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The Nexus OF Economic Growth, Poverty, Unemployment, AND Islamic Human Development: Empirical Evidence ON THE Moderating Effect OF Islamic Good Governance

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Abstract
Human development is increasingly recognized as the central goal of economic and social progress; yet, conventional Human Development Index (HDI) measures remain limited, as they neglect spiritual, moral, and governance dimensions. To address this gap, this study employs the Islamic Human Development Index (I-HDI), grounded in the principles of maqāṣid al-sharīʿah. It examines the role of Islamic Good Governance (IGG) in shaping development outcomes.
The study examines the impact of economic growth, poverty, and unemployment on Islamic Human Development, with Islamic Good Governance considered both a direct determinant and a moderating factor. Primary data were collected from 492 respondents across nine districts in Palopo City, Indonesia, and analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM). The results indicate that economic growth has a positive and significant impact on Islamic Human Development, while poverty and unemployment exert significant negative effects. IGG contributes directly to higher levels of I-HDI and moderates the relationships by amplifying the benefits of growth and reducing the adverse impacts of poverty and unemployment.
This study contributes to the literature by empirically integrating I-HDI and IGG within a single framework, offering a more holistic perspective than conventional indices. The findings provide theoretical refinement and practical guidance for policymakers seeking to design inclusive, equitable, and spiritually grounded development strategies.
Keywords: *Economic Growth, Poverty, Unemployment, Islamic Human Development, Islamic Good Governance.*

1. INTRODUCTION

Human development is fundamental to achieving sustainable social and economic progress. Although Gross Domestic Product (GDP) remains a prevalent metric, research demonstrates that economic growth does not necessarily translate into improved social well-being. (Bergh, 2009; Goossens et al., 2010; Ng'habi, 2012; Dasgupta, 2013; Raj et al., 2024). Thus, elevated economic growth rates do not inherently ensure a higher quality of life. Ranis et al. (2000) identified a reciprocal relationship between economic growth and human development, with each serving as a catalyst for the other. Substantial human development is unattainable without adequate economic growth, while sustained economic growth depends on improvements in human quality. Elistia & Syahzuni (2018) and Novreska & Arundina (2024) further corroborate this mutually reinforcing relationship in the Indonesian context.

Building on these foundations, it is clear that rapid economic growth alone consistently fails to deliver equitable outcomes. When distribution mechanisms are unjust, growth intensifies social and economic inequalities (Dalimunthe & Imsar, 2023). This issue underscores Neamtu and Oana Georgiana's (2015) point: the link between growth and development depends entirely on context. In Indonesia, research by Putri et al. (2025) confirms that economic growth, on its own, does not significantly alleviate poverty.

Economic growth and human development are not always linked. Economic expansion does not always reduce poverty or unemployment (Marc et al., 2019) or guarantee fairness and justice (Khan et al., 2025; Surya et al., 2021). As a result, strategies must prioritize fairness, job creation, and social justice, supported by systematic monitoring of outcomes and their distribution (Dörffel & Schuhmann, 2022). Policymakers should establish clear targets to reduce poverty and unemployment, assess the inclusiveness of economic growth, and refine policies to address existing inequities. For example, in Palopo City, growth increased from 0.45% in 2020 to 5.83% in 2022; however, poverty and unemployment rates remain high. This suggests that economic growth alone does not guarantee human development; therefore, the focus must be on quality, inclusiveness, and equity.

To assess whether development strategies achieve multidimensional goals in contexts such as developing countries and Islamic societies, policymakers and researchers often rely on the Human Development Index (HDI) a widely used but criticized metric. Although widely adopted, the HDI often fails to capture dimensions such as

justice, equality, sustainability, and spirituality (Streeten, 1994; Hicks, 1997; Morse, 2003; Klugman et al., 2011; Ghislandi et al., 2019; Akbar & Siti-Nabiha, 2022; Naveed & Gordon, 2024; Kula et al., 2025). As a result, the HDI is often considered inadequate for meeting the complex needs specific to these contexts.

To address the limitations of the HDI, academics developed the Islamic Human Development Index. This comprehensive framework assesses the quality of development in Muslim societies. It integrates both material and spiritual dimensions and is grounded in the maqāṣid alsharīʿah, or principles of Islamic law. Empirical studies in OIC countries indicate that the I-HD provides a more comprehensive assessment of development. It also reveals different outcomes compared to the HDI, which influences policy approaches to societal progress (Koyimah et al., 2020; Kader, 2021; Abdul Rahim et al., 2022; Hasbi & Wibowo, 2022; Hasbi, 2023; Lasmiatun & Duku, 2025)

Governance, beyond development measurement, is a key determinant of human development, alongside development indicators. (Cage, 2009; Yanto et al., 2024; Cavalheiro et al., 2025). While most research focuses on conventional good governance, the Islamic perspective of Islamic Good Governance (IGG) receives less attention. IGG, based on justice, deliberation, and accountability rooted in Islamic values, provides culturally relevant ways to link economic factors and human development.

Despite advances in development theory and governance models, existing research has examined only the relationships among economic growth, poverty, unemployment, and the conventional HDI, without empirically combining the I-HDI and IGG. The role of IGG as a measure of governance quality and moderator in macroeconomic relationships with Islamic human development is largely unexplored, especially at the local level in Palopo City. This study addresses this gap by asking whether: (1) economic growth positively influences I-HDI; (2) poverty and unemployment negatively affect I-HDI; (3) IGG exerts a direct positive effect on I-HDI; and (4) IGG moderates the effects of economic growth, poverty, and unemployment on I-HDI.

With these research objectives, this investigation makes three main contributions. First, it extends the Inclusive Growth Theory and Capability Approach by adding maqāṣid al-sharīʿah, the principles of Islamic law. Second, it offers recommendations for regional development policies that use Islamic governance principles. Third, it brings together the I-HDI and IGG in a unified empirical framework, a method rarely used in human development research.

2. LITERATURE REVIEW

2.1 Theoretical Foundations

2.1.1 Development Theory

Development theory seeks to identify the key factors influencing well-being by examining the relationship between economic growth, social change, and political transformation. (Reyes, 2001). This study highlights the interrelationships between growth, poverty, unemployment, and development outcomes, thus forming the basis of contemporary academic and policy debates. Modernization is portrayed as a steady process propelled by industrialization, technological adoption, and Western values. (Rostow, 1959; Levy Jr, 1996).

However, critics argue that this perspective overlooks issues of equity and entrenched structural inequality. In contrast, dependency theory (Prebisch, 1988; Frank, 1971; Dos Santos, 1970) Maintains that underdevelopment in the Global South stems from unequal international relations, in which economic elites capture the majority of development's benefits (Cardoso & Faletto, 1979; Evans, 1979).

Wallerstein, through World-Systems Theory, explains the global stratification between the center, periphery, and semi-periphery that deepens inequality. (Wallerstein, 2004). As a result, local areas, including Palopo, become vulnerable to global cycles that exacerbate poverty and unemployment. (Chirot, 2015). In contrast, globalization theory emphasizes that this interconnectedness between nations necessitates flexible governance, ensuring the equitable distribution of development benefits. (Larrain & Sachs, 1994; Lewellen, 1995).

The limitations inherent in classical theory led to the emergence of the concept of sustainable development, which seeks to integrate economic, social, and environmental dimensions. (Ramcilovic-Suominen & Pülzl, 2017). Notably, early frameworks frequently neglected considerations of inequality and community participation. (Lele, 1991; Neumayer, 2004; Hopwood et al., 2005). Consequently, such deficiencies contributed to the development of the Sustainable Development Goals (SDGs), which connect development to poverty alleviation, justice, and inclusion. (Zapatrina, 2016; Gunawan et al., 2019).

Thus, development theory has evolved from a linear economic approach to a more holistic framework, emphasizing global interdependence and social justice. This framework is crucial for analyzing the dynamics of growth, poverty, and unemployment, particularly in developing regions. However, there is a lack of comprehensive literature examining how Islamic Good Governance can be systematically integrated as a tool to

achieve equitable and inclusive human development. Addressing this gap, the present research bridges the development theory and the Islamic Human Development. It examines the moderating role of the HDI, specifically investigating how the HDI influences or alters the impact of Islamic Good Governance on human development outcomes.

2.1.2 Inclusive Growth

Traditional growth models, which focus on GDP, have been criticized for failing to ensure equitable social well-being, often exacerbating disparities and creating structural vulnerabilities. (Kakwani et al., 2010; Anyanwu, 2013; Awad-warrad & Muhtaseb, 2017). This criticism gave rise to the Inclusive Growth Theory, which emphasizes that sustainable growth can only be achieved if the benefits of development are distributed fairly and reach the poor and marginalized. (Keeley, 2015; OECD, 2015; Niekerk, 2020; Saher et al., 2024).

The concept of inclusive growth targets not only increasing GDP figures but also expanding access to economic opportunities and reducing inequality. Rauniyar & Kanbur (2010) emphasize three main strategies: efficient and sustainable growth, equitable participation, and strengthening community capacity. Building on these ideas, the Asian Development Bank, (2011) Underscores three fundamental pillars: growth that generates productive employment, social inclusion through equitable access to education, health, and economic opportunities, and social protection for vulnerable groups (Yeboah & Nyarkoh, 2023). This comprehensive framework also aligns with the Sustainable Development Goals (SDGs), which integrate economic growth, social justice, and environmental sustainability. (Comporek et al., 2022; Tu et al., 2023; Ziky & El-Abdellaoui, 2023; Yeboah, et al., 2024)

This research adopts an inclusive growth paradigm that emphasizes not just the quantity but also the quality and distribution of growth. This paradigm is inherently linked to Islamic economic principles, which promote distributive justice through mechanisms such as zakat (alms), infaq (donations), waqf (endowments), and sadaqah (charity). These mechanisms foster social solidarity and equitable resource allocation. Additionally, the application of Islamic good governance is posited to reinforce the connection between economic growth and inclusive development, thereby supporting an increase in the Islamic Human Development Index (HDI).

2.1.3 Cyclical Development and Governance.

The Cyclical Theory of Development presents an alternative to the linear model, emphasizing that civilizations experience cycles of growth and decline. For example, Ibn Khaldun, in the Muqaddimah, asserted that early progress was driven by social solidarity (ʿasabiyyah) and just governance, which fostered economic growth through trade and infrastructure development. (Dhaouadi, 1990; Alatas, 2013; Ibnu Khaldun & Rosenthal, 2015). Over time, however, this prosperity tended to decline as moral decadence, injustice, and corruption emerged.

Chapra, (1993, 2008) Developed an Islamic development framework in response to the limitations of the Western model, which emphasizes material aspects. To address these gaps, he outlined four pillars of Islamic development: spiritual (moral and ethical growth), human (individual capability), social (community well-being), and equitable economic (fair distribution of resources). Institutional instruments such as zakat and waqf serve as key means to achieve distributive justice and reduce inequality. Thus, poverty and unemployment are viewed not only as economic problems but also as moral and governance failures.

Integrating Ibn Khaldun's cyclical perspective with the Inclusive Growth paradigm strengthens this research's theoretical base. Inclusive Growth stresses fair resource distribution, while the cyclical view cautions that neglect of justice, social solidarity, and governance risks regression. Islamic Good Governance supports sustainable and inclusive development, fulfilling the maqāṣid alsharīʿah (principles of Islamic law). This framework helps explain the relationships between economic growth, poverty, unemployment, and the Islamic Human Development Index.

2.2 Conceptualizing Key Variables

Economic growth is a fundamental indicator of development, classically defined as the longterm expansion of output, employment, and welfare, driven by factors of production, policies, and institutional capacity. (Todaro & Smith, 2020). An Islamic perspective expands this concept by framing growth not simply as a statistical phenomenon, but as a multidimensional process that requires a foundation of ethical principles, including balance (tawazun), justice (ʿadl), and sustainability (maslahah) to achieve true prosperity (Muhammad Sadeq, 1991).

Conventional growth indicators include increases in GDP/GRDP, labor productivity, investment, job creation, price stability, and equitable distribution. Within the Islamic framework, these indicators are expanded to include contributions to social welfare and the inclusion of vulnerable groups. Thus, successful growth is judged not only by economic output but also by the extent to which it ensures social justice and solidarity.

The literature confirms that local economic growth can be operationalized through six key indicators. First, access to business capital from both formal (banks, investors) and informal (personal savings, community funds) sources is a crucial prerequisite for the expansion and competitiveness of MSMEs (Leonard, 1998; Elston et al., 2015; Mansour et al., 2024). Building upon this foundational factor, a second indicator emerges: training and skills development provided by the government and the private sector increase workforce capacity and foster new entrepreneurship. (Attamah, 2016; Mohammed & Bardai, 2024; Kumar et al., 2024).

Third, market access is a key indicator of a business's ability to reach consumers through traditional and digital channels. (Romagnoli et al., 2018; Kanyago, 2018; Ekechi et al., 2024). Fourth, business partnerships show strategic collaboration, especially in sharing resources, technology, and networks. Public-private partnerships strengthen business ecosystems and help expand markets. (Meduri, 2014; Randa, 2020).

Fifth, consider how the speed of economic recovery not only indicates how quickly a region rebounds from shocks but also highlights the resilience built through economic diversification and social capital (True-Funk & Poleacovschi, 2020; Chernova, 2023). Sixth, think about adaptability in business policies, where economic actors flexibly adjust strategies and operations to global market dynamics. This adaptability is essential for inclusive and sustainable growth. (Rudnichenko & Korbut, 2024; Hurzhyi & Shevchuk, 2024).

Economic growth should be seen as more than just rising macroeconomic indicators. It must also include operational indicators that show quality, distribution, and resilience. This supports the idea that equitable growth is essential for Islamic human development. The Islamic ethical framework of good governance guides this process. It ensures that growth follows justice and balance, making it more effective at reducing poverty, lowering unemployment, and improving the Islamic Human Development.

Poverty is recognized as a multidimensional challenge, extending beyond insufficient income to include shortcomings in education, health, and living standards. (Ravallion, 2001; Chakravarty & Silber, 2008; Alkire & Foster, 2011). An Islamic perspective broadens this view, highlighting that poverty incorporates economic, moral, social, and spiritual facets. The Qur'an (51:19) emphasizes the entitlements of the poor and employs redistributive mechanisms, such as zakat, infaq, and sadaqah, to foster social solidarity and communal well-being. (Anis et al., 2022). Thus, effective solutions demand not only economic upliftment but also ethical and spiritual advancement. (Dhar, 2013; Meraj, 2019).

Conventional literature classifies poverty into absolute, relative, structural, and cultural categories. (Bracking, 2004; Fields, 2018). It also distinguishes between persistent, seasonal, cyclical, and incidental forms. (Dickerson & Popli, 2016; Parolin et al., 2025). The leading causes of these forms include unequal asset distribution, limited human capital, limited access to credit and technology, and policy distortions. (Bradshaw, 2007). Due to this complexity, income-based indicators such as the FGT index (Foster et al., 2010) are deemed inadequate. As a result, multidimensional indicators must be used to measure household vulnerability more comprehensively. (Battiston et al., 2013).

In line with this, recent research proposes six leading indicators to measure multidimensional poverty: (1) food sufficiency, (2) housing quality, (3) basic clothing needs, (4) access to energy and clean water, (5) access to education and health, and (6) supporting infrastructure. (Rose & Charlton, 2002; Baker et al., 2016; Pathak et al., 2017). These interconnected indicators form the core of a comprehensive framework that addresses both material deprivation and the overall well-being of individuals and communities. Critically, integrating these indicators with the Islamic principle of justice (Quran 59:7) reinforces the notion that anti-poverty policies should prioritize restoring dignity and empowering vulnerable groups, rather than solely focusing on reducing statistics. Thus, this multidimensional framework stands as a key foundation for broader poverty analysis within Islamic Human Development.

Unemployment is a social and economic issue that impacts income, social status, and the overall well-being of communities. Economic theory describes this as a situation where individuals seeking employment cannot find jobs at normal wages. (Mortensen, 1986; Nanga, 2005). This situation creates an imbalance between people seeking jobs and available job openings, causing unequal development in different regions and leading to gaps between the skills workers possess and the ones jobs require, which in turn lowers productivity. (Benanav, 2015; Hana Kaharudin et al., 2023). The usual types of unemployment—frictional, structural, and cyclical—are the basis for policies aimed at facilitating job matching, enhancing skills, and supporting the economy.

Islamic perspective, unemployment encompasses economic, moral, and social dimensions, as well as the concept of social responsibility. Islamic typology identifies three forms: voluntary unemployment (ikhtiyari), when an individual chooses not to work, usually due to personal unwillingness (Alatas, 2014); involuntary unemployment (qahri), resulting from uncontrollable, systemic factors and representing systemic failure (Kahf, 2003) and structural unemployment (alhaqiri), caused by labor market imbalances or distributive injustice (Chapra, 2020).

In this view, voluntary unemployment contradicts the Islamic value of work (‘amal, or productive effort), while involuntary unemployment is viewed as a collective responsibility, addressed by the state through redistributive tools such as zakat (mandatory almsgiving) and ṣadaqah (voluntary charity) (AlQaradawi, 1999; Subhan, 2018). Based on a literature review, the determinants of unemployment demand urgent analysis through six interrelated indicators. First, unemployment is driven by skill mismatches, poor-quality education, and structural labor market barriers (Pellegrini, 2019; Bosire & Kitainge, 2020; Nick & Jenefa, 2024). Critically, the social impacts manifest as reduced social cohesion, community fragmentation, and a profound loss of identity caused by unproductive roles (Martínez et al., 2001; Saunders, 2002). Government social assistance, while necessary, risks undermining job seeking and tests the robustness of safety nets (Pellizzari, 2004; Tracanna et al., 2024). NGOs and the private sector must act swiftly to create alternative employment opportunities (Onyemaechi, 2013; Ali & Babangida, 2020). Job mobility—central to economic renewal—hinges on the urgent need for affordable, efficient movement across regions and sectors (Kettunen, 2002; Wei & Yabuuchi, 2006). Finally, a persistent competency gap between workforce skills and industry needs poses a threat to ongoing unemployment (Faberman & Mazumder, 2012; Buhrmann, 2017). These six indicators converge to signal that immediate action is necessary, specifically through the implementation of Islamic Good Governance principles, to ensure that responses to unemployment are both equitable and sustainable.

Islamic Human Development (IHD) views people as complete beings, extending beyond the Human Development Index (HDI), which focuses solely on material factors. Rooted in maqāṣid alsharī‘ah (principles of Islamic law), it blends material, spiritual, and ethical aspects to balance our connection with God and others. Thus, IHD measures development by focusing on overall well-being, not just economic growth.

Empirically, IHD is measured through five main dimensions of maqāṣid al-sharī‘ah (the objectives of Islamic law). First, ḥifẓ al-dīn (protection of faith) includes religious education, congregational worship, and family moral education, fostering social harmony (Alkouatli, 2021; Munir, 2021). Second, ḥifẓ al-nafs (protection of life) encompasses maternal and child health, as well as psychological well-being, underscoring the importance of integrating health services with effective governance (Khairkar, 2015; Rothman et al., 2024). Third, ḥifẓ al-‘aql (protection of the intellect) promotes equal access to education and knowledge development, supporting intellectual growth (Bakar, 2008; Saleh & Bustam, 2023). Fourth, ḥifẓ al-nasl (protection of lineage) emphasizes the importance of a safe environment and quality educational facilities to ensure generational continuity (Sulaiman et al., 2014; Zahro & Nasikhin, 2023). Fifth, ḥifẓ al-māl (protection of wealth) treats wealth as a trust to be managed ethically through zakat (obligatory charity), waqf (endowment), and Islamic microfinance, which support distributive justice (Usman & Tasmin, 2016). These five dimensions form an Islamic development framework that integrates material progress with moral and spiritual values.

The Islamic Human Development Index (I-HDI), based on the maqāṣid al-sharī‘ah framework, is measured by ten key indicators grouped within five main dimensions. Each corresponds to two indicators: ḥifẓ ad-dīn through children’s religious and moral education (Alkouatli, 2021; Kusrini, 2022); ḥifẓ an-nafs by maternal-child health services and psychological support (Akseer et al., 2018; Aycan, 2024); ḥifẓ al-‘aql by access to education and fostering knowledge for innovation (Machouche & Bensaid, 2015); ḥifẓ an-nasl by a healthy developmental environment and adequate educational infrastructure (Suhardini et al., 2023; Hasanah et al., 2025); and ḥifẓ al-māl by sharia-compliant economic empowerment and fair distribution through zakat and waqf (Choudhury, 1998; Rezeki et al., 2023). This structure clarifies the mapping of indicators to each dimension. The I-HDI addresses both material and spiritual well-being, guiding policies in line with Islamic values and principles of justice.

Good governance, in the Islamic perspective, constitutes a mandate framed by justice ('adl, denoting fairness and equity). Its primary objective is the realization of sharia objectives (maqāṣid alsharī‘ah): the preservation of religion, life, intellect, lineage, and property. This framework integrates universal principles—transparency, accountability, participation, and representation—with the values articulated in the Qur'an and the Sunnah (the practices and sayings of the Prophet Muhammad). Notably, conventional models as formulated by global institutions such as the World Bank prioritize administrative efficiency and technocratic solutions; conversely, Islamic Good Governance (IGG) prioritizes spiritual integrity and distributive justice while encompassing these dimensions (Chapra, 1993; Cheema & Rondinelli, 2007; Rusydi, 2023). IGG therefore functions not only as a technocratic instrument but also as a public ethic (siyāsah shar‘iyyah, or policy consistent with Islamic law), maintaining a balance between policy effectiveness and moral values.

Islamic Good Governance can be operationalized through seven main dimensions, each with fourteen key indicators. The first dimension, al-'Adālah (justice), stresses fairness in government policies and programs. It is guided by inclusivity and alignment with the values of maslahah (Ahsan & Young, 2017; Kaminski, 2017). The

second dimension is asy-Syūrā (deliberation/collaboration), which focuses on information transparency and responsiveness to public aspirations (Khalid & Ahmad, 2021). The third dimension is al-Mas'ūliyyah (accountability). It is measured through regional budget transparency and public complaints mechanisms. (Albassam, 2015; Nurhanifah & Setyaningrum, 2021; Iskandar et al., 2023)
. The fourth dimension, al-Faḍīlah (moral integrity), covers moral consistency and integrity based recruitment (Yuli & Sari, 2021). The fifth, al-Ḥurriyyah (freedom of responsibility), is the assurance of expression within Islamic ethics (Jallow, 2015; Saeed, 2019). The sixth, al-Iḥsān (quality public service), includes professionalism and public involvement in decision-making (Ismail et al., 2021; Mubarok et al., 2023). The seventh, ar-Ri'āyah (the welfare of the people), involves meeting basic needs and transparent conduct of officials (Yusdiansyah et al., 2023; Rastgar et al., 2023).

Together, these fourteen indicators across seven dimensions form a comprehensive system for evaluating Islamic governance. This framework ensures core principles justice, accountability, integrity, participation, and communal well-being are upheld. By strengthening the legitimacy of public policy and moderating the impacts of economic growth, poverty alleviation, and unemployment reduction, IGG advances Islamic Human Development in direct alignment with the maqāṣid al-sharī'ah.

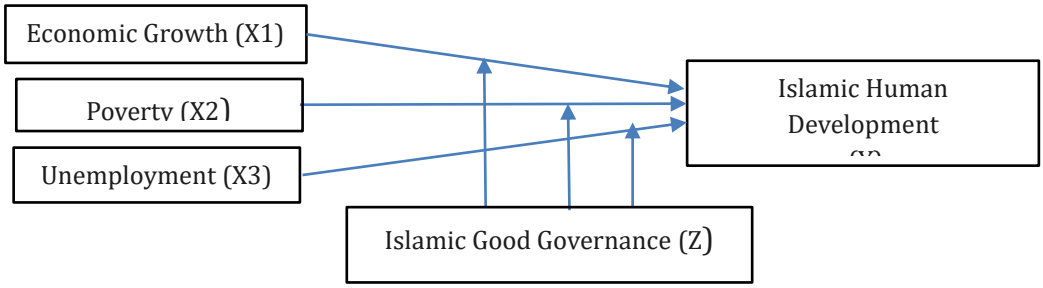
Governance plays a critical and decisive role in human development. Cage (2009) asserts that effective governance is essential for enhancing the quality of human development. However, this perspective tends to be conventional and often neglects the Islamic dimension. Cavalheiro et al. (2025) demonstrate that robust economic growth alone does not necessarily reduce inequality or improve human development, advocating for more comprehensive indicators. Notably, a substantial gap remains in research on alternative governance frameworks, particularly those that integrate Islamic perspectives to advance human development outcomes.

Research on human development has employed several theoretical frameworks, including Development Theory, Inclusive Growth Theory, and the Capability Approach. Most extant literature utilizes the Human Development Index (HDI) as a measure of welfare and frequently examines correlations among economic growth, poverty, unemployment, and human development, commonly presuming linear associations. Nonetheless, inconsistencies persist in findings regarding both the strength and direction of these relationships, highlighting the need for research that addresses contextual and methodological limitations.

The conceptualization of variables in this study reveals a close relationship between economic growth, poverty, and unemployment, as well as Islamic Human Development. Islamic Good Governance acts as a moderating role to ensure this process aligns with maqāṣid al-sharī'ah principles. The study uses measurable indicators: six for economic growth, six for poverty, six for unemployment, ten for I-HD, and fourteen for IGG. This presents a comprehensive analytical framework based on Islamic values.

2.3 Conceptual Framework

The conceptual framework identifies economic growth, poverty, and unemployment as independent variables. Islamic Human Development is the dependent variable, moderated by Islamic Good Governance. While economic growth is hypothesized to have a positive influence on human development, poverty and unemployment are expected to have adverse effects. Additionally, Islamic Good Governance moderates these relationships by promoting equitable distribution of economic gains and ensuring that development outcomes encompass both material and spiritual aspects. By integrating these elements, the framework synthesizes conventional development theories with Islamic perspectives, offering an empirical foundation for formulating inclusive, just, and Shariahcompliant development strategies.



A review of theory and evidence identifies economic growth, poverty, and unemployment as primary determinants of human development. Economic growth boosts human development by increasing resources for education, health, and income. Poverty and unemployment, by contrast, limit individual capabilities and restrict access to essential services. This reduces overall well-being. These relationships match development theory and the inclusive growth paradigm. Both argue that economic progress must improve the quality of life for everyone.

Governance is vital to development outcomes. Conventional good governance stresses institutional efficiency, transparency, and accountability. Islamic Good Governance offers a broader ethical framework, including justice (ʿadl), trust (amanah), consultation (shura), and public welfare (maslahah). This framework is theorized to boost the positive effects of economic growth and lessen the harm of poverty and unemployment on Islamic Human Development. Based on theory and literature, the following hypotheses are proposed:

H1: Economic growth has a positive influence on Islamic Human Development.

H2: Poverty has a negative influence on Islamic Human Development.

H3: Unemployment negatively influences Islamic Human Development.

H4: Islamic Good Governance moderates the relationship between poverty and Islamic Human Development, such that the adverse effect of poverty is mitigated under higher Islamic Good Governance.

H5: Islamic Good Governance moderates the relationship between poverty and Islamic Human Development, such that the adverse effect of poverty is mitigated under higher Islamic Good Governance.

H6: Islamic Good Governance moderates the relationship between unemployment and Islamic Human Development, such that the adverse effect of unemployment is mitigated under higher Islamic Good Governance.

3. METHOD

This study employs a quantitative design with a causal-associative approach to investigate the causal relationship between independent variables (economic growth, poverty, and unemployment), dependent variables (Islamic Human Development), and moderator variables (Islamic Governance). The research focuses on the Muslim population in Palopo City, Indonesia, chosen for its dynamic economic and social changes and its relevance to the Islamic-based human development model.

The research data includes both primary and secondary sources. Primary data was gathered directly through a structured questionnaire using a five-point Likert scale. This questionnaire was designed to assess people's perceptions of all the variables studied and was distributed to respondents in nine subdistricts. Meanwhile, secondary data were obtained from reliable institutions, such as the Central Statistics Agency (BPS), the Social Service, and the Manpower Office of Palopo City, to supplement the macroeconomic indicator data.

The population in this study consisted of all Muslim residents of Palopo City, totaling 136,935 as of 2024. From this group, 495 respondents were selected using stratified random sampling to ensure representation across different demographics. The sample size was determined to meet statistical requirements, both according to the Cochran formula and the minimum limit for PLS-SEM analysis, thereby maintaining the study's statistical power and external validity. All variables in the questionnaire were measured with a consistent Likert scale to allow comparisons between constructs. The primary data collection method involved distributing questionnaires to the selected sample.

Data collection involved using structured surveys for primary data and official reports and statistical publications for secondary data. Combining these two sources helped improve the validity of the research findings. Furthermore, the collected data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with the help of SmartPLS software. This method was chosen due to its robustness in handling complex models, latent constructs with numerous indicators, and nonnormally distributed data.

The analysis process consisted of two main stages. First, the Measurement Model (Outer Model) was evaluated to test reliability (using Cronbach's Alpha and Composite Reliability), convergent validity (with criteria of factor loading ≥ 0.7 and AVE ≥ 0.5), and discriminant validity (using Fornell-Larcker criteria and HTMT ratio). Second, evaluation of the Structural Model (Inner Model) which includes assessment of multicollinearity (VIF < 3), coefficient of determination (R^2), predictive relevance ($Q^2 > 0$), effect size (f^2), path coefficient significance (through bootstrapping), predictive performance (RMSE and MAE), and overall model fit (SRMR ≤ 0.08 and NFI ≥ 0.90)

The moderation effect was tested using the Product Indicator Approach (PCA). This approach was chosen because it reduces multicollinearity problems and provides robust estimates for models with a large number of indicators. The relationships between variables in this study were modeled mathematically in a regression equation that reflects the direct effects of economic growth (EG), poverty (Pov), unemployment (Unemp), and Islamic Governance (IGG), as well as the indirect (interaction) effect of the three independent variables with the IGG moderator on Islamic Human Development (IHD). The regression model is expressed as:

$$IHD = \beta 0 + \beta 1(EG) + \beta 2\ (Pov) + \beta 3\ (Unemp) + \beta 4(IGG) + \beta 5\ (EG \times IGG) + \beta 6(Pov \times IGG) + \beta 7\ (Unemp \times IGG) + \varepsilon$$

Where:

EG = Economic Growth
Pov = Poverty
Unemp = Unemployment
IGG = Islamic Good Governance (moderator)
IHD = Islamic Human Development (dependent variable)

4. RESULTS

4.1. Measurement Model Evaluation

4.1.1 Convergent Validity

Convergent validity was evaluated using outer loadings and Average Variance Extracted (AVE). According to Hair et al., (2019) Convergent validity is confirmed if the outer loadings are ≥ 0.60 and the AVE is ≥ 0.50. The concept of economic growth was evaluated using six indicators that reflect key areas: access to business capital, government support for training and skills development, market access, business partnerships, speed of economic recovery, and policy adaptability.

Variabel	Indicators	Outer Loading	AVE
Economic Growth (X1)	Access to Business Capital	0.664	0.506
	Government Support for Training and Skills	0.714	
	Market Access	0.727	
	Business Partnerships	0.706	
	Speed of Economic Recovery	0.707	
	Policy Adaptability	0.748	

The convergent validity test for Economic Growth (X1) shows all indicators have outer loadings between 0.664 and 0.748, above the 0.60 criterion (Hair et al., 2019). The AVE is 0.506, exceeding the 0.50 threshold (Fornell & Larcker, 1981), and confirming good convergent validity, as the construct explains over 50% of the indicator variance. Policy Adaptability (0.748) and Market Access (0.727) are the strongest indicators, indicating that among all measured aspects, these two contribute the most to economic growth in Palopo City. In contrast, the remaining indicators have a comparatively lesser impact.

This finding highlights the crucial importance of regulatory adaptability and open market access, which are both key to promoting community-level economic recovery and growth. While Access to Business Capital (0.664) was the weakest indicator, it remains a valid measure of the overall situation. This indicates that limited access to capital continues to challenge entrepreneurs, underscoring the importance of strengthening financial institutions, especially Islamic financial institutions based on profit-and-loss sharing, to promote fairer and more sustainable financial inclusion. Other indicators, such as Government Support for Training and Skills (0.714), Business Partnerships (0.706), and Speed of Economic Recovery (0.707), also contributed positively to the overall score. Overall, these results highlight that beyond capital, multi-stakeholder collaboration and active government involvement in capacity building are key drivers of local economic growth.

The Poverty variable (X2) was measured using six indicators that assess limitations in access to and fulfillment of basic needs. These indicators include food adequacy, housing quality, basic clothing needs, access to energy and clean water, access to education and healthcare, and supporting infrastructure. The convergent validity test was conducted to ensure that all indicators consistently reflect the construct of poverty. The outer loading values of each indicator and the Average Variance Extracted (AVE) are displayed in the following table.

Variabel	Indicators	Outer Loading	AVE
Poverty (X2)	Food Adequacy	0.692	0.528
	Housing Quality	0.779	
	Basic Clothing Needs	0.754	
	Access to Energy and Clean Water	0.768	
	Access to Education and Healthcare	0.607	
	Supporting	0.743	

The convergent validity test for the Poverty variable (X2) shows all indicators had outer loadings above 0.60, ranging from 0.607 to 0.779. This confirms that each indicator is valid and measures the Poverty construct, meeting the threshold of outer loading> 0.60 as set by Hair et al. (2019). The Average Variance Extracted (AVE)

of 0.528 exceeds the 0.50 threshold (Fornell & Larcker, 1981), confirming that the Poverty construct meets the criteria for convergent validity, as it explains over 50% of the variance in its indicators.

Housing Quality (0.779) and Access to Energy and Clean Water (0.768) are the strongest indicators. These results highlight that poor infrastructure, notably inadequate housing and a lack of essential utilities, contribute most significantly to poverty in Palopo City. Basic Clothing Needs (0.754) and Supporting Infrastructure (0.743) also exert a substantial influence, confirming the multidimensional nature of poverty, which extends beyond income alone. Food Adequacy (0.692) and Access to Education and Healthcare (0.607) recorded lower loadings, underscoring persistent deficiencies in these areas. These shortcomings directly contribute to poverty by impeding access to essential needs. Sen's (1999) capability approach frames these issues as concrete forms of deprivation that prevent individuals from living dignified lives.

Taken together, these findings confirm that poverty in Palopo City is multidimensional, involving unmet basic needs, inadequate infrastructure, and limited access to social services. This aligns with the multidimensional poverty perspective of the UNDP & OPHI (2020), which advocates for holistic development strategies. Within the maqāṣid al-sharīʿah framework, these poverty dimensions are directly linked to the protection of life, wealth, intellect, and progeny, making poverty alleviation a central goal of Islamic development.

The Unemployment variable (X3) was measured using six indicators that capture both the causes and consequences of unemployment, covering social and structural dimensions. These indicators include the causes of unemployment, the social impacts of unemployment status, the role of government social assistance, the contribution of the non-government sector in addressing unemployment effects, the affordability and efficiency of labor mobility, and competency gaps related to labor market demands. The convergent validity test was performed to ensure that all indicators consistently reflect the Unemployment construct. The results are shown through the outer loading values of each indicator and the Average Variance Extracted (AVE), as presented in the following table.

Variabel	**Indicators**	**Outer Loading**	**AVE**
Unemployment (X3)	Causes of Unemployment	0.822	0.514
	Social Impacts of Unemployment Status	0.821	
	Government Social Assistance	0.652	
	The Role of Non-Government Actors in Addressing Unemployment	0.688	
	Affordability and Efficiency of Labor Mobility	0.646	
	Competency Gaps Relative to Labor Market Needs	0.649	

The convergent validity test for Unemployment (X3) demonstrates that all indicators robustly represent the construct, with outer loading values ranging from 0.646 to 0.822 and an AVE of 0.514. These results substantiate the validity and reliability of the Unemployment measurement, satisfying established thresholds (Hair et al., 2019; Fornell & Larcker, 1981). Building on these findings, the primary dimensions of the unemployment construct in Palopo City are structural factors and social impacts, which together explain over 51% of the variance in indicators. The strong influence of causes of unemployment (0.822) results in heightened poverty, vulnerability, and diminished quality of life, while social impacts (0.821) further amplify these issues.

This relationship is reflected in the literature, as Clark and Oswald (1994) and Egdell and Beck (2020) explain that unemployment causally reduces life satisfaction and produces persistent adverse effects on individual well-being, not limited to economic outcomes. Institutional interventions—specifically those involving governmental and nongovernmental actors—are crucial in mitigating the adverse consequences of unemployment. Quantitative indicators highlight the importance of government assistance (0.652) and non-governmental support (0.688), underscoring the need for robust, collaborative social safety nets, consistent with existing scholarship on governance and policy effectiveness.

Blanchard and Wolfers (2000) demonstrate that weak institutions and ineffective public policies exacerbate the social ramifications of unemployment. Furthermore, skill mismatches and labor mobility barriers, as indicated by lower yet substantive values (0.646 and 0.649), persist as notable contributors to unemployment. These findings highlight the imperative of addressing competency gaps and promoting labor mobility, thereby reducing unemployment persistence, in line with previous research. This assessment concurs with McGuinness et al. (2018), who emphasize that skill mismatch diminishes labor productivity and extends periods of structural unemployment.

The findings indicate that unemployment in Palopo City is influenced by a combination of structural, social, institutional, and skill-based factors. This aligns with Amartya Sen's (1999) capability approach, which defines unemployment as a form of capability deprivation that limits individuals' dignity, access to education and healthcare, and participation in society. Within maqāṣid al-sharīʿah, prolonged unemployment threatens the preservation of life, intellect, wealth, and progeny. Thus, interventions rooted in Islamic governance are crucial for breaking the cycle of unemployment and promoting Islamic Human Development.

The Islamic Good Governance variable was measured using 14 indicators of core Islamic governance principles. These include justice in policymaking, government-community communication, responsiveness to public concerns, transparent performance and budgeting, public complaint handling, official integrity, integrity-based recruitment, application of Islamic morals, freedom of expression, public dialogue opportunities, accountability, professionalism in service delivery, and fulfillment of basic needs. Convergent validity testing confirmed that these indicators consistently represent Islamic Good Governance. The table below shows the outer loading values and Average Variance Extracted (AVE).

Variabel	**Indicators**	**Outer Loading**	**AVE**
Islamic Good Governance (Z)	Justice in Government Policies and Programs	0.648	0.559
	Government–Community Communication	0.767	
	Government Responsiveness to Public Aspirations	0.840	
	Transparency of Government Performance	0.771	
	Transparency of Budgeting	0.718	
	Public Complaint Mechanisms.	0.745	
	Integrity of Public Officials	0.769	
	Integrity-Based Recruitment	0.735	
	Application of Islamic Moral Values	0.753	
	Freedom of Expression	0.747	
	Public Dialogue Space	0.716	
	Responsible Expression.	0.723	
	Professionalism in Service Delivery	0.708	
	Fulfillment of Basic Needs	0.808	

The convergent validity test for Islamic Good Governance confirms that all indicators are valid. Outer loading values range from 0.648 to 0.840. Each value is above the 0.60 threshold set by Hair et al. (2019). The construct's Average Variance Extracted (AVE) is 0.559, exceeding the required minimum of 0.50 (Fornell & Larcker, 1981). This result shows that IGG explains more than 55% of the variance in the indicator. The strongest indicators are Government Responsiveness to Public Aspirations (0.840), Fulfillment of Basic Needs (0.808), and Government–Community Communication (0.767).

Building on these psychometric findings, the results show that perceptions of Islamic governance are mainly influenced by three factors: public participation, governmental responsiveness to societal needs, and the provision of fundamental rights. These factors align with the Islamic principle of shūrā, which emphasizes community participation (Pal & Muhamed, 2025). Additionally, Chapra (2000) asserts that human welfare depends on governments fulfilling basic needs and ensuring social justice.

Furthermore, the key findings show that high scores in Integrity of Public Officials (0.769), Transparency of Government Performance (0.771), and Public Complaint Mechanisms (0.745) highlight that transparency, accountability, and integrity are central aspects of governance. Likewise, strong results in Integrity-Based Recruitment (0.735), Application of Islamic Moral Values (0.753), and Freedom of Expression (0.747) indicate the foundational role of Islamic moral and spiritual values in governance. Together, these results support findings by Kaufmann et al. (2011) that transparency and accountability are essential for human development outcomes, and align with Islamic governance scholarship identifying trust (amānah), justice (ʿadl), and moral integrity as core principles of public administration (Islam, 2012; Merazga et al., 2019; Iskandar et al., 2023)

In addition to these core elements, three further indicators clarify the multidimensionality of Islamic Good Governance. Transparency of Budgeting (0.718) demonstrates that financial openness directly promotes accountability and public trust, echoing what was identified as budget transparency as fundamental for institutional legitimacy. Similarly, the Public Dialogue Space (0.716) confirms that inclusive forums enable

community voices to shape policymaking, consistent with Ahsan and Young (2017), who regard public dialogue as crucial for inclusive governance.

Complementing this, Expression (0.723) shows that responsible free speech is essential for social harmony. This embodies the Islamic principle of amānah as articulated by Kaminski (2017), who underscores the need to balance expression with responsibility in democratic governance. Indicators such as Justice in Government Policies and Programs (0.648) and Professionalism in Service Delivery (0.708) are weaker, but they still matter. Their relevance continues, indicating areas for improvement. They also affirm that substantive justice and bureaucratic professionalism are essential components of Islamic governance. This is consistent with Rothstein & Teorell (2008), who identify fairness and institutional quality as foundational to effective governance.

The findings confirm that Islamic Good Governance is a multifaceted construct encompassing public participation, transparency, accountability, moral integrity, fiscal openness, fulfillment of basic needs, and the integration of Islamic values in policymaking. These indicators illustrate that Islamic governance extends beyond administrative functions to provide a normative and moral basis for equitable, inclusive, and sustainable human development.

The Islamic Human Development (Y) variable was evaluated using ten indicators. These indicators reflect multidimensional aspects of human development and are based on maqāṣid alsharīʿah, which refers to the objectives or goals of Islamic law aimed at promoting human well-being. The ten indicators include participation in religious activities, support for psychological well-being, access to education, and availability of educational facilities. Other indicators are engagement in knowledge development activities, maternal and child healthcare services, family guidance and children's moral education, and environments that promote child growth and development. Economic empowerment and fair resource distribution are also considered. A convergent validity test was performed to ensure that all indicators accurately represent the construct of Islamic Human Development. The table below presents the outer loading values (measures of how well each indicator relates to its construct) and the Average Variance Extracted (AVE, which shows how much of the construct's variance is explained by its indicators)

Variabel	**Indicators**	**Outer Loading**	**AVE**
Islamic Human Development (Y)	Participation in Religious Activities	0.659	0.525
	Psychological Wellbeing Support	0.746	
	Access to education	0.735	
	Availability of Educational Facilities	0.695	
	Knowledge Development Activities	0.810	
	Availability of Maternal and Child Healthcare	0.752	
	Family Guidance and Children's Moral Education	0.761	
	Child-Friendly Environments	0.727	
	Economic Empowerment	0.654	
	Resource Distribution	0.692	

The convergent validity test for the Islamic Human Development variable shows all indicators had outer loadings above 0.60, ranging from 0.654 to 0.810. This indicates each indicator accurately reflects the Islamic Human Development construct. These findings align with the criteria of Hair et al. (2019). The Average Variance Extracted (AVE) was 0.525, surpassing the 0.50 threshold (Fornell & Larcker, 1981), confirming that the IHD construct accounts for over 52% of the variance in its indicators.

Knowledge Development Activities (0.810) emerged as the strongest indicator, underscoring its essential role in Islamic Human Development. Family Guidance and Children's Moral Education (0.761) and Maternal and Child Healthcare Services (0.752) were also prominent, emphasizing the centrality of education, morality, and healthcare. These findings clarify the relative weight of each indicator, supporting the notion that these areas constitute the main pillars of Islamic Human Development. This aligns with maqāṣid al-sharīʿah, as preserving intellect, progeny, and life emphasizes the importance of education, morality, and health as integral to well-being (Chapra, 2008; Lamido, 2016).

Psychological Well-being Support (0.746) and Child-Friendly Environments (0.727) indicate that Islamic Human Development encompasses not only material aspects but also mental, emotional, and social well-being. This broad perspective aligns with Sen's (1999) Capability Approach, which expands the concept of substantive freedoms. Furthermore, Participation in Religious Development Activities (0.659) and economic empowerment (0.654), though recorded at lower levels, still validly reflect the construct, suggesting that spiritual and economic

aspects remain important, albeit with moderate influence. In Islamic development, religious participation relates to ḥifẓ al-dīn (preservation of faith), while economic empowerment corresponds to ḥifẓ al-māl (preservation of wealth)—both of which are central to well-being (Zailani et al., 2022).

The indicators 'Availability of Educational Facilities' (0.695) and 'Resource Distribution' (0.692) underscore their pivotal importance in addressing educational infrastructure gaps and ensuring fair resource distribution. Uddin et al. (2023) found that institutional quality and resource allocation have a significant impact on human development, particularly in developing countries. These results confirm the multidimensional nature of Islamic Human Development, encompassing spiritual, social, economic, educational, moral, and health dimensions. The range of indicators used reflects the Islamic emphasis on achieving a balance between material and spiritual needs, consistent with maqāṣid al-sharīʿah.

4.1.2 Discriminant Validity

Discriminant validity tests whether a construct is distinct from others in the research model. This ensures indicators for each latent variable represent only their intended construct. The Fornell– Larcker Criterion, a standard method, compares the square root of each construct's AVE with its correlations with other constructs. A construct meets discriminant validity when its AVE square root is greater than its correlations with other constructs (Fornell & Larcker, 1981; Hair et al., 2019). The table below presents the test results for all variables.

Discriminant Validity Fornell-Larcker Criterion

Variabels	**EG**	**IGG**	**IHD**	**P**	**Un**
Economic Growth (EG)	0.711				
Islamic Good Governance (IGG)	0.619	0.748			
Islamic Human Development (IHD)	0.584	0.619	0.725		
Poverty (P)	0.272	0.261	0.215	0.726	
Unemployment (Un)	0.590	0.498	0.544	0.171	0.717

The results of the discriminant validity test show that all constructs meet the Fornell–Larcker criterion. For example, the Islamic Good Governance variable had a diagonal value of 0.748, which is higher than its highest correlations with Economic Growth (0.619) and Islamic Human Development (0.619). Similarly, Islamic Human Development recorded a diagonal value of 0.725, greater than its correlations with Unemployment (0.544) and Economic Growth (0.584). The Poverty variable also demonstrated good discriminant validity, with a diagonal value of 0.726 that surpassed its correlations with other constructs, such as Islamic Human Development (0.215) and Economic Growth (0.272).

Likewise, Unemployment (Un) showed a diagonal value of 0.717, which was higher than its strongest correlation with Economic Growth (0.590). Finally, the Economic Growth variable had a diagonal value of 0.711, surpassing its correlations with other constructs, including Islamic Good Governance (0.619) and Unemployment (0.590). Therefore, all constructs in this study met the Fornell–Larcker criterion, confirming that each variable demonstrates good discriminant validity and can be clearly distinguished from the other constructs in the model.

Discriminant Validity Heterotrait-Monotrait-Ratio

Correlation	**HTMT**
Islamic Good Governance <-> Economic Growth	0.714
Islamic Human Development <-> Economic Growth	0.687
Islamic Human Development <-> Islamic Good Governance	0.679
Poverty <-> Economic Growth	0.340
Poverty <-> Islamic Good Governance	0.303
Poverty <-> Islamic Human Development	0.251
Unemployment <-> Economic Growth	0.758
Unemployment <-> Islamic Good Governance	0.594
Unemployment <-> Islamic Human Development	0.655
Unemployment <-> Poverty	0.222

The Heterotrait–Monotrait Ratio (HTMT) values among constructs in this study ranged from 0.222 to 0.758. The highest value, 0.758, was observed between Unemployment and economic growth. This indicates a relatively strong association between unemployment levels and economic growth. Substantively, this aligns with

development theory. Non-inclusive growth can lead to rising unemployment rates, indicating a relationship between the two constructs, although they remain conceptually distinct. Thus, discriminant validity is satisfied.
Moderate correlations were observed between Unemployment and Islamic Human Development (r = 0.655) and between Unemployment and Islamic Good Governance (r = 0.594). These results suggest that unemployment relates significantly to human development and governance quality. However, the associations remain within acceptable thresholds. In other words, the constructs are interconnected but still represent.
Lower HTMT values appeared for Poverty's relationships with Islamic Human Development (0.251) and unemployment (0.222). This suggests that, although interconnected within the broader framework, poverty, human development, and unemployment retain distinct meanings. Although poverty is related to other variables, its role in the model does not result in significant overlap. ot create significant overlap.
All HTMT values were below 0.90 (Hair et al., 2017, 2019), indicating each construct— Economic Growth, Islamic Good Governance, Islamic Human Development, Poverty, and Unemployment—was empirically distinct from the others. This distinction confirms that these variables can be differentiated while still reflecting substantive relationships consistent with development theory and the Islamic governance framework.

4.1.3 Reliability

The reliability test was performed to ensure the internal consistency of the research instrument, so that each indicator within a construct consistently provides stable and trustworthy measurements. Reliability was evaluated using three primary parameters: Cronbach's Alpha, Composite Reliability (rho_A), and Composite Reliability (rho_C). According to Hair et al. (2019), a construct is deemed reliable if Cronbach's Alpha ≥ 0.70, Composite Reliability (rho_A) ≥ 0.70, and Composite Reliability (rho_C) ≥ 0.70. The results of the reliability test for each variable in this study are shown in the following table.

Reliability test

Variabel	**Cronbach's Alpha**	**Composite Reliability (rho_a)**	**Composite Reliability (rho_c)**
Economic Growth	0.805	0.806	0.860
Poverty	0.808	0.819	0.862
Unemployment	0.819	0.825	0.869
Islamic Good Governance	0.939	0.940	0.946
Islamic Human Development	0.899	0.901	0.917

Based on the data presented, all constructs in this study met the criteria for reliability. The Economic Growth variable (X1) recorded a Cronbach's Alpha of 0.805, with rho_A of 0.806 and rho_C of 0.860. These results demonstrate that the Economic Growth variable has strong reliability and consistently explains its indicators. The Poverty variable (X2) also showed promising results, with a Cronbach's Alpha of 0.808, rho_A of 0.819, and rho_C of 0.862, indicating that this construct is reliable and its indicators can be trusted to represent the underlying concept.
Similarly, the Unemployment variable (X3) showed a Cronbach's Alpha of 0.819, rho_A of 0.825, and rho_C of 0.869. Although slightly lower than other constructs, these values still exceed the required threshold, confirming the reliability of the construct. The Islamic Good Governance variable (Z) demonstrated very high reliability, with a Cronbach's Alpha of 0.939, rho_A of 0.940, and rho_C of 0.946. These high values indicate firm internal consistency; however, extremely high reliability might suggest redundancy or overlap among the indicators.
Meanwhile, the Islamic Human Development variable (Y) also demonstrated excellent reliability, with a Cronbach's Alpha of 0.899, rho_A of 0.901, and rho_C of 0.917. This confirms that the IHD construct has strong internal consistency in explaining its indicators. Overall, the reliability test results indicate that all constructs in this study had Cronbach's alpha, rho_a, and rho_c values above 0.80. Therefore, it can be concluded that all constructs are reliable and appropriate for the following stages of analysis.

4.2. Structural Model Evaluation

4.2.1 Collinearity and R^2

When evaluating the structural model, an essential step is to check for the potential presence of multicollinearity among the independent variables. Multicollinearity happens when predictor variables are highly correlated, which can distort model estimation and reduce the accuracy of results. To detect this, the Variance Inflation Factor (VIF) is used, with the rule that the model is free from multicollinearity problems if VIF values are below 5 (Hair et al., 2019). The results of the multicollinearity test in this study are shown in the following table, which displays the VIF values for each relationship among the variables in the model.

Multicollinearity Test

Corelation	VIF
Economic Growth → Islamic Human Development	2.096
Poverty → Islamic Human Development	1.137
Unemployment → Islamic Human Development	1.727
Islamic Good Governance x Economic Growth -> Islamic Human Development	1.690
Islamic Good Governance x Poverty -> Islamic Human Development	1.284
Islamic Good Governance x Unemployment -> Islamic Human Development	1.535
Islamic Good Governance -> Islamic Human Development	1.748

The multicollinearity test results in the table above show all Variance Inflation Factor (VIF) values range from 1.137 to 2.096. Because these values are below the threshold of 5, no multicollinearity issues exist among the independent variables. Thus, each independent variable can explain the dependent variable without distortions from excessive correlations. As a result, the model is suitable for further hypothesis testing.

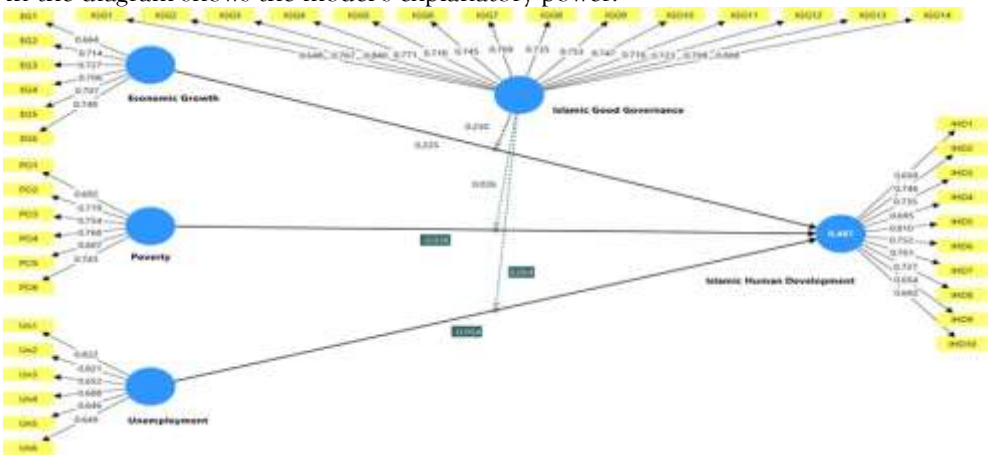
After confirming the model is free from multicollinearity, the next step is to assess the explanatory power of the independent variables. This is achieved using the coefficient of determination (R^2), which indicates the extent to which the independent variables explain the variance in the dependent variable. R^2 values range from 0 to 1, with higher values showing greater explanatory power. Hair et al. (2019) classify R^2 values as 0.25 (weak), 0.50 (moderate), and 0.75 (substantial). The adjusted R^2 offers a more accurate estimate by considering the number of variables. The results of this analysis are shown in the following table.

Coefficient of Determination

Variabel	R^2	R^2 adjusted
Islamic Human Development	0.487	0.479

The coefficient of determination test found an R^2 value of 0.487 for Islamic Human Development, with an adjusted R^2 of 0.479. Thus, 48.7% of the variation in Islamic Human Development is explained by economic growth, poverty, unemployment, and Islamic Good Governance as a moderating variable. The remaining 51.3% is attributed to factors outside the scope of this research. According to Hair et al. (2019), an R^2 of 0.487 is considered moderate, indicating that the model has reasonable explanatory power; however, other variables may be explored in future studies.

A structural diagram illustrates the relationship between Economic Growth, Poverty, and Unemployment in the context of Islamic Human Development. Islamic Good Governance acts as a moderating variable. The R^2 value in the diagram shows the model's explanatory power.



The visualization of the structural model shows that economic growth has a positive impact on Islamic human development. The path coefficient is 0.225, indicating a moderate effect. Poverty hurts Islamic human development, with a path coefficient of –0.036. This result indicates that higher poverty levels are associated with lower achievements in Islamic human development. Similarly, unemployment also harms Islamic human development. Its path coefficient is –0.054, confirming that unemployment is a significant barrier to improving human development outcomes.

The role of Islamic Good Governance as a moderating variable is clear. It both strengthens and lessens the effects of the independent variables on Islamic Human Development. The results show that Islamic Good Governance amplifies the positive influence of Economic Growth (0.230). It also lessens the negative impact of Poverty

(0.064) on Islamic Human Development. At the same time, its moderating effect on the relationship between Unemployment and Islamic Human Development is comparatively weaker (0.026). Overall, these findings suggest that Islamic Good Governance enhances the effectiveness of economic growth in promoting human development and mitigates the adverse effects of poverty. However, it has yet to address the negative impact of unemployment fully.

4.2.2 Model Predictive Relevance

Predictive relevance (Q^2) measures how well independent variables can forecast the dependent variable. A Q^2 value above 0 shows the model has predictive relevance. According to Chin (1998) and Hair et al. (2019), Q^2 values over 0 confirm the model's predictive relevance, while values near 1 indicate higher predictive accuracy. The Q^2 test results for this study are shown in the table. Predict Relevance

Variabel	**Q^2 Square**
Islamic Human Development	0.469

The Q^2 value for Islamic Human Development was 0.469, indicating a value well above zero, which suggests good predictive capability. According to Chin (1998), Q^2 values of 0.02, 0.15, and 0.35 indicate weak, moderate, and strong relevance. Thus, this result shows strong predictive relevance. This supports the conclusion that Economic Growth, Poverty, Unemployment, and Islamic Good Governance contribute meaningfully to Islamic Human Development.

The effect size (f^2) analysis reveals the contribution of each independent construct to explaining the dependent variable. The f^2 results highlight which variables most influence Islamic Human Development. According to Cohen (1988) and Hair et al. (2019), f^2 values of 0.02, 0.15, and 0.35 correspond to small, medium, and large effects, respectively. Therefore, this analysis is crucial in identifying which variables have the most significant impact. The following table presents the f^2 test results.

Effect Size Test (f^2)

Effect	**F Square**	**P value**	**Effect**
Economic Growth → Islamic Human Development	0.260	0.013	Medium
Poverty → Islamic Human Development	0.135	0.018	Small
Unemployment → Islamic Human Development	0.140	0.012	Small
Islamic Good Governance x Economic Growth -> Islamic Human Development	0.225	0.022	Medium
Islamic Good Governance x Poverty -> Islamic Human Development	0.180	0.027	Medium
Islamic Good Governance x Unemployment -> Islamic Human Development	0.228	0.024	Medium
Islamic Good Governance -> Islamic Human Development	0.160	0.000	Medium

Based on the effect size test, economic growth has a moderate impact on Islamic Human Development. It shows an f^2 value of 0.260, which indicates a substantial contribution to advancing Islamic human development. In contrast, Poverty (f^2 = 0.135) and Unemployment (f^2 = 0.140) have minor effects. Both negatively influence Islamic Human Development, but their contributions are more limited compared to Economic Growth.

The moderating role of Islamic Good Governance (IGG) consistently showed medium effects. IGG strengthened the link between economic growth and IHD (f^2 = 0.225). It lessened the negative impact of poverty on IHD (f^2 = 0.180) and decreased the adverse effect of unemployment on IHD (f^2 = 0.228). As a direct predictor of IHD (f^2 = 0.160), IGG also falls into the medium effect category. This highlights the significance of Islamic governance in fostering equitable and sustainable human development. Overall, these results suggest economic growth drives Islamic Human Development. However, its success depends on the quality of IGG, which ensures fair benefit distribution and reduces the effects of poverty and unemployment's effects.

PLS Predict (Q^2 predict, RMSE, and MAE) was used to evaluate the model's predictive ability. This analysis shows if the model has predictive relevance. It also assesses predictive accuracy by comparing observed and predicted values. The results of the PLS Predict test using the LM method are shown in the following table.

PLS Predict – LM Method

	Q^2predict	**RMSE**	**MAE**
Islamic Human Development	0.469	0.731	0.581

The Q^2 predicted value of 0.469 shows strong predictive power for Islamic Human Development. RMSE (0.731) and MAE (0.581) are low, indicating minimal prediction error. These results confirm the model's effectiveness in predicting Islamic Human Development based on Economic Growth, Poverty, Unemployment, and Islamic Good Governance.

4.2.3 Model Fit Test (Goodness of Fit).

The assessment of Goodness of Fit (GoF) is a crucial step in partial least squares structural equation modeling (PLS-SEM) analysis. It evaluates how well the research model, including the moderation paths, aligns with the empirical data. This test confirms that the model exhibits explanatory power (R^2, which represents the proportion of variance explained), effect size (f^2, measuring the impact of each predictor), and predictive relevance (Q^2, indicating how well observed values are predicted). It also checks if the model meets the overall criteria for fit.

Goodness of Fit (SRMR, NFI, etc.)

Indeks GOF	**Value**	**Cut-off/criteria**
SRMR (Standardized Root Mean Square Residual)	0,067	≤ 0,08 (good fit)
NFI (Normed Fit Index)	0,719	≥ 0,70 (acceptable fit), ≥ 0,90 (good fit)
d_ULS (Unweighted Least Squares Discrepancy)	4,077	The lower the value, the better the fit
d_G (Geodesic Discrepancy)	1,309	The lower the value, the better the fit

The Fit Summary results show that the estimated research model achieved a reasonable level of model fit. The SRMR (Standardized Root Mean Square Residual) value of 0.067 is below the recommended threshold of 0.08 (Hu & Bentler, 1999), confirming that the model has a good fit with relatively small standardized residuals. Additionally, the NFI (Normed Fit Index) value of 0.719 indicates a moderate level of model fit, as values of 0.70 or higher are generally deemed acceptable (Bentler & Bonett, 1980). This suggests that the research model demonstrates a satisfactory degree of fit for further analysis, although there is still room for improvement. Moreover, the d_ULS (Unweighted Least Squares Discrepancy) value of 4.077 and the d_G (Geodesic Discrepancy) value of 1.309 provide further measures of how well the model approximates the empirical data. Although these indices do not have strict cut-off points, lower scores indicate a better fit. Therefore, the results obtained here can be considered adequate.

4.2.4 Hypothesis Testing

The hypothesis testing aims to determine whether the relationships between constructs have a statistically significant effect. The testing was conducted using t-statistics and p-values obtained through the bootstrapping process. A relationship is considered significant if the t-statistic exceeds 1.96 and the p-value is less than 0.05 at the 5% significance level (Hair et al., 2019). The results of the path significance testing among the variables are presented in the following table.

Patch Confidence Intervals Bias Corrected

Variabels	**Original Sample (O)**	**T statistics**	**P values**	**CI**	
				2.5	**97.5**
Economic Growth → Islamic Human Development	0.225	4.622	0.000	0.134	0.322
Poverty → Islamic Human Development	-0.036	3.407	0.047	-0.125	0.095
Unemployment → Islamic Human Development	-0.054	4.687	0.000	-0.159	0.127
Islamic Good Governance -> Islamic Human Development	0.362	7.915	0.000	0.269	0.447
Islamic Good Governance x Economic Growth -> Islamic Human Development	0.230	3.918	0.016	0.090	0.254
Islamic Good Governance x Poverty -> Islamic Human Development	0.026	3.875	0.039	0.065	0.195
Islamic Good Governance x Unemployment -> Islamic Human Development	0.064	3.108	0.013	0.040	0.178

Based on the results shown in the table, the relationships among the variables range from small to medium effects, all of which are statistically significant at the 95% confidence level. First, the path from Economic Growth to Islamic Human Development shows a coefficient of 0.225 with a t-statistic of 4.622 and a p-value of 0.000, indicating a significant and moderate effect. This suggests that economic growth plays a crucial role in enhancing the quality of Islamic human development.

In contrast, the paths Poverty → Islamic Human Development (β = –0.036; t = 3.407; p = 0.047) and Unemployment → Islamic Human Development (β = –0.054; t = 4.687; p = 0.000) both show adverse but relatively small effects. This confirms that although poverty and unemployment hinder Islamic human development, their direct impacts are not as significant as the impact of economic growth. Meanwhile, Islamic Good Governance → Islamic Human Development exerts a strong positive effect (β = 0.362; t = 7.915; p = 0.000) with a moderate effect size, emphasizing the important role of Islamic governance as a key driver of human well-being. Additionally, IGG also acts as a moderator with moderate effects, enhancing the positive influence of economic growth (β = 0.230), mitigating the negative impact of poverty (β = 0.026), and reducing the adverse effect of unemployment (β = 0.064) on Islamic Human Development.

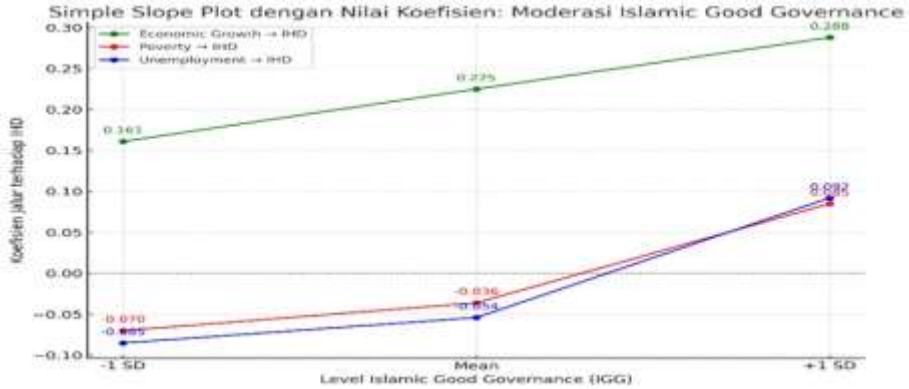
Code	**Hypothesis Statement**	**Statistical Results**	**Decision**
H1	Economic Growth → Islamic Human Development	β = 0.225; *t* = 4.622; *p* = 0.000	Supported
H2	Poverty → Islamic Human Development	β = –0.036; *t* = 3.407; *p* = 0.047	Supported
H3	Unemployment → Islamic Human Development	β = –0.054; *t* = 4.687; *p* = 0.000	Supported
H4	IGG × Economic Growth → Islamic Human Development	β = 0.230; *t* = 3.918; *p* = 0.016	Supported
H5	IGG × Poverty → Islamic Human Development	β = 0.026; *t* = 3.875; *p* = 0.039	Supported
H6	IGG × Unemployment → Islamic Human Development	β = 0.064; *t* = 3.108; *p* = 0.031	Supported

These results show that economic growth is the primary driver of Islamic Human Development; however, its impact is more effective when paired with strong Islamic governance. Conversely, although poverty and unemployment have adverse effects, their harm can be significantly reduced through the practice of Islamic Good Governance. Therefore, Islamic Good Governance proves to be a crucial tool in promoting human development that is inclusive, fair, and aligned with the values of maqāṣid alsharīʿah.

Conditional Effect

Conditional Effects	**Original sample (O)**	**T statistics (|O/STDEV|)**	**P values**
Economic Growth -> Islamic Human Development Islamic Good Governance at +1 SD	0.288	4.744	0.000
Economic Growth -> Islamic Human Development Islamic Good Governance at Mean	0.225	4.622	0.000
Economic Growth -> Islamic Human Development Islamic Good Governance at -1 SD	0.161	2.500	0.012
Poverty -> Islamic Human Development Islamic Good Governance at +1 SD	0.085	0.714	0.028
Poverty -> Islamic Human Development Islamic Good Governance at Mean	-0.036	3.422	0.047
Poverty -> Islamic Human Development Islamic Good Governance at -1 SD	-0.070	3.695	0.000
Unemployment -> Islamic Human Development Islamic Good Governance at +1 SD	0.092	1.176	0.023
Unemployment -> Islamic Human Development Islamic Good Governance at Mean	-0.054	4.667	0.000
Unemployment -> Islamic Human Development Islamic Good Governance at -1 SD	-0.085	4.861	0.000

In addition to testing the direct and moderating effects, this study also performed a conditional effect analysis to examine how the strength of relationships among variables varies at different levels of Islamic Good Governance (IGG), specifically at high (+1 SD), average (mean), and low (–1 SD) conditions. This test is important for gaining a deeper understanding of how IGG influences the relationships between economic growth, poverty, unemployment, and Islamic Human Development. Consequently, the conditional effect analysis empirically demonstrates how Islamic governance operates under various circumstances and levels of implementation. The results of the conditional effect analysis are illustrated in the following graph.



The conditional effect analysis reveals that Islamic Good Governance has a significant influence on the relationships between the independent variables and Islamic Human Development at various levels of governance implementation. First, in the relationship between Economic Growth and Islamic Human Development, the effect rises to 0.288 ($t = 4.744$; $p = 0.000$) when IGG is high (+1 SD), compared to 0.225 at the mean level and 0.161 at the low level (–1 SD). This confirms that higher levels of IGG strengthen the contribution of economic growth to Islamic human development.

Second, regarding the relationship between poverty and Islamic Human Development, the results show that at the mean level of IGG, the adverse effect of poverty is –0.036. When IGG is low (–1 SD), the adverse effect of poverty becomes stronger (– 0.070). Conversely, under high IGG conditions (+1 SD), the adverse effect of poverty is significantly reduced, with a weak coefficient of 0.085. This highlights the role of Islamic governance in mitigating the adverse effects of poverty on human development.

Third, in cases of unemployment, the impact on Islamic Human Development is negative (– 0.054) at the average IGG level and becomes even more negative at lower IGG levels (–0.085). However, when IGG is high (+1 SD), the adverse effect significantly diminishes (0.092), even though it is not statistically significant. This suggests that implementing Islamic governance can help mitigate the adverse effects of unemployment on human development, even if it does not eliminate them.

Overall, these findings emphasize that the quality of Islamic Good Governance is vital in shaping both the strength and direction of relationships among variables. IGG boosts the positive impact of economic growth and effectively reduces the adverse effects of poverty and unemployment on Islamic Human Development.

5. DISCUSSION

The findings indicate that economic growth has a positive and statistically significant effect on Islamic Human Development. Expanding local economic capacity enhances community wellbeing from an Islamic perspective. This aligns with previous research. Economic growth is identified as a primary driver of human development (Škare & Družeta, 2016). However, the modest effect size suggests that economic growth alone is not enough for substantial improvements. Effective governance is also necessary. This supports inclusive growth theory, which asserts that growth benefits must be distributed equitably to improve overall well-being.

Poverty negatively impacts Islamic Human Development by acting as a structural barrier that limits access to education, health, and decent living standards. By limiting these key resources, poverty restricts individuals' ability to participate in social and economic life, as empirical studies show (Sen, 1999). Multidimensional poverty causes deprivation in health, education, and living standards, which in turn results in low human development outcomes, as highlighted by Santos et al. (2019) and Alkire & Foster (2011). In developing countries, Komara & Amaliah (2023) observed that persistent poverty lowers HDI scores and widens the welfare gap between regions. Additionally, (2021) demonstrated in Indonesia that, despite economic growth, persistent poverty directly hinders the acceleration of human development.

Hasan & Aliyu (2018) and Chapra (2008) demonstrate that, from an Islamic development perspective, poverty is not merely economic. It prevents achieving maqāṣid al-sharīʿah, such as hifẓ al-ʿaql (mind) and hifẓ al-nafs

(soul). As poverty increases, the Islamic Human Development Index (I-HDI) declines because people are unable to meet their basic spiritual and material needs. Elistia & Syahzuni (2018) note that structural poverty in many Indonesian regions restricts access to quality services, which blocks inclusive development.

Unemployment significantly undermines Islamic Human Development by directly reducing income and, more critically, by depriving individuals of capabilities and causing social exclusion. These pathways hinder individual well-being and opportunities for growth. Empirical evidence supports this: Clark & Oswald (1994) found unemployment reduces well-being beyond income loss by affecting mental health and life satisfaction. Egdell & Beck (2020) showed long-term exclusion leads to reduced human capital. Sen (1999) argued that unemployment restricts access to education, health, and participation in society, further limiting personal development.

Building on this evidence, studies in Indonesia and worldwide show that high unemployment hampers human development. Nugraeni & Aji (2021) and Škare & Družeta (2016) found that persistent unemployment limits household progress and income, weakening social cohesion and slowing HDI improvements. Internationally, Wang et al. (2018) confirmed a strong negative link between unemployment and human development. Limited job opportunities increase multidimensional poverty in developing countries.

Taken together, these findings reinforce an Islamic perspective. Chapra (2008) and Hasan & Aliyu (2018) state that unemployment contradicts the maqāṣid al-sharīʿah, specifically by compromising the safeguarding of the soul (hifẓ al-nafs), intellect (hifẓ al-ʿaql), and wealth (hifẓ almāl). High unemployment demeans individuals, weakens families, and reduces their ability to contribute to society. Elistia & Syahzuni (2018) show that regions with higher unemployment rates have lower Islamic Human Development Index (I-HDI) scores. This confirms that productive employment is a key foundation for material and spiritual well-being.

Islamic Good Governance applies Islamic ethical and legal principles to public administration, using them to inform and guide decision-making processes. IGG positively impacts Islamic Human Development by incorporating accountability, transparency, participation, and justice—principles that, according to governance literature, are crucial for improving the quality of life. Specifically, Ahsan & Young (2017) show that fair governance boosts the human development index by distributing resources more equitably, while Katsamunska & Rosenbaum (2021) find that moral integrity and quality public services directly support sustainable social welfare.

In the context of Islamic development, Hasan & Aliyu (2018) asserted that the principles of maqāṣid al-sharīʿah meaning the overarching objectives of Islamic law (sharīʿah)—are inherent in IGG. These include al-ʿadālah (justice), al-shūrā (deliberation), and al-iḥsān (quality public services). They significantly strengthen the spiritual and material dimensions of human well-being. Building on this, Khalid & Ahmad (2021) found that effective communication between the government and the public increases trust. This accelerates achievement of the Islamic Human Development Index (IHDI), measuring human development from an Islamic perspective.

Research by Perdana & Abdullah (2025) shows that the government's quick response to public needs improves education, health, and access to basic services. These components are essential to Islamic human development. Here, IGG is not just a governance tool it ensures human development is fair, inclusive, and aligned with the objectives of sharia, or Islamic law.

Interaction analysis shows Islamic Good Governance (IGG) moderates the relationships between economic growth, poverty, unemployment, and Islamic Human Development. IGG amplifies the positive effects of economic growth and reduces the negative effects of poverty and unemployment. When IGG is high (+1 SD above the mean), the impact of economic growth on development increases significantly, and the negative effects of poverty and unemployment weaken or disappear. These findings highlight IGG's key role in promoting inclusive growth and protecting vulnerable groups.

Effective governance has a substantial impact on human development, as demonstrated by moderation results and previous studies. Huther & Shah (2005) showed that good governance allows countries to translate economic growth into a better quality of life. Kaufmann et al. (2010) found that robust institutions defined as effective and accountable legal, administrative, and economic frameworks support faster, more equitable, and sustainable growth. In an Islamic context, Chapra (2008) and Hasan & Aliyu (2018) argue that governance based on maqāṣid al-sharīʿah (the objectives of Islamic law) justice, deliberation, accountability, and provision of quality public services protects vulnerable groups by preventing poverty and unemployment from hindering development. Similarly, Ahsan & Young (2017) found that fair public policies meaning policies designed to ensure equal access regardless of background widen access to essential services. Khalid & Ahmad (2021) showed that transparent communication between the government and citizens builds trust and enhances development.

Trengthening government capacity to address public needs is crucial to mitigating the negative effects of poverty on human development, as demonstrated by Perdana & Abdullah (2025) in Indonesia. Katsamunska &

Rosenbaum (2021) stress that moral integrity and fair public services are essential for economic growth that improves the Islamic Human Development Index (HDI). The HDI acts not just as a statistical measure but also as a guide. It drives inclusive growth, reduces unemployment risks, and prevents structural poverty from hindering development.

This study adds to development literature by combining inclusive growth theory, the capability approach, and maqāṣid al-sharīʿah principles. The findings show the need to align economic growth with Islamic governance in regional policy. For Palopo, improve access to finance, expand training, upgrade infrastructure, and ensure transparent, responsive governance. These steps facilitate equitable and sustainable development.

6. CONCLUSION

This study presents evidence that economic growth, poverty, and unemployment are significantly correlated with the Islamic Human Development Index (I-HDI). Economic growth is linked to broader access to education, health, and income, while poverty and unemployment constrain the fulfillment of basic needs and erode human dignity. These findings highlight the paradox of development: material expansion alone is insufficient unless it is inclusive, equitable, and aligned with the maqāṣid al-sharīʿah (principles of Islamic law).

Islamic Good Governance (IGG) emerges as both a direct determinant and a moderating factor in this relationship. Guided by Islamic principles such as justice, trustworthiness, transparency, and deliberation, IGG enhances development outcomes by strengthening the positive role of growth and reducing the adverse impacts of poverty and unemployment. By integrating material (economic conditions) and spiritual (ethical values) dimensions, IGG demonstrates how Islamic value-based governance can transform economic growth into more comprehensive human development outcomes.

For policymakers, the results emphasize the need to strengthen inclusive growth strategies, expand vocational opportunities, and institutionalize IGG principles to ensure equitable and sustainable progress. Future research should broaden the geographical scope and adopt longitudinal designs to enhance robustness and generalizability. Importantly, this study is among the first to empirically integrate I-HDI and IGG within a single framework, offering both theoretical refinement and practical guidance for advancing human development in Muslim societies.

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