

# Understanding the Poverty Trap in Indonesia: Challenges for Inclusive Economic Development

---

Susi Sugiyarsih

Department of Public Administration, Universitas 17 Agustus 1945  
Cirebon, Cirebon, Indonesia

---

**Abstract:** Despite several development programs and economic policies implemented over the years, poverty remains a major challenge in Indonesia. Many low-income households are confronted with conditions that are difficult to escape due to limited access to education, employment opportunities and productive resources. This is sometimes referred to as a poverty trap, where economic deprivation is passed down the generations and becomes a barrier to wider social and economic progress. This paper discusses the poverty trap within the framework of inclusive economic development. This study uses a narrative literature review approach to explore several academic works, policy reports and relevant publications related to poverty, unemployment, human capital and economic development in Indonesia. The focus is placed on understanding the interrelations of different socio-economic factors and their contribution to the perpetuation of poverty. The review argues that poverty cannot be explained by low income alone. Educational disparities, limited employment opportunities, low productivity and unequal access to economic resources are all closely intertwined and frequently mutually reinforcing. This means that even with a growing economy, many people are finding it hard to improve their living conditions. These findings suggest that poverty reduction is not a matter of short-term assistance programs but needs to be accompanied by longer-term investments in education, skills development, job creation and economic inclusion. An important challenge for Indonesia still to be addressed is poverty trap. The development of human capital and the expansion of economic opportunities are central to the promotion of inclusive development and the improvement of the welfare of vulnerable populations.

**Keywords:** poverty trap, poverty, human capital, inclusive economic development.

## Introduction

Poverty is one of the most stubborn development problems facing many countries around the world. Yet, despite extraordinary advances in economic growth, technological innovation, and social development, millions of people still face limited access to adequate income, education,

---

Correspondents Author:

Susi Sugiyarsih, Department of Public Administration, Universitas 17 Agustus 1945 Cirebon, Cirebon, Indonesia  
Email: [ssugiyarsih@gmail.com](mailto:ssugiyarsih@gmail.com)

Received August 10 2023; Revised September 5, 2023; Accepted September 16, 2023; Published September 24, 2023.

healthcare, and productive economic opportunities. The persistence of poverty has received considerable attention from policymakers, international organizations and academics because it impacts not only individual welfare but also wider social and economic development ([Xing et al., 2023](#)). In many developing countries poverty reduction continues to be a key objective of national development policies ([Manzilati & Prestianawati, 2021](#); [Stacey et al., 2021](#)). Economic growth has traditionally been viewed as an important mechanism for reducing poverty. Higher production, investment and employment levels are expected to increase household incomes and raise the standard of living. But evidence from many developing economies suggests that economic growth alone does not automatically eradicate poverty. Some groups may benefit from expanded economic opportunities, while others remain excluded from the development process ([Zuo et al., 2023](#)). Therefore, poverty often continues even when the economy is growing, showing that the roots of poverty are deeper than just not growing enough. In developing countries, where substantial portions of the population are still economically vulnerable, the relationship between poverty and development is especially important. Limited education, unstable employment, limited access to productive assets and limited financial opportunities often prevent people from improving their socio-economic conditions. These constraints often interact with each other, creating a cycle that is hard to break. Thus, poverty is multidimensional and concerns the economic, social and institutional factors and not just the lack of income ([Zhang et al., 2022](#)). For the last several decades Indonesia has made significant strides in economic development. There has been improvement in infrastructure, expansion in industries and sectors of the economy, which has resulted in increased national income and living standards of many people. Government programs that ease poverty, provide social protection, expand education and create jobs have also been instrumental in underpinning development outcomes. But poverty remains a significant challenge, especially for vulnerable groups and communities with limited access to economic opportunities. Income indicators are not sufficient to explain poverty in Indonesia. Poor households in many cases face several disadvantages at the same time. Limited access to quality education lowers employment opportunities and low income restricts the ability to invest in education, healthcare and productive activities. These conditions lead to lower productivity and weaker economic participation, which sustain poverty. Patterns like these demonstrate that poverty is often maintained by interrelated factors that operate over long periods of time ([Lal, 2021](#); [Li et al., 2021](#)).

The concept of the poverty trap provides an important conceptual framework for understanding these dynamics. The poverty trap refers to a situation in which individuals, households or communities are trapped in poverty because the resources available to them are not sufficient to promote sustainable improvements in living conditions. Classical

development economists like Ragnar Nurkse have argued that low income leads to low savings, and low investment and low productivity, creating a self-reinforcing cycle of poverty. This perspective continues to shape contemporary discussions on poverty reduction and economic growth. In recent years, studies have increasingly focused on the role of human capital in explaining persistent poverty. Education, skills, health and knowledge are widely accepted as important determinants of productivity and income generation. Higher human capital individuals have better chances to find stable jobs, participate in productive economic activities and adapt to the changing labor market conditions. Limited human capital, on the other hand, can affect economic opportunities and increase the risk of long-term poverty ([Bogoviz et al., 2020](#)). Unemployment is another big factor that keeps poverty. Employment is income, skills, social mobility and economic participation. Long-term unemployed or precariously employed people often have difficulties to meet their basic needs and to accumulate productive assets. For a lot of people, lack of secure employment contributes to a vicious circle of poverty and unemployment. Another important element is the unequal access to productive resources. People's ability to improve their economic conditions is often tied to their access to capital, land, technology, financial services, and market opportunities. Poorer households may lack the means to invest in productive activities, and households with better access to economic assets are more able to seize development opportunities. Such inequalities could exacerbate existing socio-economic divides and hinder poverty alleviation efforts ([Chakraborty & Abraham, 2021](#); [Charalambous & Violaris, 2021](#)).

The increasing emphasis on inclusive economic development reflects a recognition that the gains of development should be more equitably shared across society. Inclusive development underscores participation, equal opportunity and equitable access to the benefits of economic growth. Inclusive development is not only about aggregate economic indicators, but also about ensuring that vulnerable populations are able to participate in and benefit from economic progress. This is especially true in countries where economic growth has not been matched by a commensurate distribution of social and economic benefits. Much has been said about poverty in the development literature, but the persistence of poverty traps raises important questions about the effectiveness of the current development strategies. Understanding the interaction between education, employment, productivity and access to resources in the context of the poverty trap framework is important in identifying policies that can support sustainable poverty reduction and inclusive growth. This paper discusses the concept of poverty trap and its implications for inclusive economic development in Indonesia, based on these considerations. This study explores factors that lead to persistent poverty and possible methods of breaking the cycle of deprivation through a narrative review of relevant literature. The objective of the paper is to contribute to the wider understanding of poverty as a structural

development challenge and to the importance of integrated strategies that foster economic inclusion and social welfare ([Bhanot et al., 2021](#)).

## Research Method

This study used a narrative literature review methodology in reviewing the concept of poverty trap and its implications for inclusive economic development in Indonesia. A narrative literature review was deemed appropriate because the aim of the study was to develop a comprehensive understanding of the factors contributing to persistent poverty, rather than test specific hypotheses or generate empirical findings ([Raghubanshi et al., 2021](#)). Secondary data from academic journal articles, books, government reports, policy documents and other relevant publications on poverty, economic development, unemployment, human capital and social welfare was used in the study. The selected literature has been selected based on its relevance to the topic and its contribution to the discussion on the causes, characteristics and consequences of poverty traps in developing countries, especially Indonesia ([Pal et al., 2021](#)).

The collected literature was analyzed, classified and interpreted for major themes related to poverty and inclusive economic development. Special attention was paid to studies that refer to the relationship between poverty, education, employment opportunities, productivity and access to economic resources. These themes were later analyzed to understand how different socio-economic factors interact with each other and contribute to the continuation of poverty. Descriptive and analytical approach was chosen for analysis. The relevant findings of previous studies were aggregated to offer a broader understanding of the poverty trap and to discuss possible strategies to support inclusive economic development. This paper offers a conceptual discussion of the challenges of poverty reduction and the importance of building human capital, expanding economic opportunities and improving access to productive resources in Indonesia ([Heradstveit et al., 2020](#); [Ie et al., 2022](#)).

## Result and Discussion

### Poverty Trap in Indonesia

Poverty remains one of the toughest development challenges to solve in Indonesia. Despite various poverty reduction programmes and positive trends in economic growth over the years, there is still a section of the population that has limited access to education, employment and productive resources. Therefore, poverty is often not just a temporary economic condition but a situation that can last for a long period of time. The idea of the poverty trap is intimately connected with the persistence of poverty. Low-income families are often preoccupied with the immediate needs of daily life, with little chance to invest in education, health or productive activities. This condition limits their chances to increase future income and economic security.

Children from poor families often encounter the same constraints, which makes it more likely that poverty is passed from generation to generation. This suggests that poverty can't be seen just based on the income level of individuals or households. Poor access to opportunities for improving welfare is often associated with economic constraints. Thus, poverty alleviation efforts should be more than income support, but also the underlying determinants of economic and social mobility.

## Unemployment and Economic Insecurity

Unemployment is one of the factors usually associated with persistent poverty. Employment provides households with income to meet their basic needs and improve their standard of living. Without access to adequate employment opportunities, many people are unable to generate sufficient income and are thus more vulnerable to poverty. The link between unemployment and poverty is not always clear cut, but both are often linked. The longer people are unemployed, the more challenging it may become for them to acquire skills, accrue assets, or engage in productive economic activities. This lack of economic resources may, in turn, limit access to education and training and, consequently, make it harder to get a job in the future. Development countries including Indonesia are facing not only the unemployment problem itself but also the availability of productive and sustainable jobs. Many workers are still concentrated in low-income and informal sectors with unstable income. In such cases employment is not necessarily a way out of poverty, particularly when the income is too low to achieve a sustainable improvement in the level of welfare.

## The Inequality of Education and Human Capital

Education has always been recognized as an important factor in improving individual welfare and in promoting economic development. Education can equip people with knowledge, skills and competencies that can enhance productivity and broaden employment opportunities. For this reason, human capital development is generally seen as one of the most effective ways of reducing poverty. But the access to education is not equal between the social groups. Limited economic resources frequently result in limited access to quality education of the family, especially in areas where educational facilities and opportunities are less developed. The differences lead to differences in skill levels and job opportunities, which in turn may lead to differences in income and living standards. So, the link between poverty and education is cyclical. Limited educational attainment can be a barrier to employment and earning potential, while low income can be a barrier to further educational opportunities. If these barriers are not overcome, the cycle of poverty may be passed on from one generation to the next. Improving the quality of human capital and improving access to education are important parts of long-term strategies for poverty reduction.

## Inclusive Development: Escaping the Poverty Trap

The persistence of poverty indicates that economic growth alone is often not enough to bring about widespread improvement in welfare. Growth can create opportunities, but it does not always trickle down evenly across society. While there has been progress in national economic performance, some groups may still be excluded from economic opportunities. This situation has prompted more focus towards the idea of inclusive economic development. Inclusive development is about growth and how well different parts of society can participate in and benefit from economic growth. From this perspective, eliminating poverty requires efforts to expand access to education, jobs, financial resources and productive economic activities. Indonesia's solution to the poverty trap is to implement policies that speak to the economic and social dimensions of poverty. Investment in education, workforce development, job creation and social protection can support the ability of individuals and communities to improve their living conditions. At the same time, reducing barriers to access to economic opportunities is still important for social mobility. Finally, poverty reduction must be considered a long-term development process rather than a short term intervention. The greater the extent of opportunities and inclusive development outcomes that accompany economic growth, the greater the likelihood of sustainable welfare gains. The chances of breaking out of the poverty trap are far higher under these conditions.

## Conclusions

The existence of poverty in Indonesia proves that economic growth is not necessarily able to improve the welfare of all members of the community. Development has opened opportunities for many people however, there are still some groups that face difficulties in accessing education, employment and productive resources. These restrictions often trap people and households in situations that are difficult to escape and help to maintain poverty over time. The discussion in this paper suggests that poverty is strongly linked to unemployment, limited human capital, and unequal economic opportunities. When access to education is still limited and employment opportunities are not available, the capacity of individuals to improve their living conditions is also restricted. In such a case, poverty could be transmitted from one generation to the next and become a long-term development problem. Breaking the poverty trap demands more than temporary economic assistance. Improving economic participation also means expanding educational access, workforce capabilities and employment opportunities. At the same time, development policies must ensure that the benefits of economic growth are within reach of wider segments of society. In Indonesia, efforts to alleviate poverty should not only be directed at raising the level of income but also expanding opportunities for people to improve their quality of life. In this respect inclusive economic

development still plays an important role in the foundation of sustainable welfare and the risk of persistent poverty in the future.

## References

- Bhanot, S. P., Crost, B., Leight, J., Mvukiyehe, E., & Yedgenov, B. (2021). Can community service grants foster social and economic integration for youth? A randomized trial in Kazakhstan. *Journal of Development Economics*, 153, 102718.  
<https://doi.org/https://doi.org/10.1016/j.jdeveco.2021.102718>
- Bogoviz, A. V., Lobova, S. V., & Alekseev, A. N. (2020). Social development versus economic growth: current contradictions and perspectives of convergence. *International Journal of Sociology and Social Policy*, 41(12), 3-14.  
<https://doi.org/https://doi.org/10.1108/IJSSP-03-2020-0061>
- Chakraborty, R., & Abraham, R. (2021). The impact of financial inclusion on economic development: the mediating roles of gross savings, social empowerment and economic empowerment. *International Journal of Social Economics*, 48(6), 878-897.  
<https://doi.org/https://doi.org/10.1108/IJSE-02-2020-0077>
- Charalambous, C., & Violaris, J. (2021). Support for environmental, social and economic tourism industry development in Cyprus. *Worldwide Hospitality and Tourism Themes*, 13(6), 719-730.  
<https://doi.org/https://doi.org/10.1108/WHATT-07-2021-0094>
- Heradstveit, O., Gjertsen, N., Iversen, A. C., Aasen Nilsen, S., Gärtner Askeland, K., Christiansen, Ø., & Hysing, M. (2020). Substance-related problems among adolescents in child welfare services: A comparison between individuals receiving in-home services and those in foster care. *Children and Youth Services Review*, 118, 105344.  
<https://doi.org/https://doi.org/10.1016/j.childyouth.2020.105344>
- Ie, J., Ursin, M., & Vicente-Mariño, M. (2022). Foster children's views of family: A systematic review and qualitative synthesis. *Children and Youth Services Review*, 132, 106337.  
<https://doi.org/https://doi.org/10.1016/j.childyouth.2021.106337>
- Lal, T. (2021). Impact of financial inclusion on economic development of marginalized communities through the mediation of social and economic empowerment. *International Journal of Social Economics*, 48(12), 1768-1793.  
<https://doi.org/https://doi.org/10.1108/IJSE-12-2020-0830>
- Li, Q., Zhao, Y., Li, S., & Zhang, L. (2021). Spatial-temporal characteristics of the coupling coordination of social security and economic development in China during 2002–2018. *Regional Sustainability*, 2(2), 116-129.  
<https://doi.org/https://doi.org/10.1016/j.regsus.2021.04.001>

- Manzilati, A., & Prestianawati, S. A. (2021). Informal financing or debt traps: are the UN sustainable development goals being met in emerging economies? *Review of International Business and Strategy*, 32(1), 132-145.  
<https://doi.org/https://doi.Org/10.1108/RIBS-01-2021-0011>
- Pal, M., Gupta, H., & Joshi, Y. C. (2021). Social and economic empowerment of women through financial inclusion: empirical evidence from India. *Equality, Diversity and Inclusion: An International Journal*, 41(2), 294-305.  
<https://doi.org/https://doi.org/10.1108/EDI-04-2021-0113>
- Raghubanshi, G., Venugopal, S., & Saini, G. K. (2021). Fostering inclusive social innovation in subsistence marketplaces through community-level alliances: An institutional work perspective. *Industrial Marketing Management*, 97, 21-34.  
<https://doi.org/https://doi.org/10.1016/j.indmarman.2021.06.009>
- Stacey, N., Gibson, E., Loneragan, N. R., Warren, C., Wiryawan, B., Adhuri, D. S.,...Fitriana, R. (2021). Developing sustainable small-scale fisheries livelihoods in Indonesia: Trends, enabling and constraining factors, and future opportunities. *Marine Policy*, 132, 104654. <https://doi.org/https://doi.org/10.1016/j.marpol.2021.104654>
- Xing, Z., Huang, J., & Wang, J. (2023). Unleashing the potential: Exploring the nexus between low-carbon digital economy and regional economic-social development in China. *Journal of cleaner production*, 413, 137552.  
<https://doi.org/https://doi.org/10.1016/j.jclepro.2023.137552>
- Zhang, S., Luo, S., & Afshan, S. (2022). Role of climate technologies, financial development, and renewable energy in the facilitation of social, economic, and environmental goals. *Renewable Energy*, 199, 169-178.  
<https://doi.org/https://doi.org/10.1016/j.renene.2022.08.085>
- Zuo, J., Zhang, L., Chen, B., Liao, J., Hashim, M., Sutrisno, D.,...Sani, D. A. (2023). Assessment of coastal sustainable development along the maritime silk road using an integrated natural-economic-social (NES) ecosystem. *Heliyon*, 9(6), e17440.  
<https://doi.org/https://doi.org/10.1016/j.heliyon.2023.e17440>