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Zakat and Sustainable Development: A Macroeconomic Analysis of Poverty, Inequality, and Growth in Indonesia

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ABSTRACT

Introduction: This study examines the dynamic relationship between zakat distribution, poverty depth, income inequality, and economic growth in Indonesia within the framework of sustainable development.
Methods: Using semiannual data from the first semester of 2011 to the first semester of 2025, the analysis applies a Vector Error Correction Model (VECM) to capture both long-run equilibrium relationships and short-run dynamics among the variables. Poverty is measured using the Poverty Gap Index (P1), which reflects the depth and severity of poverty rather than merely its incidence.
Results: The results confirm the existence of a stable long-run cointegration relationship between zakat, poverty depth, income inequality, and economic growth. In the long run, zakat distribution shows a significant negative elasticity of −0.842, indicating that a 1% increase in zakat distribution reduces poverty depth by approximately 0.84%. Income inequality exerts the strongest structural influence with a positive elasticity of 1.915, while economic growth reduces poverty with a smaller elasticity of −0.276. The error correction term (−0.431) indicates relatively rapid adjustment toward long-run equilibrium, with about 43% of short-run disequilibrium corrected within one semester. Impulse response and variance decomposition analyses further reveal that zakat contributes meaningfully to medium- and long-term poverty dynamics. These findings suggest that zakat functions as a redistributive stabilizer embedded within the macroeconomic system, complementing economic growth and mitigating inequality. This study does not account for informal zakat flows, which may imply that the estimated macro effect is conservative.
Conclusion and suggestion: Overall, the study provides empirical support for integrating Islamic social finance into national sustainable development strategies aimed at poverty reduction and inclusive growth.

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1. Introduction

Poverty and income inequality remain among the most pressing challenges faced by many developing countries, despite decades of global development initiatives. The adoption of the Sustainable Development Goals (SDGs) has reinforced the international commitment to eradicating poverty, reducing inequality, and promoting inclusive economic growth (United Nations, 2015). However, achieving these goals requires not only conventional fiscal policies and social protection programs but also the mobilization of alternative financial mechanisms capable of supporting sustainable development. In this context, Islamic social finance instruments have gained increasing attention as potential tools for addressing socioeconomic challenges in Muslim-majority countries (Ahmed, 2016; Shaikh & Ismail, 2017)

Among the various instruments of Islamic social finance, zakat plays a particularly important role in promoting social justice and economic redistribution (Sholihah, 2024). Zakat is a mandatory charitable contribution for eligible Muslims and is designed to support disadvantaged groups within society. As one of the pillars of Islam, zakat functions not only as a religious obligation but also as an institutional mechanism for wealth redistribution and poverty alleviation (Herianingrum et al., 2023; Obaidullah, 2018)**.** In theory, an effective zakat system can contribute to reducing poverty and narrowing income disparities by transferring resources from wealthier individuals to vulnerable populations (Beik & Arsyianti, 2016; Shaikh & Hassan, 2020)

In recent years, the role of zakat has been increasingly discussed within the broader framework of sustainable development. Several scholars argue that zakat has significant potential to contribute to achieving the SDGs, particularly in areas related to poverty reduction, social inclusion, and equitable economic growth (Shaikh & Ismail, 2017; Zulkhibri & Manap, 2019). By supporting productive economic activities, improving access to basic needs, and empowering disadvantaged communities, zakat can serve as a complementary mechanism to government-led development programs (Ali & Hatta, 2014; Damayanti et al., 2026; Muhammad et al., 2017)**.**

Indonesia provides a particularly interesting context for examining the role of zakat in development. As the country with the largest Muslim population in the world, Indonesia possesses enormous zakat potential. Estimates suggest that the potential value of zakat in Indonesia could reach hundreds of trillions of rupiah annually (Puskas Baznas, 2023). However, despite this substantial potential, the effective utilization of zakat for socioeconomic development remains an ongoing challenge. Poverty and inequality continue to persist, indicating the need for more effective mechanisms to integrate zakat into broader development strategies (Beik & Arsyianti, 2016)**.**

A growing body of literature has examined the impact of zakat on poverty alleviation and economic welfare. Some studies emphasize the micro-level effects of zakat distribution on household welfare and income improvement (Beik & Arsyianti, 2016)**.** Other research focuses on the institutional aspects of zakat management, including governance, collection efficiency, and distribution mechanisms (Saad & Farouk, 2019; Shaikh & Hassan, 2020)**.** Empirical studies have also explored the relationship between zakat and economic development, suggesting that zakat can play a significant role in enhancing social welfare and economic stability (Ismail & Shaikh, 2017)**;** (Zulkhibri & Abdul Manap, 2019)**.**

Nevertheless, much of the existing research tends to focus on the microeconomic or institutional dimensions of zakat, such as household welfare (Beik & Arsyianti, 2016), zakat governance (Arno & Mujahidin, 2024), or the operational performance of zakat institutions (Ab Rahman et al., 2012; Ashfahany et al., 2023; Pamuncak et al., 2021). While these studies provide valuable insights, relatively limited attention has been given to the macroeconomic implications of zakat, particularly in relation to broader development indicators such as poverty, income inequality, and economic growth. Understanding these macro-level relationships is essential in order to evaluate the systemic role of zakat within a national economic framework.

Furthermore, empirical studies that examine the interaction between zakat and key macroeconomic variables using rigorous econometric approaches remain relatively scarce. In particular, dynamic macroeconomic analyses that capture both short-run and long-run relationships between zakat distribution and development indicators are still limited in the literature. This limitation makes it difficult to fully understand how zakat interacts with the broader economic system and how it can contribute to sustainable development outcomes in the long term.

This study addresses these gaps by providing a comprehensive macroeconomic analysis of the relationship between zakat distribution, poverty depth, income inequality, and economic growth in Indonesia. By situating zakat within the broader context of sustainable development, this research seeks to deepen the understanding of how Islamic social finance instruments can contribute to inclusive and sustainable economic transformation.

This study contributes to the existing literature in several important ways. First, it extends previous research by examining the macroeconomic role of zakat in addressing poverty and inequality at the national level. Second, it integrates the discussion of zakat within the broader framework of sustainable development, highlighting its potential contribution to achieving development goals. Third, the study provides empirical evidence from Indonesia, offering policy-relevant insights for optimizing zakat management as a tool for socioeconomic development.

Therefore, this study aims to analyze the dynamic macroeconomic relationship between zakat distribution, poverty depth, income inequality, and economic growth in Indonesia using a Vector Error Correction Model (VECM) approach. By employing this econometric framework, the study seeks to capture both the short-run dynamics and long-run equilibrium relationships among these variables, thereby providing a more comprehensive understanding of the role of zakat within the broader macroeconomic system.

2. Literature Review

a. Zakat and Poverty Reduction

Zakat is widely recognized in Islamic economics as an institutional mechanism for wealth redistribution and poverty alleviation (Mu et al., 2025**.** Classical Islamic scholars emphasize that zakat is designed to ensure social justice by transferring resources from surplus economic agents to those in need (Wahyuni & Wulandari, 2024). Contemporary research also highlights the potential of zakat as a policy instrument capable of addressing structural poverty in Muslim-majority societies (Shirazi & Al-Helo, 2024; Wahyuni & Wulandari, 2024)**.** Empirical studies indicate that effective zakat distribution can significantly reduce poverty levels (Beik & Arsyianti, 2016). particularly when managed through institutional frameworks that ensure transparency and efficiency. Zakat can improve household welfare by increasing the purchasing power of low-income groups and supporting productive economic activities.

b. Income Inequality and Economic Development

Income inequality remains one of the most persistent challenges in development economics (Kwasi, 2017). High inequality can hinder poverty reduction efforts and weaken the impact of economic growth on social welfare (Amponsah et al., 2023). When income distribution becomes highly concentrated, the benefits of economic expansion tend to accrue disproportionately to higher-income groups. Several studies suggest that redistributive policies are essential to ensure that economic growth translates into inclusive development (Cerra et al., 2021; Min & Rao, 2023). These policies may include taxation, social transfers, and institutional redistribution mechanisms such as zakat.

c. Islamic Social Finance and Sustainable Development

Islamic social finance instruments including zakat, waqf, and sadaqah are increasingly recognized as complementary tools for achieving sustainable development goals (Sholihah, 2024). These instruments provide alternative financing mechanisms for poverty alleviation, social protection, and community development (Obaidullah, 2018). Recent research argues that integrating Islamic social finance into national development strategies can strengthen social safety nets and promote inclusive growth (Khalim et al., 2025). Zakat, in particular, has the potential to function as a macro-level redistributive stabilizer when effectively integrated with broader economic policies (Ahmed, 2008). Despite this potential, empirical macroeconomic studies examining zakat within a dynamic econometric framework remain limited. This study seeks to fill this gap by examining the long-run and short-run relationships between zakat distribution, poverty depth, inequality, and economic growth in Indonesia.

3. Methodology

Understanding the dynamic relationship among zakat distribution, poverty depth, income inequality, and economic growth requires an econometric framework capable of capturing both short-run adjustments and long-run equilibrium relationships. The cointegration approach developed by Engle & Granger (1987) and later extended by Johansen (1995) provides a robust methodology for analyzing long-run relationships among non-stationary time-series variables. When variables are cointegrated, the Vector Error Correction Model (VECM) becomes an appropriate specification because it integrates short-run dynamics with the long-run equilibrium adjustment mechanism (Faisal & Ichsan, 2020; Yuliati et al., 2023).

This study adopts a quantitative time-series approach using semiannual national data covering the period from the first semester of 2011 to the first semester of 2025. Data on zakat distribution were obtained from the National Zakat Agency (BAZNAS), while indicators of poverty, income inequality, and economic growth were collected from Statistics Indonesia (BPS). Poverty is measured using the Poverty Gap Index (P1), which reflects the average income shortfall of poor households relative to the poverty line and therefore captures the depth of poverty rather than merely its incidence. Income inequality is measured using the Gini ratio, while economic growth is proxied by real GDP growth.

Table 1. Research Variables

Variable	Definition	Indicator	Scale	Source
Poverty Rate (Yt)	The percentage of Indonesians in the population with income below the poverty line in a given period.	Depth of Poverty (P1)	Percent (%)	BPS
Income Inequality (Gini Ratio, Xt)	Unequal distribution of income among individuals or groups in an economy. A higher Gini Ratio indicates greater inequality, while a lower value indicates a more even distribution of income.	Gini Coefficient Ratio	Ratio (1-0)	BPS
Economic Growth (Wt)	The increase in the capacity of an economy to produce goods and services over time, which is measured through changes in the value of real national output.	Real GDP Growth Rate	Percent (%)	BPS
Zakat (Vt)	Islamic financial instruments	Total	Trillion	BAZNAS

	serve as mechanisms for wealth redistribution to achieve economic justice and social welfare.	distribution of zakat funds	rupiah	

The empirical analysis begins with unit root tests to determine the stationarity of each variable. Subsequently, the Johansen cointegration test is employed to examine the existence of long-run equilibrium relationships among the variables. Given evidence of cointegration, a Vector Error Correction Model (VECM) is estimated to capture both long-run structural relationships and short-run dynamics.

Formally, the long-run relationship estimated in this study can be expressed as follows:

$$P1_t = \beta_0 + \beta_1 ZAKAT_t + \beta_2 GINI_t + \beta_3 GROWTH_t + \varepsilon_t$$

where $P1_t$denotes the Poverty Gap Index, $ZAKAT_t$represents national zakat distribution, $GINI_t$is the Gini ratio measuring income inequality, and $GROWTH_t$refers to real GDP growth. The coefficients β_1, β_2, and $\beta_3$capture the long-run elasticities of poverty depth with respect to zakat, inequality, and economic growth, respectively. Within the VECM framework, the short-run dynamic specification is formulated as:

$$\Delta P1_t = \alpha ECT_{t-1} + \sum_{i=1}^{k} \gamma_i \, \Delta ZAKAT_{t-i} + \sum_{i=1}^{k} \delta_i \, \Delta GINI_{t-i} + \sum_{i=1}^{k} \theta_i \, \Delta GROWTH_{t-i} + \varepsilon_t$$

where ECT_{t-1}represents the error correction term derived from the long-run cointegration equation, and the parameter αmeasures the speed of adjustment toward long-run equilibrium. The coefficients of the first-differenced variables capture the short-run interactions among the variables within the system. In addition, Impulse Response Function (IRF) and Forecast Error Variance Decomposition (FEVD) analyses are applied to further explore the transmission mechanisms and the relative contribution of each variable to poverty dynamics.

4. Results And Discussion

a. Result and Finding

The Johansen cointegration test confirms the presence of at least one long-run equilibrium relationship among zakat distribution, poverty depth (P1), income inequality, and economic growth. The trace statistic exceeds the 5% critical value for the null hypothesis of no cointegration, indicating that these variables move together structurally over time. This finding supports the use of the Vector Error Correction Model (VECM) and suggests that zakat is embedded within Indonesia's macroeconomic development system.

The long-run equilibrium estimates are presented in Table 2. Zakat distribution exhibits a statistically significant negative elasticity of −0.842, implying that a 1% increase in zakat reduces poverty depth by approximately 0.84% in the long run. Since the Poverty Gap Index measures the average income shortfall of the poor, this result indicates that zakat meaningfully reduces the severity of poverty.

Income inequality shows a strong positive elasticity of 1.915, highlighting its structural role in exacerbating poverty depth. The magnitude of this coefficient suggests that distributional conditions critically determine poverty outcomes. Economic growth contributes negatively to poverty

(−0.276), but its effect is considerably smaller, implying that growth alone is insufficient without redistributive correction.

Table 2. Long-Run Cointegration Equation

Variable	Coefficient	Significance
ZAKAT	−0.842	p < .05
GINI	1.915	p < .05
GROWTH	−0.276	p < .05

Dependent variable: Poverty Gap Index (P1)

Short-run dynamics further confirm system stability. As reported in Table 3, the error correction term (ECT) is negative and statistically significant (−0.431), indicating that approximately 43% of short-run disequilibrium is corrected within one semester. This relatively high adjustment speed reflects convergence toward long-run equilibrium. The lagged short-run effect of zakat (−0.214) is also significant, demonstrating that zakat reduces poverty not only structurally but also dynamically. The smaller magnitude compared to the long-run elasticity suggests that its full impact materializes cumulatively over time.

Table 3. Short-Run VECM Estimation

Variable	Coefficient	Significance
ΔECT (−1)	−0.431	p < .05
ΔZAKAT (−1)	−0.214	p < .05
ΔGINI (−1)	Significant	p < .05
ΔGROWTH (−1	Significant	p < .05

Dependent variable: ΔP1

The impulse response analysis provides further insight into the transmission mechanism. As shown in Figure 1, a positive shock to zakat generates a persistent decline in poverty depth. The response becomes visible after the second period and stabilizes around the sixth period, indicating that zakat's poverty-reducing effect is gradual yet sustained. No explosive behavior is observed, confirming system stability.

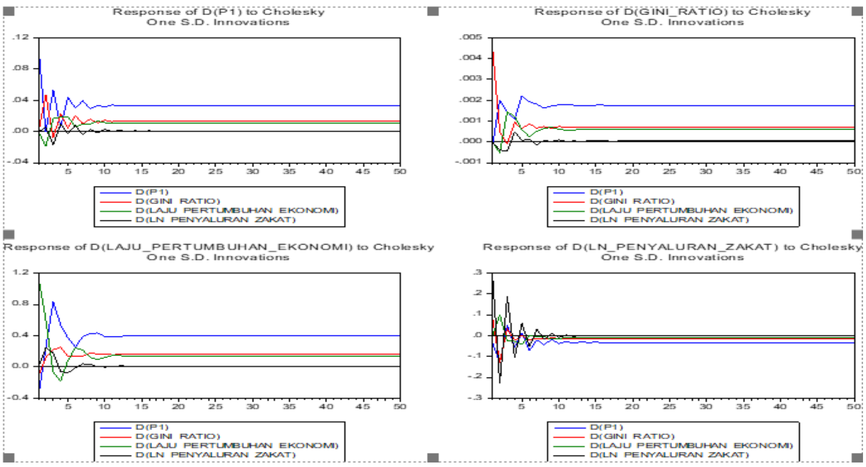

Figure 1. IR of Poverty Gap Index (P1) to Zakat Shock

Variance decomposition results reinforce these findings. Although poverty depth is initially dominated by its own innovations, the contribution of zakat increases over time. By the tenth period, zakat shocks explain approximately 18–22% of the forecast error variance of P1, while inequality accounts for over 30% and growth contributes around 10–15%. These results confirm that zakat plays a meaningful structural role in medium- and long-term poverty dynamics.

Table 4. FEVD of Poverty Gap Index (P1) (% Contribution)

Period	P1 Shock	Zakat Shock	Gini Shock	Growth Shock
1	Dominant	Minimal	Minimal	Minimal
10	—	18–22%	>30%	10–15%

Overall, the empirical results consistently demonstrate that zakat functions as a redistributive stabilizer within Indonesia's macroeconomic structure. Its long-run elasticity, short-run adjustment dynamics, impulse response behavior, and variance contribution collectively indicate that zakat supports poverty alleviation and inclusive growth in a sustainable development framework.

b. Discussion

The findings of this study provide empirical evidence that zakat plays a meaningful macroeconomic role in reducing poverty Depth in Indonesia. The negative elasticity of zakat distribution indicates that an increase in zakat contributes significantly to improving the welfare of lower-income households. Since the Poverty Gap Index reflects the income shortfall of the poor relative to the poverty line, the results suggest that zakat reduces not only the incidence of poverty but also its severity. This finding supports the theoretical perspective in Islamic economics that zakat functions as a redistributive mechanism designed to promote social justice and reduce economic disparities (Verbeek, 2015; Obaidullah, 2018; Razak, 2020)**.**

The results are also consistent with previous empirical studies showing that zakat distribution can contribute to poverty alleviation through wealth redistribution and improved purchasing power among low-income groups (Beik & Arsyianti, 2016; Ibrahim & Shirazi, 2020)**.** By transferring resources from surplus economic agents to vulnerable households, zakat strengthens the consumption capacity of poorer segments of society. This process may also generate multiplier effects within the broader economy through increased household consumption and the stimulation of small-scale productive activities.

However, the findings also highlight the dominant structural role of income inequality in shaping poverty dynamics. The large positive elasticity associated with the Gini ratio suggests that inequality significantly amplifies poverty depth. This implies that poverty reduction cannot rely solely on economic growth or redistributive transfers without addressing structural distributional imbalances. When income distribution becomes highly concentrated, the benefits of economic expansion tend to accrue disproportionately to higher-income groups, thereby limiting the poverty-reducing impact of growth (Amponsah et al., 2023; Kwasi, 2017)**.**

The relatively smaller effect of economic growth on poverty reduction further reinforces this argument. Although economic growth contributes negatively to poverty, its magnitude is considerably smaller than that of income inequality. This finding suggests that growth alone is insufficient to substantially reduce poverty in the presence of persistent inequality. Consistent with the broader development literature, inclusive development requires institutional mechanisms capable of ensuring a more equitable distribution of economic gains (Amponsah et al., 2023)..

Another important insight emerges from the impulse response analysis. The results show that shocks to zakat distribution generate a gradual and sustained decline in poverty depth over time. This dynamic adjustment indicates that zakat may function as a macroeconomic redistributive stabilizer. By channeling resources to vulnerable households, zakat helps maintain consumption capacity and mitigates the social impact of economic fluctuations.

From a policy perspective, these findings highlight the importance of strengthening institutional zakat management in Indonesia. Although the potential of zakat is substantial, the realized collection remains significantly below its estimated capacity (Puskas Baznas, 2023). Improving institutional governance, transparency, and public trust could therefore enhance the macroeconomic contribution of zakat to poverty reduction and inclusive development.

It is also important to acknowledge that this study focuses only on formally recorded zakat distributions. Informal zakat flows, such as direct transfers between individuals, are not captured in the available data. Consequently, the estimated macroeconomic impact of zakat may represent a conservative estimate of its actual contribution within the Indonesian economy.

Beyond the empirical findings, the results of this study also support a broader conceptual perspective regarding the role of zakat within the development system. The consistent relationship between zakat distribution, poverty reduction, and inequality dynamics suggests that zakat operates as a structural redistributive mechanism capable of strengthening inclusive economic development.

Based on this perspective, this study proposes a conceptual framework referred to as the "Zakat-Enhanced Inclusive and Sustainable Development Model", illustrated in Figure 2.

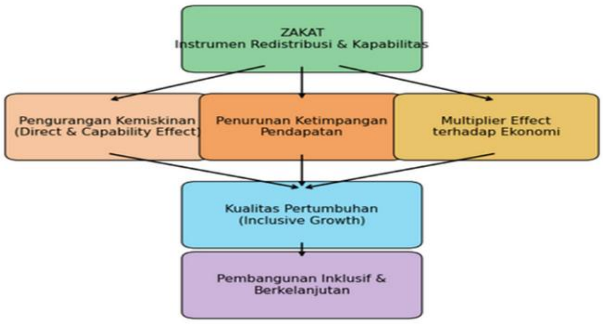

Figure 2. Zakat-Enhanced Inclusive and Sustainable Development Model

Overall, the proposed model illustrates how zakat can strengthen the inclusiveness of economic development by linking redistributive mechanisms with broader economic dynamics. Within this framework, zakat functions as a redistributive and capability-enhancing instrument that simultaneously influences several key dimensions of development.

As illustrated in Figure 2, zakat contributes to development through three interconnected channels. First, zakat directly reduces poverty by increasing the economic capacity of vulnerable households, thereby lowering the depth and severity of poverty. Second, zakat contributes to reducing income inequality by redistributing resources from higher-income groups to those with limited economic opportunities. Third, the redistribution of resources generates multiplier effects within the economy by increasing household consumption and supporting productive economic activities.

Through these interconnected mechanisms, zakat enhances the inclusiveness of economic growth and strengthens the sustainability of development outcomes. In this way, zakat can function not only as a religious obligation but also as an institutional component that supports inclusive and sustainable economic development.

5. Conclusion

This study examines the macroeconomic relationship between zakat distribution, poverty depth, income inequality, and economic growth in Indonesia using a Vector Error Correction Model (VECM). The empirical results confirm the existence of a stable long-run equilibrium relationship among these variables. Zakat distribution exhibits a significant negative effect on poverty depth, indicating that increased zakat allocation contributes to reducing the severity of poverty. At the same time, income inequality emerges as the strongest structural determinant of poverty, suggesting that poverty reduction efforts must address distributional imbalances alongside economic expansion.

The findings also indicate that zakat plays an important role within the broader macroeconomic system by functioning as a redistributive stabilizer that complements economic growth. Through its redistributive mechanism, zakat strengthens the consumption capacity of vulnerable households and contributes to more inclusive economic dynamics.

Building on these empirical findings, this study also proposes the "Zakat-Enhanced Inclusive and Sustainable Development Model", which conceptualizes zakat as a redistributive and capability-enhancing instrument that simultaneously reduces poverty, moderates income inequality, and generates multiplier effects within the economy. This framework highlights the potential of zakat to improve the quality of economic growth and support inclusive and sustainable development outcomes.

From a policy perspective, integrating Islamic social finance instruments into national development strategies may enhance the effectiveness of poverty alleviation efforts and contribute to achieving broader sustainable development objectives. Future research may extend this analysis by incorporating additional socioeconomic variables, longer time horizons, or alternative econometric approaches in order to further explore the macroeconomic role of Islamic social finance.

Author contribution statement

Delima Sari Lubis contributed to conceptualization, data collection, and manuscript drafting. Andri Soemitra contributed to supervision, theoretical refinement, and methodological validation. Isnaini Harahap contributed to literature review development and manuscript revision. All authors approved the final version of the manuscript.

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