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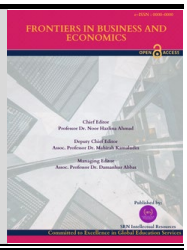

*Original Article*

# Breakthrough Policy and the Vicious Circle of Poverty: A Case Study of Indonesia

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**Citations:** Guindo, T., Hak, M.B., & Tan, F. (2025). Breakthrough Policy and the Vicious Circle of Poverty: A Case Study of Indonesia. *Frontiers in Business and Economics, 4*(1), 1-9.

Received: 6 January 2025 Revised: 12 March 2025 Accepted: 10 April 2025 Published: 30 April 2025

**Abstract:** Poverty in Indonesia persists as a multidimensional challenge reinforced by cyclical traps in which low income restricts access to education, healthcare, and productive capital. Despite periods of steady economic growth, progress in poverty reduction has remained uneven, hindered by deep structural inequalities and recurring external shocks, most notably the COVID-19 pandemic. This study examines the effectiveness of breakthrough, targeted, and high-impact policy interventions in addressing the fundamental drivers of poverty, comparing their outcomes with conventional growth-led development strategies that often overlook distributional issues. Employing a mixed-methods approach, the research integrates qualitative policy analysis with an ARDL model, utilizing national data from 2000 to 2023. The empirical results reveal strong and significant negative relationships between poverty levels and key human development indicators, including literacy, life expectancy, and innovation capacity, emphasizing the centrality of human development in long-term poverty alleviation. Conversely, macroeconomic variables such as GDP growth and foreign direct investment show limited short-run impacts on reducing poverty, suggesting that growth alone is insufficient without accompanying structural reforms. Based on these findings, the study recommends prioritizing investments in education and healthcare, strengthening governance systems, and promoting inclusive employment opportunities. It further proposes a dual strategy that focuses on empowering individuals while simultaneously dismantling structural constraints to ensure sustained reductions in poverty. Thus, the study highlights the need for transformative and inclusive policies that can break Indonesia's entrenched poverty cycle and support equitable development.

***Keywords:*** Poverty traps, Breakthrough policies; Human capital; Structural inequality.



## 1. Introduction

The introduction Poverty is a long-standing issue in developing countries, often trapping populations in a self-reinforcing cycle of poverty (World Bank, 2023a). In Indonesia, twenty years of economic growth have been accompanied by unequal poverty alleviation, largely due to structural inequalities and regional imbalances (Asian Development Bank, 2022). The COVID-19 pandemic upended gains, highlighting the fragility of progress (Badan Pusat

e-ISSN: 2976-2952 @ 2025 SRN Intellectual Resources
DOI: 10.56225/finbe.v4i1.410

Statistik, 2023). Economic growth in GDP alone will not suffice; poverty alleviation must be addressed through targeted policy on inequality, human capital, and institutional shortcomings (Ravallion, 2022; World Bank, 2023a). As diminishing returns of across-the-board growth set in, public demand has mounted for new, high-impact interventions (Banerjee & Duflo, 2019). Social protection programs, such as PKH, improve education and health outcomes but require complementing job creation to be sustainable in the long run (Cahyadi et al., 2020). Programs like Kartu Prakerja and the Village Fund support skills and infrastructure but are limited in reach and effectiveness, especially for informal workers and rural economies (Anggara, 2024; Adam et al., 2024).

Debate lingers over whether poverty is more a function of individual (e.g., low skills) rather than structural factors (e.g., land inequality, weak governance). This distinction is important, as it determines whether systemic reforms or micro-interventions are more appropriate (Hartojo, Nurlatifah, et al., 2022). Nurkse's (1953) poverty trap theory explains how low incomes lead to low investment and savings, which sustain poverty. Later models (Azariadis & Stachurski, 2005) introduced additional equilibria, highlighting the role of institutional and human capital constraints. In Indonesia, both structural and individual factors contribute to poverty. Both geographic and gender disparities remain prevalent (Idrus & Rosida, 2020; Lubis & Wahyuni, 2023; Nisak & Sugiharti, 2020). Human capital, education, and health remain important (Asrol & Ahmad, 2018; Luckyardi et al., 2022), although unemployment and informal labor market phenomena drive poverty (Endrawati, 2022; Lubis & Wahyuni, 2023). Programs like PKH and Kartu Prakerja are optimistic but structurally limited (Endrawati, 2022). SEZs are diverse (Taufiqurrahman & Khoirunurrofik, 2023), whereas fiscal policy and governance have an unbalanced impact (Sasana & Kusuma, 2018; Alamanda, 2020). HDI and GDP per capita consistently decrease poverty (Umara et al., 2024), but shortfalls persist due to long-term and interactive mechanisms. This study examines the dynamics of poverty in Indonesia (2000–2023) using the ARDL approach to determine the short-run and long-run effects of GDP growth, FDI, employment, productivity, HDI, literacy, life expectancy, and innovation. It crosses micro-macro divides to inform inclusive, evidence-based poverty strategies.

## 2. Materials and Methods

To provide an overview of the data, descriptive statistics (minimum, maximum, standard deviation, and mean) and visual aids (scatter plots and trend lines) are used to highlight patterns, trends, and potential outliers. The Pearson correlation matrix is employed to establish baseline associations among variables, laying the groundwork for subsequent causal analysis. To address issues of non-stationarity in macroeconomic time series data, the Augmented Dickey-Fuller (ADF) test (Dickey & Fuller, 1979) is employed. Since the dataset contains a mix of I(0) and I(1) variables, the Autoregressive Distributed Lag (ARDL) framework developed by Pesaran, Shin, and Smith (2001) is appropriate. The ARDL approach has several advantages: it allows for the estimation of both short- and long-run dynamics in small samples, accommodates regressors with mixed integration orders, and avoids the biases associated with pre-testing for unit roots. The model specification follows the standard ARDL structure:

$$\Delta Poverty_t = \alpha_0 + \sum_{i=1}^{p} \beta_i \, \Delta Poverty_{t-i} + \sum_{j=0}^{q} \gamma_j \, \Delta X_{t-j} + \lambda ECM_{t-1} + \epsilon_t \quad (1)$$

Where Δ denotes the first-difference operator. Poverty is the dependent variable, and $X_t$ represents the core macroeconomic predictors (GDP growth, FDI, labor productivity). In cases where cointegration is established, an error correction term ($ECM_{t-1}$) is included to capture long-run adjustments toward equilibrium. The optimal lag structure is determined using standard information criteria, such as the Akaike Information Criterion (AIC), the Hannan-Quinn Information Criterion (HQIC), and the Schwarz Bayesian Criterion (SBIC).

Model robustness is ensured through diagnostic tests: Durbin-Watson and Breusch-Godfrey tests check for autocorrelation, the Breusch-Pagan test addresses heteroskedasticity, and the Ramsey RESET test examines model specification. These diagnostic checks follow standard econometric practice (Gujarati & Porter, 2009). The methodology is also informed by prior applications of ARDL in poverty and development research. For instance, Rahayu et al. (2020) applied dynamic panel models to examine poverty dynamics in Indonesia, while Umara et al. (2024) used macroeconomic indicators to explore poverty determinants. In adopting a mixed-methods strategy, this study complements quantitative econometric results with insights from the broader development economics literature (Banerjee & Duflo, 2019; Ravallion, 2022), ensuring that findings are both statistically robust and policy-relevant. Constraints include the relatively short time horizon (2000–2023), data aggregation at the national level, and potential endogeneity issues. Despite these limitations, the ARDL approach provides a robust and theoretically grounded tool for capturing Indonesia’s poverty dynamics and informing the debate on inclusive economic reforms.

# 3. Results and Discussion

## 3.1. Descriptive Statistics Analysis

The descriptive statistics presented in Table 1 provide an overview of the central tendencies and variability of the key variables used in this study.

**Table 1.** Result of Descriptive Statistics Analysis

| Variable(s) | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|
| Poverty Rate | 79.5 | 12.772 | 61 | 96 |
| GDP Growth Rate | 4.946 | 1.631 | -2.1 | 6.3 |
| Employment Rate | 5.321 | 1.536 | 3.4 | 8 |
| Labor Productivity | 2.558 | 1.882 | -3.5 | 5.5 |
| Foreign Direct Investment | 1.342 | 1.399 | -2.8 | 2.9 |
| Human Development Indicator | .629 | .055 | .5 | .7 |
| Literacy Rate Total | 84.333 | 2.099 | 81 | 87 |
| Life Expectancy | 69.125 | 2.232 | 65 | 72 |
| Innovation Index | 26.167 | 1.949 | 23 | 30 |

Table 1 captures Indonesia's socioeconomic trends from 2000 to 2023, focusing on poverty, economic growth, employment, and human development. The poverty rate averaged 79.5% with wide fluctuations, indicating both progress and setbacks. GDP grew steadily at an average annual rate of 4.95%, demonstrating resilience despite occasional downturns. Employment and labor productivity varied, reflecting changes in labor market conditions. FDI levels were unstable, suggesting sensitivity to policy and economic shifts. Human development indicators, including HDI, literacy, and life expectancy, show a gradual improvement, while innovation remains moderate. Overall, Indonesia made progress, but challenges in productivity and investment remain critical areas for policy action. Pearson Correlation has been used to identify the relationships between economic growth, social welfare, and poverty levels. The matrix of correlations presents the strength and direction of these associations, providing an initial diagnostic overview of how closely each variable moves together before conducting more advanced econometric analyses (see Table 2).

**Table 2.** Matrix of correlations

| Variables | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
|---|---|---|---|---|---|---|---|---|---|
| (1) Poverty Rate | 1.000 | | | | | | | | |
| (2) GDP Growth Rate | 0.255 | 1.000 | | | | | | | |
| (3) Employment Rate | 0.876 | 0.238 | 1.000 | | | | | | |
| (4) Labor Productivity | 0.363 | 0.078 | 0.215 | 1.000 | | | | | |
| (5) Foreign Direct Investment | -0.491 | 0.181 | -0.299 | -0.104 | 1.000 | | | | |
| (6) Human Development | -0.882 | -0.297 | -0.651 | -0.391 | 0.396 | 1.000 | | | |
| (7) Literacy Rate | -0.967 | -0.205 | -0.868 | -0.303 | 0.583 | 0.816 | 1.000 | | |
| (8) Life Expectancy | -0.897 | -0.065 | -0.818 | -0.228 | 0.710 | 0.713 | 0.956 | 1.000 | |
| (9) Innovation Index | -0.819 | -0.020 | -0.680 | -0.036 | 0.517 | 0.764 | 0.815 | 0.805 | 1.000 |

Table 2 shows the Pearson correlation matrix (2000–2023) shows that Indonesian poverty is strongly negatively correlated with literacy (-0.967), life expectancy (-0.897), innovation (-0.819), and human development (-0.882), which verifies the importance of education, health, and innovation in reducing poverty. Yet, the correlation between poverty and GDP growth (0.255) and labor productivity (0.363) is weaker, suggesting social development has a greater impact than sheer economic growth. FDI has ambivalent effects, slightly positive relative to GDP (0.181), but negative with respect to employment (-0.299), indicating a capital-intensive sector. FDI is moderately correlated with innovation ($r = 0.517$) and life expectancy ($r = 0.710$), but weakly correlated with HDI ($r = 0.396$). Generally, human capital indicators tend to compare more favorably with economic indicators in terms of poverty reduction.

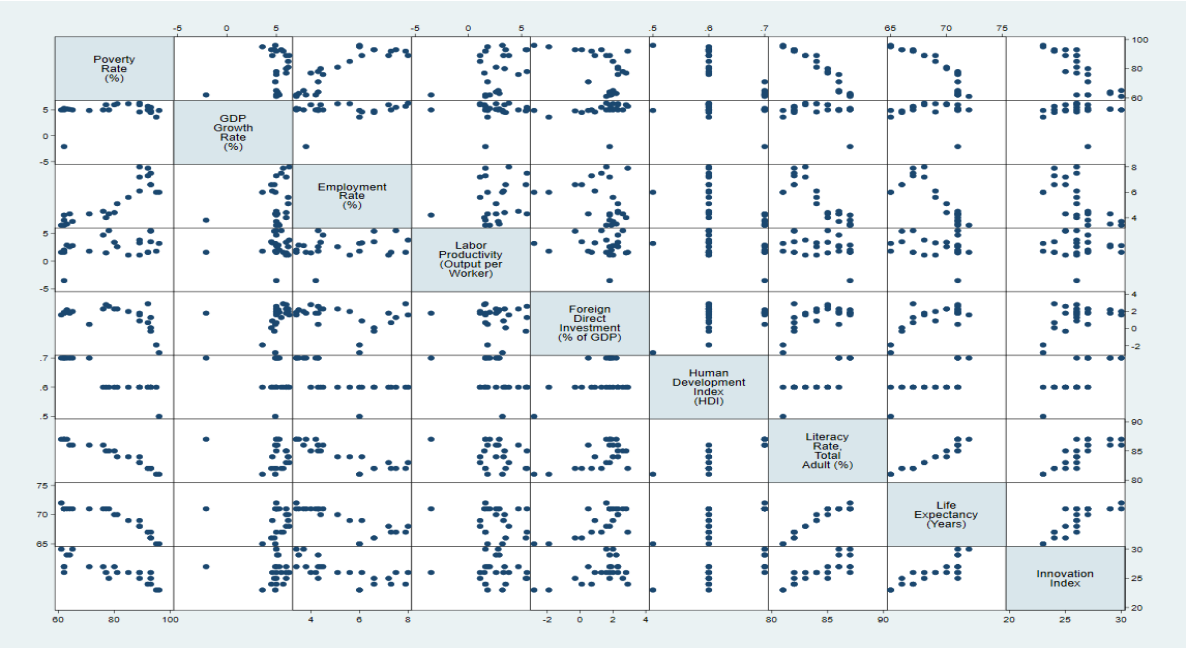


**Figure 1.** Scatter Plot Matrix

**Table 3.** Augmented Dickey-Fuller (ADF) Test Results

| Variable(s) | Statistic | 1% C.R. | 5% C.R. | 10% C.R. | Sig. | Conclusion |
|---|---|---|---|---|---|---|
| GDP Growth Rate | -4.376 | -3.750 | -3.000 | -2.630 | 0.000 | I(0) |
| Labor Productivity | -4.762 | -3.750 | -3.000 | -2.630 | 0.000 | I(0) |
| Foreign Direct Investment | -3.739 | -3.750 | -3.000 | -2.630 | 0.003 | I(0) |
| Poverty Rate | -3.346 | -3.750 | -3.000 | -2.630 | 0.012 | I(1) |

## 3.2. Model Specification and Selection

The specification of the ARDL model was determined using standard lag selection criteria, namely the Akaike Information Criterion (AIC), Hannan–Quinn Information Criterion (HQIC), and Schwarz Bayesian Information Criterion (SBIC). Based on these criteria, the optimal model selected was ARDL(2,0,0,2). This specification indicates that the poverty rate variable is modeled with two lags, capturing its dynamic persistence over time. In contrast, GDP growth and labor productivity enter the model without lags, suggesting that their contemporaneous effects are sufficient to explain variations in the dependent variable. Meanwhile, foreign direct investment (FDI) is included with two lags, reflecting the delayed response of poverty reduction to changes in investment inflows. Overall, this selection ensures that the model adequately captures the relevant short-run adjustments among the variables.

## 3.3. Cointegration and Short-Run Dynamics

The results of the Bounds Test proposed by Pesaran et al. (2001) indicate the absence of a long-run cointegration relationship among the variables. This implies that the variables do not move together in the long run and therefore do not converge toward a stable equilibrium relationship. As a result, the ARDL model is estimated without incorporating an error correction term, and the analysis focuses solely on short-run dynamics. Consequently, the estimated short-run coefficients highlight the immediate and transitory effects of GDP growth, labor productivity, and FDI on poverty, providing insights into their short-term influence in the Indonesian context.

**Table 4.** Result of ARDL Approach by using 2, 0, 0, 2

| | Coefficient | Std. | err. | t | P>t | [95%] |
|---|---|---|---|---|---|---|
| Poverty Rate | -0.006 | 0.038 | -0.170 | 0.867 | -0.088 | 0.075 |
| GDP Growth Rate | -45.792 | 85.891 | -0.160 | 0.875 | -658.968 | 567.384 |
| Labor Productivity | -9.049 | 9.525 | -0.130 | 0.898 | -158.166 | 140.067 |
| Foreign Direct Investment | 76.100 | 79.476 | 0.160 | 0.876 | -952.274 | 1104.474 |
| Poverty Rate | 0.354 | 0.186 | 1.900 | 0.079 | -0.046 | 0.753 |

| | | | | | | |
|---|---|---|---|---|---|---|
| D1. FDI | 0.006 | 0.384 | 0.020 | 0.988 | -0.817 | 0.829 |
| LD. FDI | 1.458 | 0.359 | 4.070 | 0.001 | 0.689 | 2.227 |
| _cons | 0.014 | 2.920 | 0.000 | 0.996 | -6.248 | 6.275 |
| R-squared | 0.600 | | Log likelihood | -34.389 | | |
| Adj R-squared | 0.400 | | Root MSE | 1.448 | | |

**Table 5.** Result of ARDL Bounds Testing

| Test Statistic | Value | Decision Rule | Conclusion |
|---|---|---|---|
| F-Statistic | 1.065 | Compare with I(0) and I(1) critical values | No cointegration |
| t-Statistic | -0.171 | Compare with I(0) and I(1) critical values | No cointegration |

**Table 6.** Critical Values for F-statistic and t-statistics

| Level of Significance | F-statistics | | t-statistics | |
|---|---|---|---|---|
| | I(0) Bound | I(1) Bound | I(0) Bound | I(1) Bound |
| 10% | 2.720 | 3.770 | -2.570 | -3.460 |
| 5% | 3.230 | 4.350 | -2.860 | -3.780 |
| 2.5% | 3.690 | 4.890 | -3.130 | -4.050 |
| 1% | 4.290 | 5.610 | -3.430 | -4.370 |

Tables 4, 5, and 6 display the statistical outcomes of the ARDL (2,0,0,2) model provide valuable insights into the short-run dynamics of poverty in Indonesia between 2000 and 2023. The bounds test results (F = 1.065; t = -0.171) indicate no long-run cointegration, suggesting that poverty in Indonesia does not exhibit a stable long-run relationship with GDP growth, labor productivity, or foreign direct investment (FDI). Instead, poverty exhibits strong path dependence: the lagged dependent variable (LD.Poverty Rate = 0.354, p = 0.079) suggests that a 1% increase in poverty in the previous period is associated with a 0.35% increase in the current period. This finding supports Sugiharti et al. (2022), who emphasize that chronic poverty in Indonesia is self-reinforcing and driven by structural inequalities. The coefficients for GDP growth (-45.792, p = 0.875) and labor productivity (-9.049, p = 0.898) are both statistically insignificant, indicating that short-run fluctuations in these macroeconomic variables have no meaningful effect on poverty reduction. This challenges the conventional "growth-first" policy approach. As Ravallion (2022) and Banerjee & Duflo (2019) argue, growth without redistribution often fails to benefit the poorest. Similarly, Samiani et al. (2024) find that Indonesia's recent growth has not significantly reduced poverty due to labor market informality and weak social protection systems.

FDI, however, shows a striking short-run effect. The lagged difference of FDI (LD.FDI = 1.458, p = 0.001) indicates that a 1% increase in FDI inflows in the previous period is associated with a 1.46% increase in poverty in the current period. This counterintuitive result suggests that FDI in Indonesia may initially exacerbate poverty due to its concentration in capital-intensive sectors, which generate limited employment opportunities for low-skilled workers. This is consistent with Rahayu et al. (2020), who document that foreign investment in Indonesia's mining and industrial sectors tends to bypass the poor. Soegoto et al. (2022) further argue that while FDI can promote overall economic growth, its poverty-reducing effects remain limited unless it is directed toward inclusive industries, such as labor-intensive manufacturing or services. By contrast, the correlation analysis reveals that human development indicators, including literacy (-0.967), life expectancy (-0.897), and innovation (-0.819), are strongly and negatively associated with poverty. These results confirm that improvements in human capital are central to breaking poverty traps. Asrol & Ahmad (2018) and Luckyardi et al. (2022) similarly find that investments in education and health yield stronger poverty reduction effects than aggregate GDP growth. The OECD (2023) also emphasizes that Indonesia's persistent poverty challenges stem more from deficits in human capital and governance than from low growth per se.

The implications are clear: breakthrough policies must go beyond growth-driven strategies. Programs like *Program Keluarga Harapan (PKH)* have proven effective in improving household education and health outcomes (Cahyadi et al., 2020), while *Kartu Prakerja* enhances employability through vocational training (Anggara, 2024). However, these

remain limited in scale and reach, especially for informal workers and rural populations. International experiences further demonstrate the effectiveness of targeted interventions. Brazil's *Bolsa Família* and Mexico's *Prospera* broke intergenerational poverty cycles through conditional transfers, while South Korea's long-term investment in innovation and education highlights the role of structural transformation. In summary, the ARDL model confirms that poverty in Indonesia is persistent and only weakly responsive to traditional macroeconomic drivers, such as GDP growth, productivity, and FDI. The short-run dynamics suggest that external capital inflows may even worsen poverty unless complemented by policies that ensure inclusivity. Therefore, the path to breaking Indonesia's poverty trap lies in scaling up human capital investments, strengthening governance, and channeling resources into inclusive, labor-intensive sectors.

Poverty in Indonesia dropped substantially from around 60% in 2000 to 30% in 2010, driven by sustained economic reforms, social safety nets, and the introduction of *Program Keluarga Harapan (PKH)*, which improved household access to education and health services (Waluyo & Khoirunurrofik, 2021; Irmayanti et al., 2022). However, this reduction was uneven across regions, with rural areas and Eastern Indonesia lagging due to structural constraints, including poor infrastructure, limited land access, and weak governance. Between 2010 and 2020, progress stalled at approximately 25%, reflecting the combined effects of rising inequality, climate-related shocks, and vulnerability in informal labor markets (ADB, 2020; BPS, 2023). The COVID-19 pandemic further reversed gains, pushing poverty back up to 28%, underscoring the fragility of Indonesia's poverty reduction achievements. As PKH expanded nationwide, projections suggest poverty could decline to around 24% by 2025. Yet, significant concerns remain, including the leakage of program funds, administrative inefficiencies, low labor productivity, and unequal access to productive assets, such as land (OECD, 2023; World Bank, 2020a). Complementary initiatives such as *Kartu Prakerja*, introduced to provide vocational training and reskilling opportunities, have shown positive effects on employability and income generation. However, evaluations highlight the need for stronger targeting and alignment with labor market demand, particularly for informal and rural workers (World Bank, 2021; Anggara, 2024).

The Indonesian case illustrates that while conditional cash transfers and vocational training are effective in mitigating immediate poverty, they cannot independently dismantle structural poverty traps. A combination of human capital investment, labor market reforms, and structural measures, such as improved land distribution, digital inclusion, and anti-corruption efforts, is necessary to create sustainable pathways out of poverty. Lessons from countries like Brazil (*Bolsa Família*) and Mexico (*Prospera*) also show that conditional transfers must be integrated with broader social and economic reforms to generate long-term poverty reduction and intergenerational mobility.

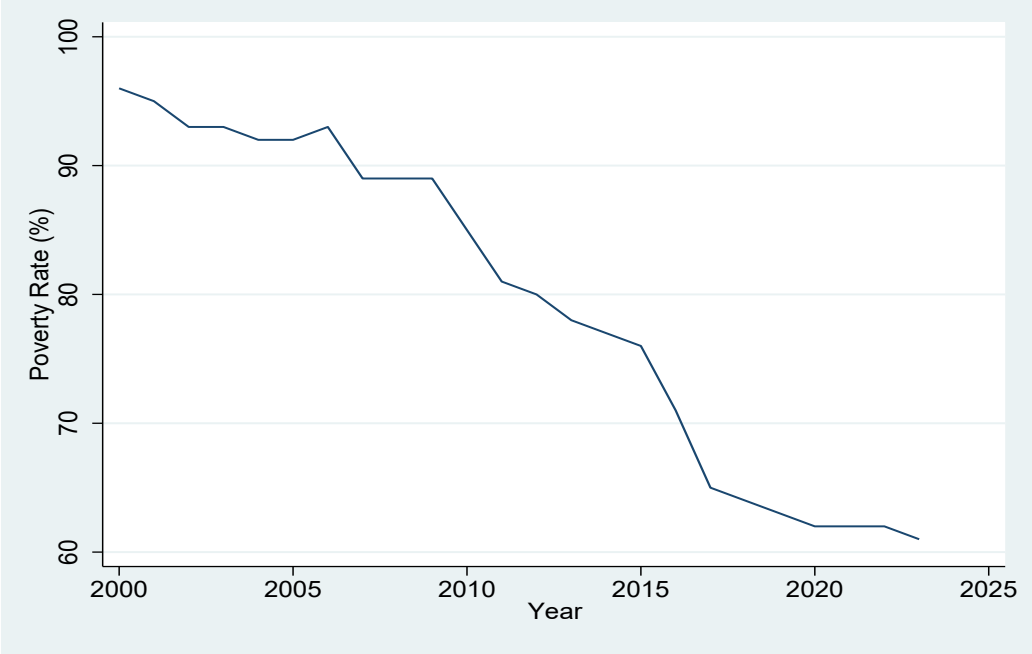


**Figure 2.** Indonesia's poverty landscape and policy interventions

## 4. Conclusion

This study finds that poverty in Indonesia remains persistent and path-dependent, with the ARDL model indicating no long-run cointegration between poverty and macroeconomic variables, including GDP growth, labor productivity, and FDI. In the short run, neither GDP growth nor labor productivity has a significant impact on reducing poverty, confirming that aggregate macroeconomic gains do not automatically translate into inclusive welfare improvements. FDI, meanwhile, shows a positive short-run effect on poverty, suggesting a capital-intensive bias that may worsen inequality and limit benefits for low-skilled workers. These results highlight the limitations of relying solely on growth-driven strategies for poverty alleviation. Instead, the evidence points toward the importance of human capital and structural reforms. Strong negative correlations between poverty and literacy, life expectancy, innovation, and the Human Development Index confirm that improvements in education, health, and technological capacity play a central role in breaking poverty traps. This finding aligns with previous research on chronic poverty in Indonesia (Sugiharti et al., 2022) and the risks associated with growth without inclusivity (Rahayu et al., 2020).

To move forward, Indonesia needs "breakthrough policies" that go beyond conventional growth approaches. Successful initiatives like *Program Keluarga Harapan (PKH)*, which strengthens household education and health outcomes, and *Kartu Prakerja*, which enhances employability through vocational training, have demonstrated measurable impacts but remain limited in reach and effectiveness. Scaling up these programs with better targeting, governance, and integration into regional development could magnify their impact. Lessons can also be drawn from comparable economies: Brazil's *Bolsa Família*, with its conditional transfers, and South Korea's innovation-driven human capital strategy both illustrate how targeted, high-impact interventions can shift poverty trajectories. Overall, the findings suggest that Indonesia's poverty reduction strategy must focus on building human capital, ensuring equitable access to education and healthcare, and fostering innovation alongside structural reforms in land access, labor markets, and governance. Only by aligning macroeconomic performance with inclusive social investment can Indonesia escape the structural traps that perpetuate poverty. Future research should expand this analysis by utilizing household- or regional-level data to capture heterogeneities and enhance the policy evidence base.

**Author Contributions:** Conceptualization, T.G. and B.M.; methodology, T.G.; software, T.G.; validation, B.M. and F.T.; formal analysis, T.G.; investigation, T.G. and B.M.; resources, T.G.; data curation, B.M. and F.T.; writing—original draft preparation, T.G.; writing—review and editing, T.G., B.M., and F.T.; visualization, T.G.; project administration, T.G.; funding acquisition, T.G. All authors have read and agreed to the published version of the manuscript.

**Funding:** This research received no external funding.

**Institutional Review Board Statement:** Not applicable.

**Informed Consent Statement:** Not applicable.

**Data Availability Statement:** Not applicable.

**Acknowledgments:** The authors would like to thank Universitas Andalas, Padang, Indonesia, for its support of this research and publication. We also thank the reviewers for their constructive comments and suggestions. Conflicts of Interest: The authors declare no conflict of interest.

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