THE EFFECT OF ZAKAT DISTRIBUTION ON INCOME INEQUALITY THE CASE IN INDONESIA

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Abstract

Zakat is one of the Islamic economic instruments which is an alternative policy used to reduce income inequality. With the distribution of zakat that is right on target, it can expand the income distribution of weak communities so that benefit and charity can be created. This research aims to determine the effect of zakat on income inequality in Indonesia for the 2016-2022 period, which includes semi-annual Gini ratio index data as a measurement of income inequality, as well as data on annual zakat distribution for 2016-2022 which has been interpolated into semi-annual data. The method used is a simple regression method using secondary data obtained through the BPS Indonesia and BAZNAS Republic of Indonesia websites. The results of the research conducted show that zakat has a significant negative effect on inequality, meaning that the higher the distribution of zakat will reduce income inequality in Indonesia with a significance value of 0.0030. and obtained an R-square result of 0.533, meaning that the zakat variable can explain income inequality by 53.3%

Keywords: Zakat Distribution, Income Inequality, Gini Ratio Index

1. INTRODUCTION

The goal of economic development is particularly to increase the welfare of the people economically and socially(Adnan et al., 2003), and when economic development increases, the distribution of income among the people will also become more equitable(Prihatini et al., 2021). The case in Indonesia, The Inequality is caused by four things; opportunities perceived by poor families, unequal access employment, lack of skills and the inability of the poor to cope with economic shocks(Yoertiara & Feriyanto, 2022).

Income distribution inequality is measured using the Gini ratio index. The value of the Gini ratio ranges from 0 to 1, if the value of the Gini ratio in an area is close to 1, then the income inequality in that area is high (Ummah, 2019) [1]. In September 2022, the Gini index of the ratio of rural and urban areas in Indonesia was 0.313(Mardiyanto Atqo, 2022) Where previously in 2021 of 0.315 from the data showed that income inequality in urban and rural areas from year to year was decreasing but still in a relatively high condition of inequality, meaning that income inequality that occurred between rural and urban communities still occurred in all regions in Indonesia.

As a country with a majority of Islam at 87.06% (Riza, 2023) there are 5 pillars of Islam, the pillars of Islam are the foundation that supports the stability of life. One of the pillars of Islam that is the foundation of the economy is zakat, this zakat instrument is not only an

obligation of Muslims to themselves, but also an instrument in Islamic economics to be a buffer for economic stability between communities.

Indonesia is also included in the UN member countries that support the concept of Sustainable Development Goals (SDGs) which is related to sustainable activities that can be explored in the form of economic development, social welfare, poverty alleviation and reducing inequality(Muzakir, 2022). To support the concept of SGDs, BAZNAS as one of the State Institutions that manages national zakat. Zakat is a social tool used for the equitable distribution of income to asnaf zakat, because the higher the distribution of zakat, the lower the poverty level (Ridlo & Muthohar, 2020) and income inequality (Al Ayyubi, 2021)

The growth of zakat funds in Indonesia increased by 43.87% in 2022 with the value of zakat funds collected at 22 trillion with the amount of distribution and utilization of 21.8 trillion (BAZNAS RI, 2023), This increase reflects that the public awareness of their participation in development and social empowerment efforts through the distribution of zakat distributed through BAZNAS become higher. The purpose of distributing zakat can help reduce the poor, neglected and even marginalized, because with the addition of income, people are able to meet their living needs. Zakat can also have a positive effect on inequality to a significant extent (Fitri et al., 2021) This means that the increase of the distribution of zakat will actually decrease the gap in people's income inequality.

There is a difference in the results of previous research on the theory of zakat which should be an independent social tool that can reduce inequality and poverty (Chapra, 2020). The purpose of this study is to analyze the relationship between zakat distribution and income inequality in Indonesia

2. METHODOLOGY
Types and Sources of Research Data

This type of research is quantitative research (Quantitative Methods) using secondary data from the Central Statistics Agency of Indonesia and the National Zakat Agency of the Republic of Indonesia. The semi-annual time range is from 2016 to 2022.

Operational Variables

The independent variable is the distribution of zakat, zakat funds collected through the collection of zakat nationally at Baznas RI to reduce income inequality in order to create an equitable distribution of social welfare of the community (BAZNAS RI, 2023)

The dependent variable is income inequality, where there is a wide income disparity between people (Fitri et al., 2021) The data used is Indonesia's Gini ratio index in rural and urban areas.

Data Analysis Methods

The data analysis method in this study uses simple linear regression. Simple linear regression is a statistical analysis technique used to analyze the relationship between independent variables and dependent variables. In simple linear regression only analyzes the relationship of one independent variable to a dependent variable (Gujarati & Porter, 2012)
Equation models used:

$$Giniratio_i = \beta_0 + \beta_1 \text{zakat} + \varepsilon_i \tag{1}$$

Notes:

β_0: Constant

β_1 : Regression Coeficient

ε_i: error

Gini ratio: Income inequality meansurement

zakat: Zakat distribution

Hypotesis:

Ha: Zakat has a significant effect on inequality

Ho: Zakat has no significant effect on inequality

This study uses two data analysis methods (Eviews):

a. **Classical Assumption Test**, as a process of verifying whether the regression model used meets the basic criteria needed to obtain valid results

b. Significance test (The t-Test, and The Determination Test)

The significance test is a statistical procedure used to test the results of a hypothesis that has been submitted based on the data that has been collected, then a decision is made whether the hypothesis is accepted or not.

Determination test is a statistical analysis technique used to measure how well an independent variable can explain a dependent variable
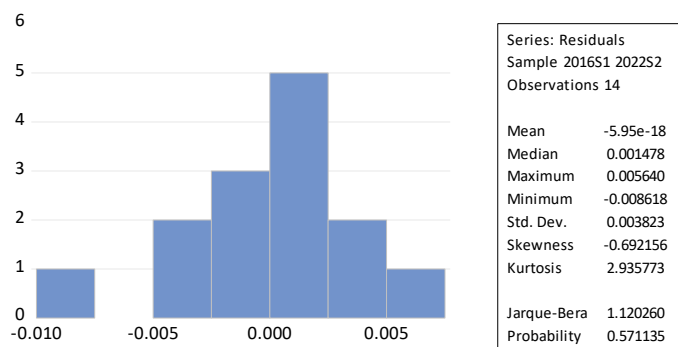
3. RESULT AND DISCUSSION
RESULT

Classical Assumption

The classical assumption test was carried out by testing normality, heteroscedasticity and autocorrelation, the test was carried out to find out whether the regression model prepared in this study was appropriate and valid.

a. Normality test

Picture 3.1 The Result of Normality Test

Series: Residuals	
Sample 2016S1 2022S2	
Observations 14	
Mean	-5.95e-18
Median	0.001478
Maximum	0.005640
Minimum	-0.008618
Std. Dev.	0.003823
Skewness	-0.692156
Kurtosis	2.935773
Jarque-Bera	1.120260
Probability	0.571135

Source: Data from EViews (2024)

In the normality test, a probability value of 0.57 > out of 0.05 was produced, the significance results showed that the regression model was distributed with normal data.

b. Autocorrelation Test

Picture 3.2 The Result of Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 2 lags

F-statistic	3.286082	Prob. F(2,10)	0.0800
Obs*R-squared	5.552099	Prob. Chi-Square(2)	0.0623

Source: Data from EViews (2024)

In the autocorrelation test, the value of the Chi-Square Prob was 0.06 (Chi-Square Prob> 0.05), meaning that there was no autocorrelation problem. Or more specifically, in the regression equation model in this study, there were no perturbating errors in the data collection period (Gujarati & Porter, 2012).

c. Heteroscedasticity Test

Picture 3.3 The Result

Heteroskedasticity Test: Breusch-Pagan-Godfrey
Null hypothesis: Homoskedasticity

F-statistic	0.276121	Prob. F(1,12)	0.6088
Obs*R-squared	0.314895	Prob. Chi-Square(1)	0.5747
Scaled explained SS	0.223922	Prob. Chi-Square(1)	0.6361

Source: Data from EViews (2024)

The results of the heteroscedasticity test obtained a prob chi-square value of 0.57 (prob chi-square> 0.05) meaning that there was no heteroscedasticity problem in the regression model.

From the three verification tests of the research model, it can be concluded that this research model has no data normality problems, there are no perturbers of errors in the data collection period and there is no similarity of residual variance in one observation to another observation (Gujarati & Porter, 2012).

Significance Test

The significance test in this study includes the Partial Test (T Test) and the Determination Test

Picture 3.4 Simple Regression Test Results

Dependent Variable: KETIMPANGAN
Method: Least Squares
Date: 11/02/24   Time: 22:37
Sample: 2016S1 2022S2
Included observations: 14

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.402086	0.004429	90.78354	0.0000
ZAKAT	-5.65E-15	1.52E-15	-3.708139	0.0030

R-squared	0.533986	Mean dependent var	0.386143
Adjusted R-squared	0.495151	S.D. dependent var	0.005600
S.E. of regression	0.003979	Akaike info criterion	-8.083949
Sum squared resid	0.000190	Schwarz criterion	-7.992655
Log likelihood	58.58764	Hannan-Quinn criter.	-8.092400
F-statistic	13.75029	Durbin-Watson stat	0.725404
Prob(F-statistic)	0.002991		

Source: Data from EViews (2024)

The results of the above data processing show that:

a. Partial Test (T-Test)

The distribution of zakat funds has a probability significance of 0.0030, less than the 5% confidence level. So that Ho's hypothesis was rejected and Ha accepted that the distribution of zakat had a significant effect on income inequality in Indonesia

b. Determination Test

The ability of independent variables to explain dependent variables seen through the value of R-Square, showing a value of 0.533 The value can be interpreted that the zakat variable is able to explain inequality of 53.3%, the remaining 46.7% is explained by other variables outside the research model.

DISCUSSION

The results of data processing using a simple regression model indicate that zakat distribution has a significantly negative relationship with income inequality. The regression coefficient value of –5.6 indicates that for every increase of 1 billion Rupiah in zakat distribution, the income inequality gap in Indonesia is reduced by 5.6 index points. This finding aligns with the theory that zakat, as a foundational pillar of economic stability, can enhance income distribution and thereby reduce the income inequality ratio.

These results support the study conducted by (Prihatini et al., 2021), which found a significant negative effect of zakat on income inequality, and also align with (Arifin & Sejati, 2024), who reported that zakat had a negative impact of –0.9 on poverty. This suggests that zakat distribution plays a vital role in both poverty alleviation and reducing income disparities.

Furthermore, the coefficient of determination (R^2) indicates a value of 53.3% in this result, showing that zakat alone can explain over half of the variation in income distribution

disparities, thereby contributing to a reduction in income inequality in Indonesia. The ultimate goal is to improve the welfare of **mustahiq** (zakat recipients). According to (Gian Turnando, 2019), zakat distribution is capable of influencing the improvement of **mustahiq** welfare by 63.5%, which further implies that income inequality can be reduced.

The role and impact of zakat in reducing income inequality can be optimized through integrative policies that incorporate zakat into the national fiscal policy framework. A concrete form of this policy is the establishment of regulations that encourage Civil Servants (ASN) and business actors to channel their zakat through the National Zakat Agency (BAZNAS) at the regional level.

Furthermore, zakat distribution policies should be strategically targeted at *mustahik* (zakat recipients) residing in areas with high levels of income disparity. The disbursement of zakat funds by *muzakki* (zakat payers) across various sectors such as humanitarian aid, education, health, and the economy should be focused on productive zakat schemes. This approach aims to promote sustainable economic empowerment, reduce income inequality, and ultimately realize the primary objectives of the Islamic economic system, namely *maslahah* (public welfare) and *falah* (holistic success in this world and the hereafter).

4. CONCLUSION

Zakat has a negative and significant effect on income inequality of rural and urban communities in Indonesia. The higher the distribution of zakat distribution, the lower the income inequality, so that it can create prosperity in the community. The R-Square value of 53.3% can show the variable of zakat and can also strongly explain the variable of income inequality.

Zakat in Indonesia has a potential of Rp 327 trillion per year, this potential figure of zakat is almost the same as the social protection budget from beautifiers of Rp 341 trillion in 2022. The improvement of economic development is not only supported by economic factors but also various factors such as education and health. As a national social fund manager, The National Amil Zakat Agency must be able to manage and realize the potential of Indonesian zakat through the distribution and utilization of zakat in the health sector by preventing stunting which has an impact on the quality of the growth and development of the nation's children. Utilization in the field of education with the aim of opening basic access as a way to improve human resources so that it can have an impact on the ability to obtain jobs and decent income. With this analysis, zakat will continue to be able to become the foundation pillar of sustainability of equitable distribution of welfare and poverty alleviation in the community.

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