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# WHY DOES INCOME INEQUALITY PERSIST? EXAMINING THE ROLES OF POVERTY, UNEMPLOYMENT, ZAKAT, AND REGIONAL GOVERNMENT EXPENDITURE IN THREE INDONESIAN PROVINCES

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**Abstract**

Income inequality remains one of the major obstacles to regional economic development in Indonesia. Various redistributive instruments, including regional government expenditure and zakat distribution, have been continuously expanded; however, income inequality persists. This study aims to examine the effects of poverty, unemployment, the ratio of zakat distribution to Gross Regional Domestic Product (GRDP), and regional government expenditure on income inequality in three Indonesian provinces, namely West Java, West Sumatra, and South Kalimantan, during the period 2020–2024. These provinces were purposively selected due to their distinct economic, social, and zakat management characteristics, which provide variation in income inequality levels. The study employs semester-based panel data consisting of 30 observations. Model selection was conducted using the Chow test, which indicated that the Fixed Effect Model was more appropriate than the Common Effect Model. The results reveal that poverty has a positive and significant effect on income inequality, with a coefficient of 0.019383. Unemployment, on the other hand, has a negative and statistically significant effect, with a coefficient of -0.008109 and a p-value of 0.0371. In contrast, the ratio of zakat distribution to GRDP and regional government expenditure do not have a significant effect on income inequality. These findings suggest that income inequality in the three provinces is driven more by structural factors than by the redistributive instruments examined in this study.

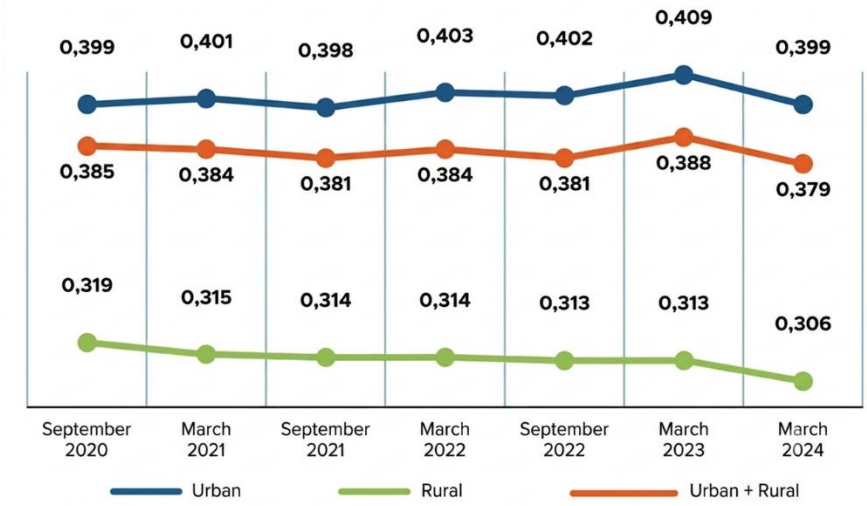
**Keywords**: Income Inequality, Poverty, Unemployment, Zakat, Regional Government Expenditure, Panel Data, Indonesia.

## 1. INTRODUCTION

Income inequality remains one of the major challenges in economic development, as it is closely associated with poverty, unemployment, and overall social welfare. Fundamentally, income disparity is often regarded as an inevitable byproduct of regional economic growth. This issue stems from the unequal distribution of resources and differences in economic growth rates, which naturally concentrate economic activities in major urban centers. As a consequence, disparities emerge in employment opportunities and income levels between developed and less-developed regions. Such inequality reinforces the perception of a widening wealth gap, where established

groups continue to accumulate capital while low-income communities fall further behind, ultimately exacerbating income distribution inequality (Daffa & Wahyu, 2024). This income inequality has the potential to hinder inclusive economic growth, increase social vulnerability, and widen welfare disparities among different segments of society.

The Gini Ratio is a commonly used measure of income inequality derived from the Lorenz Curve theory (Todaro & Smith, 2006, as cited in Panggabean, 2025), The Gini Ratio ranges from 0 to 1. Its interpretation is straightforward: a value closer to 0 indicates a more equal distribution of income, whereas a value closer to 1 reflects a higher level of income inequality.




Source: Central Bureau of Statistics (BPS) Indonesia

**Figure 1. Indonesia's Gini Ratio Trend in 2020-2024**

Various policies have been implemented by the government to reduce income inequality, one of which is the use of fiscal instruments in the form of regional government expenditure. Theoretically, regional expenditure plays an important role in improving the quality of infrastructure, education, healthcare, and public services, which in turn can expand public access to economic resources and improve income distribution(Rahma, 2024). However, the effectiveness of government expenditure in reducing income inequality remains inconclusive. Janah et al., (2022) found that government expenditure has a negative effect on income inequality, indicating that higher government spending can promote a more equitable distribution of income. In contrast, Lailatus & Aulia, (2026) argued that income inequality in Indonesia is still influenced by the type and structure of government expenditure. These findings suggest that a larger

government budget does not automatically lead to lower income inequality; rather, its impact depends heavily on the composition, quality, and effectiveness of expenditure allocation. Therefore, evaluating the role of regional government expenditure in reducing income inequality remains an important issue in the field of development economics.

Income inequality is closely associated with poverty and unemployment.Suparman, (2022) found that economic growth and income inequality significantly affect the number of poor people in Indonesia. This finding suggests that high economic growth does not necessarily lead to equitable welfare distribution when the benefits of development are concentrated among certain groups. Furthermore, Aurellia & Sirait, (2026) identified a simultaneous relationship among economic growth, poverty, unemployment, and income inequality, indicating that development policies should comprehensively consider the interconnections among these variables.

From a labor market perspective, unemployment is one of the factors most frequently associated with rising income inequality. Syafitri & Susilo, (2025) found that unemployment has a positive relationship with income inequality. High unemployment rates cause a portion of the population to lose access to income-generating opportunities, thereby widening economic disparities. Their study also showed that improvements in education and human development can help reduce income inequality by enhancing labor quality and economic productivity.

Febrianto et al., (2025) emphasized that income inequality is influenced by various macroeconomic factors, including unemployment, economic growth, and labor market conditions. Therefore, the analysis of income inequality should consider both structural factors and redistributive instruments simultaneously.

In the Islamic economic perspective, zakat is regarded as a redistributive instrument aimed at reducing economic disparities. Sejati, (2025) found that zakat distribution programs implemented by BAZNAS have a significant negative effect on poverty and income inequality among beneficiaries, indicating that higher levels of zakat distribution contribute to reducing income inequality. Similar findings were reported by Zuhri et al., (2022) , who demonstrated that zakat distribution improves the welfare of beneficiaries and promotes a more equitable distribution of household income. Nevertheless, empirical evidence regarding the impact of zakat on income inequality remains mixed. Fadliansah et al., (2021) found that zakat funds have a positive relationship with income inequality in Aceh Province, while Gross Regional Domestic Product (GRDP) has a negative effect on income inequality. These findings suggest that an increase in zakat distribution does not necessarily lead to a direct reduction in income inequality at the regional level.

Based on previous studies, there are still inconsistent findings regarding the effects of poverty, unemployment, zakat, and government expenditure on income inequality. Some studies have found that zakat and government spending are effective in reducing income inequality, while others report insignificant effects. In addition, most previous studies have used the nominal value of zakat distribution as the primary indicator. However, differences in economic scale across regions may lead to bias in measuring the actual contribution of zakat. Therefore, this study employs the ratio of zakat distribution to Gross Regional Domestic Product (GRDP) as a proxy for the intensity of zakat distribution relative to the economic capacity of a region.

This study seeks to address this research gap by examining the effects of poverty, unemployment, the ratio of zakat distribution to Gross Regional Domestic Product (GRDP), and regional government expenditure on income inequality in three Indonesian provinces, namely West Java, West Sumatra, and South Kalimantan, during the 2020–2024 period. These provinces were selected because they exhibit distinct economic characteristics, varying levels of income inequality, and different stages of zakat management development. As such, they are expected to provide a more comprehensive understanding of the factors influencing income inequality at the regional level.

## 2. METHODOLOGY

### 2.1 Research Design and Data Sources

This study employs a quantitative approach using panel data regression analysis. The dataset consists of semester-based secondary data collected from three provinces in Indonesia, namely West Java, West Sumatra, and South Kalimantan, covering the period from 2020 to 2024. These provinces were purposively selected due to their distinct economic characteristics, levels of income inequality, and stages of zakat management development.

Data were obtained from several official sources, including the Statistics Indonesia (BPS) for data on the Gini Ratio, poverty rate, unemployment rate, and Gross Regional Domestic Product (GRDP), the National Amil Zakat Agency (BAZNAS) for zakat distribution data, and provincial government financial reports for regional expenditure data.

### 2.2 Variables and Measurements

The dependent variable in this study is income inequality, measured by the Gini Ratio (GINI). The independent variables include poverty (POV), unemployment (UNMP), the ratio of zakat distribution to GRDP (ZAKATRATIO), and regional government expenditure (GOVEXP).

**Table 1.1 Operational Definition**

| Variable | Definition | Measurement |
|---|---|---|
| **Income Inequality (GINI)** | Income inequality refers to the unequal distribution of income among individuals or households within a population. It reflects the extent to which income deviates from a perfectly equal distribution (Todaro & Smith, 2020). | Gini Ratio |
| **Poverty (POV)** | Poverty is a condition in which individuals or households are unable to meet minimum living standards and basic needs, including food, housing, education, and health services (World Bank, 2022) | Percentage of Poor Population (%) |
| **Unemployment** | Unemployment refers to the condition in which individuals who are willing and able to work are unable to obtain employment opportunities (ILO, 2026) | Open Unemployment Rate (%) |
| **Zakat Distribution Ratio Gross Regional Domestic Product (ZAKATRATIO)** | The ratio of zakat distribution to Gross Regional Domestic Product (GRDP) reflects the intensity of zakat redistribution relative to the economic capacity of a region. This indicator is used to assess the extent to which zakat contributes to economic redistribution compared to the size of the regional economy. Using a ratio rather than nominal zakat values allows for a more comparable measurement across regions with different economic scales.(Lestari & Auwalin, 2022) | $ZakatRatio = \frac{zakatdistribution_{it}}{GRDP_{it}}$ |
| **Regional Expenditure (GOVEXP)** | Local government expenditure represents the allocation of public resources by subnational governments to provide public services, infrastructure, and development programs aimed at improving citizens' welfare.(Badan Pemeriksa Keuangan, 2014) | Regional Government Expenditure (IDR) |

## 2.3 Model Spesification

To examine the determinants of income inequality, the following panel regression model is estimated:

$$GINI_{it} = \beta_0 + \beta_1 POV_{it} + \beta_2 UNMP_{it} + \beta_3 Zakatratio_{it} + \beta_4 GOVEXP_{it} + \varepsilon_{it}$$

where:

- $GINI_{it}$ = income inequality in province iii during period ttt;
- $POV_{it}$ = poverty rate;
- $UNMP_{it}$ = unemployment rate;
- $Zakatratio_{it}$= ratio of zakat distribution to GRDP;
- $GOVEXP_{it}$ = regional government expenditure;
- $\beta_0$ = constant;
- $\beta_{1,2,3,4}$ = regression coefficients;
- $\varepsilon_{it}$ = error term.

2.4 Data Analysis Technique

The analysis was conducted using panel data regression with the assistance of EViews 12 software. The estimation procedure consisted of several stages:

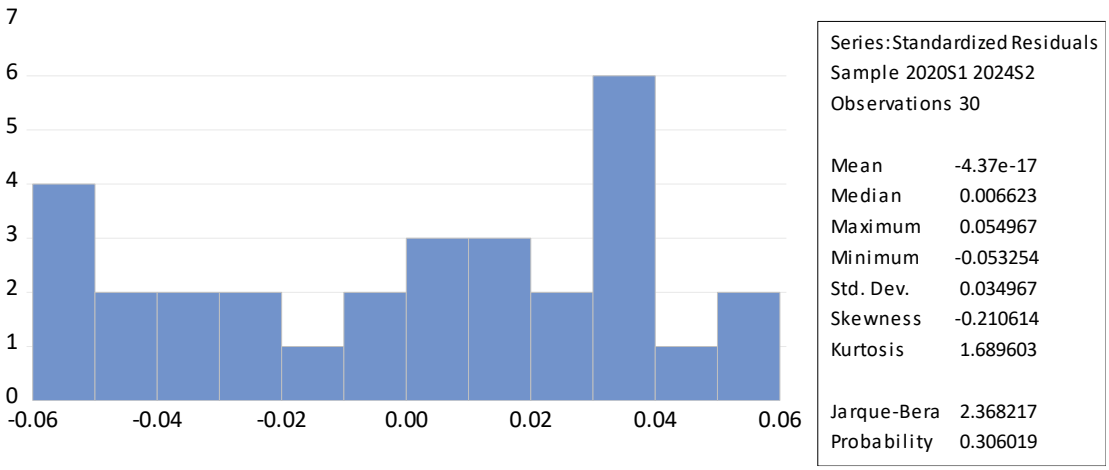
1. Descriptive Statistics Analysis to describe the characteristics of each variable.
2. Normality Test using the Jarque-Bera test to assess the distribution of residuals.
3. Panel Data Model Selection through the Chow Test to determine whether the Common Effect Model (CEM) or Fixed Effect Model (FEM) is more appropriate.
4. Panel Regression Estimation using the selected model.
5. Hypothesis Testing, including:
    - t-test to evaluate the partial effect of each independent variable;
    - F-test to assess the joint significance of all independent variables;
    - Coefficient of Determination (Adjusted $R2$) to measure the explanatory power of the model.

The Chow Test results indicated that the Fixed Effect Model (FEM) was more appropriate than the Common Effect Model. Therefore, the final estimation was conducted using the Fixed Effect Model to capture provincial heterogeneity among West Java, West Sumatra, and South Kalimantan.

## 3. RESULT AND DISCUSSION

### A. RESULT

**1. Normality Test using the Jarque-Bera test to assess the distribution of residuals**




Source: Output Eviews 12

**Figure 2. Histogram Normality Test**

Based on the results of the normality test using the Jarque-Bera Test, the Jarque-Bera statistic was 0.162973 with a probability value of 0.921745. Since the probability value is greater than the 5 percent significance level (0.05), it can be concluded that the model residuals are normally distributed. Therefore, the normality assumption of the panel regression model is satisfied, and the model can be used for further analysis.

**2. Model Selection**

**Table 1.2 Chow Test Results**

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

| Effects Test | Statistic | d.f. | Prob. |
|---|---|---|---|
| Cross-section F | 160.463954 | (2,23) | 0.0000 |
| Cross-section Chi-square | 81.148136 | 2 | 0.0000 |

Source: output Eviews 12

The Chow test was conducted to determine the most appropriate panel data model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The results indicate that the probability values of both the Cross-section F statistic (0.0000) and the Cross-section Chi-square statistic (0.0000) are lower than the 5% significance level. Therefore, the null hypothesis is rejected, and the Fixed Effect Model is selected as the preferred model. These

findings suggest that the three provinces included in this study possess distinct characteristics that significantly influence income inequality.

### 3. Fixed Effect Estimation Results

The estimation results show that the model is statistically significant, as indicated by the F-statistic probability of 0.0000. The Adjusted R-squared value of 0.958031 implies that approximately 95.8% of the variation in income inequality can be explained by poverty, unemployment, the ratio of zakat distribution to GRDP, and regional government expenditure.

**Table 1.3 Fixed Effect Estimation Results**

Dependent Variable: GINIRATIO
Method: Panel Least Squares
Date: 05/14/26 Time: 03:43
Sample: 2020S1 2024S2
Periods included: 10
Cross-sections included: 3
Total panel (balanced) observations: 30

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| POV | 0.019383 | 0.006877 | 2.818532 | 0.0097 |
| UNMP | -0.008109 | 0.003664 | -2.213161 | 0.0371 |
| ZAKATRATIO | -2.98E-13 | 8.55E-13 | -0.347785 | 0.7312 |
| GOVEXP | -4.53E-17 | 3.18E-16 | -0.142565 | 0.8879 |
| C | 0.277008 | 0.045441 | 6.095943 | 0.0000 |

| Effects Specification | | | |
|---|---|---|---|
| Cross-section fixed (dummy variables) | | | |
| Root MSE | 0.008890 | R-squared | 0.966714 |
| Mean dependent var | 0.344033 | Adjusted R-squared | 0.958031 |
| S.D. dependent var | 0.049563 | S.E. of regression | 0.010154 |
| Akaike info criterion | -6.141022 | Sum squared resid | 0.002371 |
| Schwarz criterion | -5.814076 | Log likelihood | 99.11533 |
| Hannan-Quinn criter. | -6.036429 | F-statistic | 111.3309 |
| Durbin-Watson stat | 1.075054 | Prob(F-statistic) | 0.000000 |

Source: output Eviews 12

## B. DISCUSSION

### The Effect of Poverty on Income Inequality

The results indicate that poverty has a positive and statistically significant effect on income inequality, with a coefficient of 0.019383 and a probability value of 0.0097. This finding implies that an increase in the poverty rate is associated with a rise in income inequality. Specifically, a one-

percentage-point increase in poverty is estimated to increase the Gini Ratio by 0.019 points, ceteris paribus.

This result supports the argument that poverty limits access to productive assets, education, healthcare, and employment opportunities, thereby widening income disparities among households. The finding is consistent with Suparman, (2022) who reported that poverty and income inequality are closely interconnected in Indonesia. Similarly, Aurellia and Sirait, (2026)found a simultaneous relationship among poverty, unemployment, economic growth, and income inequality, emphasizing the structural nature of inequality.

The positive effect of poverty on income inequality can also be understood in the context of the three provinces examined in this study. West Java, despite being one of the largest economic centers in Indonesia, still faces disparities between rapidly growing urban-industrial areas and relatively less-developed rural regions. Consequently, economic growth is not always accompanied by equal distribution of income. In West Sumatra, poverty remains an important challenge, particularly in rural areas where economic activities are dominated by small-scale agriculture and informal businesses. Meanwhile, South Kalimantan relies heavily on natural resource-based sectors such as mining and plantations, which tend to generate concentrated economic benefits among certain groups while leaving other segments of society behind. These differing regional characteristics suggest that poverty continues to be a major structural factor contributing to income inequality across the three provinces, despite variations in their economic structures and development patterns (Siatan & Suparta, 2025)

From the perspective of development economics, this finding is in line with Todaro and Smith's theory that unequal access to economic opportunities reinforces poverty traps and contributes to persistent income inequality.

**The Effect of Unemployment on Income Inequality**

The estimation results indicate that unemployment has a negative and statistically significant effect on income inequality, with a coefficient of -0.008109 and a probability value of 0.0371. This finding implies that an increase in the unemployment rate leads to a decrease in the Gini Ratio in the provinces under study.

At first glance, this finding appears inconsistent with conventional economic theory, which generally predicts that higher unemployment increases income inequality. However, the result may be explained by the economic disruptions caused by the COVID-19 pandemic and the subsequent recovery period. During the pandemic, income shocks were experienced across multiple income groups rather than being concentrated solely among low-income households. As a result,

reductions in earnings among middle- and higher-income groups may have temporarily narrowed income disparities. This explanation is supported by Clark et al., (2021), who found that income inequality declined during the COVID-19 pandemic in several European countries because income losses were distributed across households and government support programs helped reduce income differences. Similarly, Zewde & Crystal, (2022)reported that the pandemic negatively affected household incomes across social classes, resulting in a more uniform distribution of income losses. Therefore, a decline in measured inequality during periods of rising unemployment does not necessarily indicate improved welfare, but may instead reflect a broader contraction of incomes across society.

The negative relationship between unemployment and income inequality may also be explained by the labor market characteristics of the three provinces included in this study. In West Java, the labor market is dominated by manufacturing and urban service sectors, where economic shocks often affect not only low-skilled workers but also middle-income employees in industrial areas (Quroh et al., 2023). Consequently, periods of rising unemployment may reduce incomes across multiple income groups, thereby narrowing measured income disparities. In West Sumatra, a substantial proportion of workers are engaged in small-scale agriculture, trade, and informal economic activities (Marti'ah et al., 2022). The flexibility of the informal sector allows many individuals to remain economically active despite fluctuations in formal employment, which may weaken the direct link between unemployment and income inequality. Meanwhile, South Kalimantan relies heavily on mining and plantation activities, sectors that generate relatively high incomes but are vulnerable to commodity price fluctuations. During periods of economic slowdown, income reductions among workers and business actors in these sectors may be larger than those experienced by lower-income households, contributing to a temporary decline in the Gini Ratio (Agussalim et al., 2024). Therefore, the negative effect of unemployment on income inequality may reflect the heterogeneous structure of regional labor markets rather than an actual improvement in income distribution.

**The Effect of the Zakat Distribution Ratio to GRDP on Income Inequality**

The ratio of zakat distribution to GRDP has a negative coefficient (-2.98E-13) but is statistically insignificant, with a probability value of 0.7312. This indicates that the relative intensity of zakat distribution has not significantly affected income inequality in the three provinces examined.

This finding is consistent with Lestari & Auwalin, (2022), who reported that zakat distribution did not significantly reduce income inequality across Indonesian provinces,The main

reason proposed is that the actual collection of zakat remains far below its estimated potential, and the distribution carried out by zakat institutions has not yet reached all eligible beneficiaries (*mustahik*). Likewise, (Ekawaty, 2025) found that ZIS distribution had no significant impact on income inequality. However, the result contrasts with Zuhri et al, (2022), who found that zakat distribution improved welfare and reduced inequality among beneficiary households.

The insignificant effect of the zakat distribution ratio to GRDP may also be understood in the context of the three provinces included in this study. In West Java, zakat management has developed considerably and previous studies found that zakat distribution successfully reduced poverty and income inequality among beneficiary households (Quroh et al., 2023). However, such impacts were observed primarily at the micro level and may not be sufficiently large to influence provincial income inequality. Similarly, in South Kalimantan, productive zakat programs were found to improve beneficiaries' welfare and reduce income disparities among mustahik (Asyahri, 2022). Nevertheless, the scale of zakat distribution remains relatively small compared to the size of the regional economy. In West Sumatra, although Islamic philanthropic practices are deeply rooted in society, the overall contribution of zakat to regional economic activity may still be limited. These findings support Lestari & Auwalin, (2022), who argued that the realization of zakat collection remains far below its potential and that zakat institutions have not yet reached all eligible beneficiaries. Consequently, despite differences in economic structure and zakat management across West Java, West Sumatra, and South Kalimantan, the ratio of zakat distribution to GRDP has not yet been sufficient to generate a statistically significant effect on income inequality.

**The Effect of Regional Government Expenditure on Income Inequality**

Regional government expenditure has a negative coefficient (-4.53E-17) but is statistically insignificant, with a probability value of 0.8879. This result indicates that regional expenditure has not significantly reduced income inequality in the three provinces studied. The negative coefficient suggests that government spending tends to contribute to inequality reduction. However, the insignificant result implies that the magnitude of this contribution is insufficient to generate a statistically detectable effect.

One possible explanation is that a substantial share of regional budgets is allocated to administrative and routine expenditures rather than productive investments directly targeting low-income households. Consequently, increases in expenditure do not necessarily translate into more equitable income distribution. This finding supports Janah et al., (2022), who argued that the effectiveness of government expenditure depends on the composition of spending. Similarly,

Lailatus and Aulia, (2026) emphasized that the structure and allocation of public expenditure play a crucial role in determining its redistributive impact.

The insignificant effect of regional government expenditure on income inequality may also be explained by the distinct characteristics of the three provinces included in this study. In West Java, despite having one of the largest regional budgets in Indonesia, government expenditure is distributed across a highly diverse population and a wide range of development needs, which may reduce its direct impact on income distribution(Anshari et al., 2018; Janah et al., 2022). In West Sumatra, regional expenditure has been directed toward public services and community development; however, the relatively limited fiscal capacity of the province may constrain its ability to generate substantial redistributive effects. Meanwhile, South Kalimantan relies heavily on mining and plantation activities as key drivers of regional economic growth. Under such conditions, improvements in regional expenditure may be insufficient to offset income disparities arising from the concentration of economic benefits in resource-based sectors. Consequently, although the three provinces differ in economic structure and fiscal capacity, regional government expenditure has not yet demonstrated a significant contribution to reducing income inequality.

## 4. CONCLUSION

This study examines the effects of poverty, unemployment, the ratio of zakat distribution to Gross Regional Domestic Product (GRDP), and regional government expenditure on income inequality in West Java, West Sumatra, and South Kalimantan during the period 2020–2024 using the Fixed Effect Model (FEM). The results indicate that poverty has a positive and statistically significant effect on income inequality, implying that an increase in the poverty rate widens income disparities. In contrast, unemployment has a negative and significant effect on income inequality. This finding may reflect the economic disruptions that occurred during the COVID-19 pandemic and the subsequent recovery period, during which income contractions were experienced not only by low-income groups but also by middle- and high-income households simultaneously. Meanwhile, the ratio of zakat distribution to GRDP and regional government expenditure exhibit negative but statistically insignificant effects on income inequality.

These findings suggest that income inequality in the three provinces is influenced more by structural factors, particularly poverty, than by the redistributive instruments examined in this study. Although zakat and regional government expenditure theoretically function as mechanisms for income redistribution, their current scale and implementation appear insufficient to generate a measurable impact on income inequality at the provincial level.

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