

Multidimensional Poverty in Indonesia: The Role of Economic, Social, Educational, and Political Factors

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JEL Classification:

I32

E24

G21

Received: 29 January 2025

Revised: 04 May 2025

Accepted: 21 May 2025

Available online: September 2025

Published regularly: September 2025

Abstract

Research Originality: This study advances the field by employing a comprehensive, multidimensional framework that examines the synergistic interactions between economic, social, educational, and political factors. This study also provides a more nuanced and evidence-based perspective on poverty dynamics, moving beyond the oversimplified, single-dimensional analyses that have dominated prior scholarship.

Research Objectives: This study aims to examine the impact of educational participation, crime rates, unemployment, access to Islamic financing, and the democracy index on poverty levels in Indonesia.

Research Methods: Panel data from 2015 to 2022 is examined using a fixed effects model to identify the key determinants of poverty.

Empirical Results: The findings indicate that higher net enrolment rates and increased access to Islamic financing significantly contribute to poverty reduction, while rising crime rates and unemployment are associated with increased poverty levels. Interestingly, the democracy index shows no statistically significant effect on poverty during the examined period.

Implications: The findings have significant policy relevance, emphasizing the need to enhance access to quality education, promote job creation, and expand Islamic financing as an inclusive economic tool.

Keywords:

Poverty, education, crime, unemployment, Islamic financing, democracy

How to Cite:

Rama, A., Putri, Poppy S., Mynbayeva, E. (2025). Multidimensional Poverty in Indonesia: The Role of Economic, Social, Educational, and Political Factors. *Etikonomi*, 24(2), 623 – 634. <https://doi.org/10.15408/etk.v24i2.44640>.

INTRODUCTION

Poverty remains a significant challenge in Indonesia, the world's fourth most populous country, with a population of 275.77 million as of 2022. The core issue is not the population size, but the lack of human capital development – particularly in education and access to economic opportunities – which deepens poverty (Hatta & Sarkawi, 2011). According to the Central Bureau of Statistics (BPS, 2022), poverty levels in Indonesia declined from 2015 to 2019 but spiked in 2020 due to the COVID-19 pandemic, which severely impacted the economy. However, poverty levels began to decrease again in 2021 and 2022 as the economy recovered.

Poverty is a complex and multidimensional social issue (Abdu & Delamonica, 2018; Ferreira & Lugo, 2013) that extends beyond income deficiencies to encompass various aspects of life, including access to education, healthcare, employment, and social and political participation. Therefore, to understand and effectively address poverty, a comprehensive approach is needed, considering various factors including economic, educational, social, and political dimensions. The economic dimension, for example, includes unemployment and access to financial resources; the educational dimension focuses on community involvement in the education system; the social dimension involves factors such as crime and inequality; while the political dimension relates to the role of public policy and democratic stability in poverty alleviation (Alkire & Foster, 2011; Sen, 2014). By employing this multidimensional approach, poverty analysis can provide a more comprehensive picture, leading to more effective strategies for addressing this issue.

Addressing poverty requires a focus on the quality of human resources, a crucial factor in alleviating it. Education plays a vital role in enhancing human capital, as it is widely regarded as a key driver of economic growth, improving welfare, and reducing poverty (Hofmarcher, 2021; Spada et al., 2023). A standard indicator used to assess the success of human resource development is the participation rate of the population at various educational levels. It is generally expected that higher levels of educational participation correlate with improved human resource quality. Ladd (2012) shows a strong and significant relationship between education and poverty, while Hofmarcher (2021) finds that education has a negative and significant impact on poverty. Improved access to education offers greater opportunities for communities to enhance their welfare.

Social factors, in addition to education, play a significant role in perpetuating poverty. Poverty often leads to negative consequences, one of which is an increase in crime, as individuals struggling to make ends meet face difficulties in maintaining stable social lives (Todaro & Smith, 2009). Shifts in societal values such as materialism and hedonism can foster negative behaviours like crime, which in turn exacerbate poverty (Huang et al., 2004). High crime rates not only hinder economic growth but also worsen poverty directly by disrupting income sources and depleting resources. Violent crimes, in particular, increase financial instability, pushing vulnerable families further into poverty and diminishing the positive effects of economic growth (Adekoya & Razak, 2016; Raj & Kalluru, 2023).

Unemployment is a significant social factor contributing to poverty. A high unemployment rate signals a failure in a country's development, as it reflects an imbalance between the labour force and available job opportunities. Unemployment is positively and significantly correlated with poverty, primarily because it reduces income, thereby lowering individual welfare. McClelland (2000) empirically confirms that the impacts of unemployment on families include poverty and hardship, strained relationships, poorer health (although the causal relationships are not always clear), and housing stress. As unemployment rises, the productivity of the population decreases, making it harder for individuals to meet their basic needs. This inability to fulfil basic needs further exacerbates poverty levels. Recent studies by Aderounmu et al. (2021) and Meo et al. (2023) have also highlighted the negative impact of unemployment on poverty in Nigeria and Pakistan, underscoring the need for policies that address unemployment to alleviate poverty.

Islamic bank financing has demonstrated a positive impact on poverty reduction by improving access to financial resources for marginalized communities. Several empirical studies have highlighted the significant role of Islamic finance in supporting small and medium-sized enterprises (SMEs), which are key drivers of job creation and economic growth in developing countries. For instance, Amijaya et al. (2023) find that Islamic financing significantly reduces poverty by increasing the financial inclusion of low-income populations, enabling them to invest in businesses and improve their livelihoods. Similarly, Martiana and Rahmanto (2021) emphasize that Islamic microfinance institutions provide essential capital to the poor, promoting entrepreneurial activities that create jobs and enhance community welfare. Moreover, Islamic banks' focus on asset-backed financing and risk-sharing mechanisms aligns with poverty reduction goals by ensuring that funds are used for productive and sustainable purposes.

The implementation of democratic governance offers significant benefits, particularly in optimizing national resource allocation and reducing poverty (Fambeu, 2021). Amartya Sen, a Nobel Laureate in Economics, emphasizes that poverty in several Asian and African countries stems from the failure to implement democracy effectively (Fan, 2023). Although democracy may not have a direct impact on economic growth, it contributes indirectly by fostering human capital development, enhancing economic stability, and promoting individual freedoms (Doucouliagos & Ulubaşoğlu, 2008). In line with this, Tavares and Wacziarg (2001) find that democratic institutions tend to respond to the needs of the poor by expanding access to education and reducing income inequality. However, these gains often come at the cost of lower physical capital accumulation. Despite their advantages, democratic systems still face challenges such as weak transparency, limited public participation, and ineffective poverty-reduction policies, all of which can limit their overall impact.

Based on the background outlined, this study aims to identify the root causes of poverty using a multidimensional approach. Utilizing panel data from all provinces in Indonesia from 2015 to 2022, the research investigates key economic, social, educational, and political factors that contribute to poverty in the country.

This study makes three key contributions that address critical gaps in poverty literature. *First*, while existing studies often adopt a unidimensional economic approach (e.g., D’Attoma & Matteucci, 2024; Dong et al., 2021), this research advances a multidimensional poverty framework by integrating economic, social, political, and educational dimensions to reveal their interconnected dynamics. By doing so, it challenges reductionist poverty models and offers a more holistic understanding of deprivation—particularly relevant in developing economies where institutional and social structures mediate economic outcomes. *Second*, much of the current empirical evidence on poverty stems from Western or industrialized contexts (e.g., Ayoo, 2022; Liu et al., 2021), leaving a gap in understanding how political governance and social systems shape poverty in emerging economies. This study fills that void by focusing on Indonesia, demonstrating how political stability, crime rates, and educational access interact uniquely in shaping poverty trajectories—a contribution critical for policymakers in similar developing settings. *Third*, while Islamic finance has often been studied in isolation (e.g., Liu et al., 2021), this research empirically links it to poverty alleviation within a broader institutional framework, showing how its ethical and inclusive mechanisms—such as risk-sharing and prohibitions on exploitative practices—enhance financial inclusion and microenterprise growth. This study bridges a theoretical gap between Islamic economics and development studies, offering actionable insights for leveraging faith-based finance in poverty reduction strategies.

METHODS

To understand the complexity of poverty’s underlying causes, this study examines economic, social, educational, and political factors that may influence poverty levels. The research relies on secondary data obtained from the Indonesian Central Bureau of Statistics and reports from the Financial Services Authority, for the period from 2015 to 2022. The dataset is structured as a panel, combining time-series data from 2015 to 2022 with cross-sectional data from 31 provinces in Indonesia. Restricting the analysis to the 2015–2022 period ensures methodological consistency by avoiding biases arising from changes in data collection protocols. This timeframe also aligns with the availability of high-frequency, province-level panel data (31 provinces over 8 years), which offers an optimal balance between temporal depth and spatial coverage.

The primary dependent variable, poverty, is measured as the number of people living below the poverty line. Education is represented by the pure participation rate, which refers to the percentage of the school-aged population currently attending school at the appropriate educational level. It is calculated as the ratio of students of official school age who are enrolled in school to the total population of school-aged individuals. The crime rate and unemployment rate represent social factors. The crime rate reflects the level of vulnerability to criminal activity in a specific region during a particular time, while the unemployment rate refers to the labor force that is not employed but is actively seeking employment or preparing to start a new business.

The Economic factor is captured through the volume of Islamic bank financing allocated to small and medium enterprises (SMEs). The Political factor is represented by Indonesia's Democracy Index, a composite index compiled by the Indonesian Central Bureau of Statistics. This index encompasses various variables, including freedom of expression, the right to vote and be elected, and the effectiveness of local government bureaucracy.

This study employs a panel regression model to analyse the multidimensional factors influencing poverty in the Indonesian context. The baseline model for this study is specified as follows:

$$Y_{it} = \beta_0 + \beta_1 \log X_{1it} + \beta_2 \log X_{2it} + \beta_3 \log X_{3it} + \beta_4 \log X_{4it} + \beta_5 \log X_{5it} + \epsilon_{it} \quad (1)$$

In this model, Y_{it} represents the dependent variable, which measures poverty for province i at time t . The independent variables $\log X_{1it}$, $\log X_{2it}$, $\log X_{3it}$, $\log X_{4it}$, and $\log X_{5it}$ are the logarithmic transformations of key factors representing education (school participation: $X1$); social factors (crime: $X2$; unemployment: $X3$); and economic (Islamic bank financing: $X4$); and political (democracy index: $X5$) factors, respectively. The parameter β_0 denotes the intercept, while β_1 , β_2 , β_3 , β_4 and β_5 are the coefficients associated with the respective independent variables. Finally, ϵ_{it} is the error term, capturing unobserved factors that may influence poverty but are not included in the model. This specification enables a robust examination of how these multidimensional factors collectively impact poverty levels across provinces over time.

RESULTS AND DISCUSSION

Table 1 reports the results of the panel regression model using the Fixed Effect Model (FEM). The panel regression results offer valuable insights into the factors that influence poverty across various regions in Indonesia. The analysis includes the impact of various economic, social, educational, and political factors, with all variables presented in their logarithmic forms.

The coefficient for School Participation ($X1$) is -0.017967, with a statistically significant p-value of 0.0002, indicating a negative and significant relationship between education participation and poverty levels. Specifically, a 1% increase in school participation is associated with an approximate 0.018% reduction in poverty, holding other factors constant. Although the effect size is modest, the negative direction underscores the vital role of education in alleviating poverty. Higher levels of education equip individuals with the skills, knowledge, and qualifications necessary for better employment opportunities, which can lead to increased income, enhanced socio-economic mobility, and a reduced risk of falling into or remaining in poverty.

Furthermore, education not only strengthens individual capacities but also contributes to long-term economic development by fostering a more skilled and productive workforce (Chevalier et al., 2004). These findings are consistent with previous research, such as Arsani et al. (2020), which confirms the significant inverse relationship between education

and poverty in Indonesia. In this context, improving access to quality education emerges as a strategic and sustainable approach to breaking the cycle of poverty, especially in developing countries like Indonesia.

Table 1. Panel Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.419175	0.947749	6.773073	0.0000
School participation (X1)	-0.017967	0.014237	-0.138176	0.0002
Crime (X2)	0.026843	0.033573	0.799558	0.0149
Unemployment (X3)	0.010681	0.017190	-0.621359	0.0000
Islamic bank financing (X4)	-0.021601	0.029625	-0.087793	0.0001
Democracy index (X5)	-0.023048	0.004169	-1.210795	0.4351
<i>Fixed Effects (Cross)</i>				
ACEH	-0.672220			
BALI	-0.840864			
BANTEN	0.546063			
BENGKULU	-0.360450			
JAKARTA	-0.023963			
GORONTALO	-0.829626			
JAMBI	-0.455894			
WEST JAVA	1.900235			
CENTRA JAVA	1.929413			
EAST JAVA	2.274090			
WEST KALIMANTAN	-0.017639			
SOUTH KALIMANTAN	-0.819064			
CENTRAL KALIMANTAN	-1.119391			
EAST KALIMANTAN	-0.623233			
BANGKA BELITUNG	-1.824510			
RIAU ISLAND	-1.140094			
LAMPUNG	0.859888			
MALUKU	-0.280531			
NORTH MALUKU	-1.668573			
WEST NUSA TENGGARA	0.342783			
EAST NUSA TENGGARA	0.896362			
WEST PAPUA	-0.744365			
RIAU	0.140801			
SOUTH SULAWESI	0.540836			
CENTRAL SULAWESI	-0.078440			
SOUTHEAST SULAWESI	-0.339454			
NORTH SULAWESI	-0.793701			
WEST SUMATERA	-0.233808			
SOUTH SUMATERA	0.893677			
NORTH SUMATERA	1.081653			
YOGYAKARTA	0.115579			

The coefficient for Crime (X2) is 0.026843, indicating a positive relationship between crime rates and poverty levels. Specifically, a 1% increase in the crime rate is associated with an approximate 0.027% increase in poverty, holding other variables constant. This finding suggests that regions with higher crime rates tend to experience greater levels of poverty. The positive association may be explained by the economic disruption caused by crime, which can undermine business activity, discourage investment, and slow economic growth (Detotto & Otranto, 2010). High crime rates often deter potential investors and employers, leading to reduced job opportunities and increased unemployment—key drivers of poverty.

Additionally, crime imposes indirect costs on both individuals and businesses, such as increased spending on security and reduced consumer confidence, further exacerbating economic hardship (Carboni & Detotto, 2016). These results are consistent with Mehlum et al. (2005), who highlight the detrimental impact of crime on economic performance and poverty. Therefore, reducing crime is a strategic component of poverty alleviation efforts, particularly in vulnerable regions.

Unemployment (X3) has a positive coefficient of 0.010681, indicating a strong relationship with poverty. Specifically, a 1% increase in the unemployment rate is associated with an approximate 0.011% increase in poverty, controlling for other variables. This result highlights the crucial role of employment in alleviating poverty. As unemployment rises, individuals lose access to a steady income, making it increasingly difficult for them to meet their basic needs and maintain economic stability. Prolonged joblessness not only affects personal well-being but also contributes to a broader decline in household consumption and productivity, thereby intensifying poverty at the community level (de Graaf-Zijl & Nolan, 2011). These findings are consistent with DeFina (2004), who finds a significant positive relationship between unemployment and poverty. The evidence underscores the importance of effective labor market policies and job creation strategies as crucial components of poverty alleviation efforts.

The coefficient for Islamic Bank Financing (X4) is -0.021601, indicating a negative relationship with poverty. A 1% increase in Islamic bank financing is associated with an approximate 0.022% decrease in poverty, holding other factors constant. This result suggests that greater access to Islamic financing, particularly for small and medium-sized enterprises (SMEs), contributes significantly to poverty reduction. By providing Sharia-compliant financial products that avoid excessive interest and promote risk-sharing, Islamic banks support productive economic activities, especially among underserved populations (Lebdaoui & Wild, 2016; M. Anwar et al., 2020). Financing for SMEs plays a vital role in generating employment and stimulating income growth, particularly in low-income communities. This finding is consistent with Parewangi & Iskandar (2020), who demonstrate the significant poverty-reducing impact of Islamic financial services. Expanding the outreach of Islamic banking to include marginalized groups and enhancing financing for micro and small enterprises can further promote inclusive growth, serving as an effective strategy for alleviating poverty.

The coefficient for the Democracy Index (X5) is -0.023048; however, with a p-value of 0.4351, the result is not statistically significant. While the negative sign suggests a potential inverse relationship between democracy and poverty, the lack of significance implies that, in this model, the level of democracy does not have a measurable impact on poverty outcomes. This result aligns with findings by Ross (2006), who argues that the relationship between democracy and poverty reduction is complex and often inconclusive. Democratic governance alone does not guarantee improved welfare for the poor, especially in the absence of strong institutions and inclusive policies. Structural challenges such as corruption, weak legal frameworks, and inadequate public service delivery can limit the effectiveness of democratic systems in addressing poverty. Moreover, as highlighted by Harber (2002) and Kapstein and Converse (2008), the exclusion of marginalized groups from meaningful political participation further diminishes democracy’s potential to drive pro-poor change. These findings underscore the need for not only democratic governance but also targeted, well-implemented policies and institutional reforms to ensure that democratic ideals translate into concrete improvements for impoverished populations.

The fixed effects for the regions reflect the unique characteristics of each province that affect poverty levels, while controlling for other factors. For instance, regions such as West Java and Central Java exhibit high fixed effects, with coefficients of 1.900235 and 1.929413, respectively, indicating that these provinces have higher poverty levels compared to the baseline region. In contrast, provinces such as Bali and Aceh exhibit lower poverty levels, with fixed effect coefficients of -0.840864 and -0.672220, respectively. Additionally, West Papua and North Maluku have negative coefficients of -0.744365 and -1.668573, respectively, indicating that these regions also experience lower poverty levels compared to the reference province. The regional fixed effects highlight the extent of regional disparities in poverty, demonstrating that geographic and contextual factors have a significant impact on poverty outcomes across Indonesia.

Overall, the analysis highlights how education, crime, unemployment, Islamic financing, political, and regional factors interact to determine poverty levels in Indonesia. The findings suggest that while some factors, such as education and Islamic financing, help reduce poverty, others, like crime and unemployment, contribute to its increase. Additionally, regional differences play a crucial role in shaping the overall poverty landscape.

Table 2. The Chow Test

Redundant Fixed Effects Tests			
Pool: POOL01			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	65.851248	(30,212)	0.0000
Cross-section Chi-square	578.818474	30	0.0000

This study employs panel regression, combining cross-sectional and time-series data, to determine the most suitable estimation model: the Common Effect Model (CEM), the Fixed Effect Model (FEM), or the Random Effect Model (REM). The Chow test is used to determine whether to choose between CEM and FEM. If the cross-section F probability is below 5% (0.05), FEM is selected; otherwise, CEM is preferred.

Table 3. The Hausman Test

Correlated Random Effects - Hausman Test			
Pool: POOL01			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	30.177791	5	0.0000

Based on the results shown in Table 2, the Chow test indicates that the p-value is 0.00, which is less than the significance level of 0.05. This result confirms that the appropriate model for this analysis is the Fixed Effect Model (FEM). To determine the best model between the Fixed Effect Model (FEM) and the Random Effect Model (REM), the Hausman test is used. If the p-value is less than 0.05, the Fixed Effect Model is chosen. If it is greater than 0.05, the Random Effect Model is preferred.

Based on the Hausman test output in Table 3, the p-value is 0.00, which is less than 0.05. This indicates that the selected model is the Fixed Effect Model (FEM). Therefore, it can be concluded that H0 is rejected and H1 is accepted. Since the Fixed Effect Model (FEM) is chosen, the Lagrange Multiplier (LM) test is not required.

CONCLUSION

This study examines the multifaceted factors that contribute to poverty, particularly within the Indonesian context. The empirical findings confirm that education has a statistically significant negative relationship with poverty, indicating that higher education levels enhance individual capabilities and productivity, thereby contributing to poverty reduction. In contrast, crime rates show a statistically significant positive relationship with poverty, suggesting that higher crime rates hinder economic growth, reduce investment, and limit employment opportunities, thereby exacerbating poverty. Unemployment is also found to have a significant positive effect on poverty, highlighting that rising unemployment increases poverty by reducing household income and preventing individuals from escaping the poverty cycle. Furthermore, the study confirms that the availability of Islamic financing for SMEs plays a crucial role in poverty reduction by supporting business expansion, increasing production, and generating employment. However, the relationship between democracy and poverty, although negative, is not statistically significant, indicating that democracy alone does not directly impact poverty levels unless supported by strong institutions and effective policy implementation.

The findings of this study have several important policy implications for effectively combating poverty. *First*, increasing access to quality education, particularly for disadvantaged groups, should be a top priority to boost human capital and productivity. This can be achieved through targeted scholarships, vocational training programs, and adult education initiatives. *Second*, addressing crime through enhanced law enforcement and proactive crime prevention measures is critical for fostering economic stability and growth. *Third*, policies aimed at reducing unemployment—such as job creation programs, skills training, and support for entrepreneurship—must be implemented to mitigate poverty. *Fourth*, expanding access to Islamic financing for SMEs is also crucial for driving business expansion, job creation, and poverty reduction, particularly in rural and underserved areas. *Finally*, strengthening democratic institutions by promoting transparency, reducing corruption, and ensuring the rule of law will improve the effectiveness of poverty-reduction policies, empowering marginalized communities to participate in the policymaking process and fostering inclusive economic development.

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