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STRATEGY FOR MAKING GROWTH MORE PRO-POOR: AN EMPIRICAL ANALYSIS IN INDONESIA

Abstract:

This paper aims to empirically analyze the kinds of growth that are most effective in reducing poverty and most beneficial for the poor using provincial level panel data from 2001 to 2012 in Indonesia. This study takes into account the effect of the interaction of both agricultural and non-agricultural growth to some initial level conditions, for instance, infrastructure, human capital, agricultural productivity, and income inequality. This paper finds evidence that not only the size of economic growth but also its composition matter for poverty reduction in terms of the interaction of economic growth to some initial level conditions. The result indicates that the main driver of poverty reduction has shifted from agricultural to non-agricultural growth. Agricultural investment can be still effective in an area with lack of roads infrastructure and high income inequality. Whereas, non-agricultural growth can be made more pro-poor through reducing infant mortality rate, facilitating public health center, and reducing income inequality. The results are robust to the influence of outliers and alternative poverty measures.