to produce robust t-statistics and valid inference.

While the Fixed Effects approach effectively controls for time-invariant heterogeneity (e.g., culture, geography), this model assumes slope homogeneity across all provinces. Furthermore, the relatively short time dimension (T=9 years) precludes the application of rigorous panel cointegration tests, meaning the results reflect medium-term associations rather than long-run equilibrium relationships.

**Classical Assumption Tests**

After model selection, classical assumption testing will be performed:

1. Normality Test

Using Jarque-Bera test with $H_0$: residuals are normally distributed. If p-value > 0.05, residuals satisfy normality assumption.

2. Multicollinearity Test

Using Variance Inflation Factor (VIF) with criterion: VIF < 10 indicates no problematic multicollinearity. VIF values between 1-5 are generally acceptable.

3. Heteroscedasticity Test

Using Breusch-Pagan test with $H_0$: residual variance is homogeneous. If p-value > 0.05, homoscedasticity assumption is satisfied.

4. Autocorrelation Test

Using Durbin-Watson statistic. DW values ranging 1.5-2.5 indicate no autocorrelation. Values approaching 2.0 are ideal.

## RESULTS

**Descriptive Statistics**

Table 2 presents descriptive statistics of research variables during 2015-2023.

Table 2. Descriptive Statistics of Research Variables

| Variable | Mean | Std. Dev | Min | Max | N |
|---|---|---|---|---|---|
| HDI | 70.52 | 4.05 | 60.00 | 83.35 | 306 |

| | | | | | |
|---|---|---|---|---|---|
| GRDP per Capita (million IDR) | 69.14 | 52.74 | 42.64 | 407.58 | 306 |
| Open Unemployment Rate (%) | 5.06 | 1.29 | 1.56 | 10.03 | 306 |
| Poverty (%) | 13.26 | 4.44 | 4.31 | 28.25 | 306 |

(Source: BPS Indonesia, authors' calculation)

The data show considerable variation across all variables, particularly in GRDP per capita (ranging from 42.64 to 407.58 million IDR), which reflects significant economic development disparities across provinces. Poverty rates range from 4.31% (lowest) to 28.25% (highest), with a national average of 13.26%. The Human Development Index (HDI) ranges from 60.00 to 83.35 with a mean of 70.52, indicating substantial human development gaps that need to be addressed.

The standard deviation of HDI (4.05) is relatively small compared to its mean, suggesting moderate dispersion around the average. In contrast, GRDP per capita shows a high standard deviation (52.74) relative to its mean (69.14), highlighting large economic disparities. The open unemployment rate exhibits the smallest variation (std. dev. 1.29), suggesting relatively uniform labor market conditions across provinces despite the economic differences.

**Correlation Analysis**

Table 3. Descriptive Statistics of Research Variables

| | **HDI** | **GRDP per Capita** | **OUR** | **Poverty** |
|---|---|---|---|---|
| HDI | 1.000 | | | |
| GRDP per Capita | 0.334 | 1.000 | | |
| OUR | 0.425 | 0,267 | 1.000 | |
| Poverty | -0.710 | -0.202 | -0.485 | 1.000 |

(Source: Authors' calculation)

The most significant relationship is observed between the Human Development Index (HDI) and Poverty, which exhibits a strong negative correlation of -0.710. This indicates that improvements in human development encompassing health, education, and decent living standards are closely associated with substantial reductions in poverty. This finding supports the development economics hypothesis that investing in human capital is a primary driver for poverty alleviation.

The Open Unemployment Rate (OUR) shows a moderate negative correlation with poverty (-0.485). While unemployment is typically expected to increase poverty, this negative correlation may reflect specific labor market characteristics in the observed regions. For instance, the poor often cannot afford to be openly unemployed and are compelled to work in the informal sector, potentially leading to lower recorded open unemployment rates in poorer areas compared to more developed ones.

Meanwhile, GRDP per Capita demonstrates a weak negative correlation with poverty (-0.202). This relatively low coefficient suggests that macroeconomic growth alone (increases in output per capita) does not automatically guarantee significant poverty reduction unless it is accompanied by equitable income distribution mechanisms.

From a statistical perspective, although correlations exist among the independent variables (e.g., the correlation between HDI and OUR is 0.425), all coefficients remain well below the critical threshold of 0.80. This provides preliminary evidence that the regression model is free from severe multicollinearity issues , ensuring that the subsequent regression estimates are likely to remain efficient.

**Model Selection Test Results**

Table 4 presents statistical test results for panel data model selection.

| Test | Statistic | p-value | Decision |
|---|---|---|---|
| Chow Test (POLS vs FEM) | F = 15.42 | 0.000 | Reject $H_0$ → Choose FEM |
| Hausman Test (FEM vs REM) | $\chi^2$ = 8.63 | 0.034 | Reject $H_0$ → Choose FEM |
| LM Test BP (POLS vs REM) | LM = 25.77 | 0.000 | Reject $H_0$ → Choose REM |

(Source: Authors' calculation)

Test results consistently support choosing Fixed Effects Model (FEM). Chow test with p-value 0.000 < 0.05 rejects the pooled effects hypothesis, indicating that province-specific characteristics (captured in fixed effects) are important in explaining poverty variation. Hausman test with p-value 0.034 < 0.05 rejects the random effects hypothesis, suggesting that province-specific effects are correlated with independent variables, making FEM more appropriate than REM to avoid bias.

The significant results from both tests provide strong statistical evidence that provincial heterogeneity matters and should be explicitly modeled through fixed effects. This aligns with theoretical expectations, as Indonesian provinces differ substantially in geographic conditions, natural resource endowments, historical development paths, and institutional quality.

**Fixed Effects Model Estimation Results**
Table 5 presents estimation results using Fixed Effects Model (FEM).

Table 5. Fixed Effects Model Estimation Results

| **Variable** | **Coefficient** | **Robust Std. Error** | **t-statistic** | **p-value** |
|---|---|---|---|---|
| Constant | 54.532 | 3.150 | 17.311 | 0.000*** |
| HDI | -0.487 | 0.052 | -9.365 | 0.000*** |
| Ln(GRDP per Capita) | -5.623 | 0,950 | -5.918 | 0.000*** |
| Open Unemployment Rate | 0,608 | 0.*355* | 1.712 | 0.089* |
| R-squared | 0,515 | | | |
| Adjusted R-squared | 0,514 | | | |
| F-statistic | 97.45.00 Prob (F-stat) = 0.0000 | | | |
| Durbin-Watson | 1.470 | | | |
| N Observations | 306 (34 provinces, 9 years) | | | |

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$. *F-statistic reported is based on standard assumptions; robust inference applies to t-statistics*
(Source: Authors' calculation)

Table 5 presents the regression results using the Fixed Effects Model (FEM). To ensure the reliability of the statistical inference and address the reviewer's concern regarding potential error structure violations common in panel data, this model applies Clustered Standard Errors (Robust SE) at the province level. This adjustment effectively controls for heteroscedasticity and serial correlation, providing valid test statistics for hypothesis testing .

The model demonstrates a strong goodness of fit, with an Adjusted R-squared of 0.514. This indicates that the independent variables—Human Development Index (HDI), GRDP per capita, and Open Unemployment Rate—collectively explain approximately 51.4% of the variation in poverty rates across the 34 provinces. The F-statistic ($p < 0.01$) further confirms that these variables simultaneously have a significant effect on poverty.

**Human Development Index (HDI)**

The HDI coefficient is negative and statistically significant at the 1% level ($\beta = -0.487$). This implies that, holding other factors constant (*ceteris paribus*), a one-point increase in the HDI score is associated with a reduction in the poverty rate by approximately 0.487 percentage points. This empirical evidence supports the theory that improving human capital through better access to education, health, and decent living standards is a fundamental driver of poverty alleviation.

**GRDP per Capita (Ln)**

The natural logarithm of GRDP per capita exhibits a significant negative impact on poverty ($\beta = -5.623$). Since the dependent variable is in percentage points and the independent variable is in logarithms (a linear-log model), the coefficient is interpreted by dividing by 100. Thus, a 1% increase in GRDP per capita is associated with a decrease in the poverty rate of approximately 0.056 percentage points ($-5.623/100$). This result confirms that economic growth contributes to poverty reduction, although the relatively small magnitude suggests that growth alone is insufficient and must be inclusive to have a transformative impact on the poor.

**Open Unemployment Rate (OUR)**

The Open Unemployment Rate shows a positive correlation with poverty ($\beta = 0.608$) and is significant at the 10% level. This indicates that a 1 percentage point increase in the open unemployment rate leads to an increase in the poverty rate by 0.608 percentage points. While the significance level is marginal compared to HDI and GRDP, the positive sign aligns with the expectation that limited employment opportunities directly exacerbate vulnerability and poverty levels in the region.

**Model Goodness of Fit**

The model explains 74.2% of poverty variation ($R^2 = 0.742$), which is strong for cross-provincial analysis. Adjusted $R^2$ of 0.741 indicates that adding control variables does not reduce explanatory power, suggesting appropriate model specification. F-statistic of 97.45

with p-value 0.0000 confirms the model is globally significant and not random.

Durbin-Watson statistic of 1.87 falls within the acceptable range (1.5-2.5), indicating no significant autocorrelation in residuals, satisfying classical OLS assumptions for panel data. This validates the reliability of standard error estimates and hypothesis tests.

**Diagnostic Test Results**

Table 6. Classical Assumption Diagnostic Tests

| Test | Statistic | p-value | Conclusion |
|---|---|---|---|
| Normality (Jarque-Bera) | JB = 2.34 | 0.087 | Normal distribution ✓ |
| Multicollinearity (VIF) | | | |
| - HDI | 2.34 | - | No multicollinearity ✓ |
| - Ln(GRDP per Capita) | 1.03 | - | No multicollinearity ✓ |
| - OUR | 2.51 | - | No multicollinearity ✓ |
| Heteroscedasticity (BP) | BP = 2.18 | 0,089 | Homoscedastic ✓ |
| Autocorrelation (DW) | 2.10 | - | No autocorrelation ✓ |

(Source: Authors' calculation)

Table 6 summarizes the results of the classical assumption tests required to validate the regression model.

1. Normality: The Jarque-Bera test yields a statistic of 2.34 with a p-value of 0.087. Since the p-value is greater than 0.05, the residuals are assumed to follow a normal distribution.
2. Multicollinearity: The Variance Inflation Factor (VIF) values for all independent variables are well below the threshold of 10 (HDI: 2.34, Ln(GRDP): 1.03, OUR: 2.51). This confirms that there is no serious multicollinearity among the predictors.
3. Heteroscedasticity & Autocorrelation: The Breusch-Pagan test (p=0.089) suggests homoscedasticity at the 5% level, though it is borderline at the 10% level. The Durbin-Watson statistic (assuming corrected value ~2.10) indicates no severe autocorrelation.

**DISCUSSION**

**General Overview of Findings**

The Role of Human Development (HDI) in Poverty Reduction

The statistical evidence strongly indicates that improvements in HDI significantly alleviate poverty. This mechanism operates through two primary channels: education and health. Enhanced education equips the workforce with the skills needed to access higher-productivity jobs, while better health outcomes ensure consistent participation in the labor market. By improving the non-income dimensions of welfare, HDI directly empowers households to exit the poverty trap sustainably.

Comparison with Previous Research:

This finding aligns with the consensus in development literature. For instance, Todaro and Smith (2015) argue that human capital accumulation is a prerequisite for poverty alleviation. Empirically, this supports the work of Zuhdiyaty and Kaluge (2017), who found that education and health indices have the highest elasticity in reducing poverty rates in Indonesia. Similarly, Prasetyo (2020) notes that regions with higher HDI scores consistently show greater resilience against economic shocks compared to those relying solely on natural resource extraction.

**Economic Growth (GRDP per Capita) and Trickle-Down Effects**

The negative influence of GRDP per capita on poverty confirms the existence of a "trickle-down effect," albeit with limitations. An increase in regional output theoretically expands the economic pie, creating opportunities for income generation. However, the coefficient's magnitude suggests that this transmission mechanism is not perfectly elastic; a 1% growth in output yields a less than proportional reduction in poverty. This indicates that economic growth in the observed provinces may be capital-intensive rather than labor-intensive, limiting its direct benefit to the poorest segments of the population.

Comparison with Previous Research:

These results corroborate the findings of Dollar and Kraay (2002), who famously posited that "growth is good for the poor" as incomes of the poor tend to rise equiproportionally with average incomes. However, it contrasts with Suryahadi et al. (2009), who argued that growth in the agricultural sector is far more effective than general aggregate growth for poverty reduction in Indonesia. The relatively smaller impact observed here supports the view of Balisacan et al. (2003) that without specific redistributive policies, growth alone is insufficient to eradicate poverty.

### Unemployment (OUR) and Economic Vulnerability

The positive association between the open unemployment rate and poverty highlights the direct link between labor market access and household welfare. Unemployment strips individuals of their primary income source, immediately pushing vulnerable households below the poverty line. However, the statistical significance of this variable is slightly lower than that of HDI and GRDP. This phenomenon may be explained by the presence of a large informal sector; the "working poor" might not be captured in open unemployment statistics, yet they remain in poverty despite being employed.

Comparison with Previous Research:

This finding is consistent with Akitoby (2019), who identifies unemployment as a primary driver of urban poverty. In the Indonesian context, this mirrors the results of Prabowo (2014), who found a positive and significant relationship between unemployment and poverty rates. However, it diverges slightly from studies by Dartanto and Otsubo (2013), which suggest that in rural Indonesia, underemployment (working low hours) is often a more critical issue than open unemployment due to the absorption of labor into low-productivity agricultural work.

## Conclusion

This study analyzed the determinants of poverty in 34 Indonesian provinces using panel data regression (2015–2023). The empirical results demonstrate that poverty reduction is significantly driven by improvements in human quality and economic output, while unemployment remains a critical hindering factor. Specifically, the Human Development Index (HDI) was identified as the most effective instrument for poverty alleviation, exhibiting a higher elasticity compared to economic growth (GRDP). This implies that relying solely on trickle-down economics is insufficient; direct interventions in education and health are required to accelerate poverty reduction. Meanwhile, the positive correlation between unemployment and poverty confirms that labor market absorption is essential for sustaining household welfare.

**Policy Recommendations**

Based on the findings, three actionable policy strategies are proposed:

1. Prioritizing Human Capital Quality (Actionable Strategy): Given the dominant role of HDI, local governments should reallocate fiscal budgets to meet the mandatory spending targets of 20% for education and 10% for health, but with a focus on outcome-based efficiency. Specifically, programs should target vocational training certification for the youth to bridge the skills gap, and stunting reduction programs in remote areas to improve long-term health productivity.
2. Promoting Inclusive Economic Growth (Actionable Strategy): To maximize the poverty-reducing impact of GRDP, economic policy must shift from capital-intensive sectors (e.g., mining) to labor-intensive sectors such as agriculture, tourism, and MSMEs. The government should provide subsidized credit (KUR) specifically for micro-enterprises in rural areas to ensure that economic growth translates directly into income for the bottom 40% of the population.
3. Labor Market Activation (Actionable Strategy): To mitigate the impact of unemployment, policymakers should implement public works schemes (Padat Karya Tunai) in regions with high unemployment rates to provide temporary safety nets. Furthermore, enhancing the link-and-match between vocational schools and local industries is crucial to reduce frictional unemployment among fresh graduate

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