

## Contribution of Zakat in Fiscal System to Sustainable Development Goals Based on Maqashid Sharia Codification

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### ABSTRACT

*This study explores the contribution of zakat as a fiscal instrument in supporting the achievement of Sustainable Development Goals (SDGs) in Indonesia. Using quantitative approach and secondary data analysis, this study measures the effect of zakat on three SDGs indicators: poverty alleviation (SDG 1), quality education (SDG 4), and access to clean water and proper sanitation (SDG 6). The regression analysis results show that zakat has a significant influence on poverty reduction with a coefficient of determination of 91.6%, as well as a very significant contribution to increasing access to clean water and proper sanitation with a coefficient of determination of 97.6%. However, the effect of zakat on quality education is still low and not statistically significant. This study highlights the potential of zakat to fill the gap in conventional fiscal policy, especially in developing countries with limited tax revenue. Zakat can serve as an effective wealth redistribution tool, strengthen economic stability, and improve social welfare. However, the integration of zakat in the fiscal system faces challenges such as low public literacy, lack of accountability of management institutions, and the need to harmonize zakat regulations with formal fiscal policies. The results of this study indicate that optimal, transparent, and integrated zakat management with fiscal policy can support sustainable development efforts, reduce social inequality, and encourage inclusive economic growth. Therefore, system and institutional reform of zakat management is needed to maximize its potential as an integral part of national development strategy.*

**Keywords:** Zakat, Sustainable Development Goals, Fiscal Policy, Wealth Redistribution, Sustainable Development.

### INTRODUCTION

Sustainable development has become an increasingly important global concern, especially since the adoption of the Sustainable Development Goals (SDGs) by the United Nations (UN). The Sustainable Development Goals (SDGs) were launched in 2015 by the United Nations as a global initiative that aims to eradicate poverty, protect the environment,

and promote peace and prosperity for all people (Sorooshian, 2024). Despite various criticisms regarding the complexity of the SDGs concept, including its interconnectedness that poses various implementation challenges for academics, practitioners, and policymakers, the SDGs are a more comprehensive refinement of the Millennium Development Goals (MDGs). This expansion involves more countries,

both developed and developing countries, expands funding sources, emphasizes human rights, and encourages inclusiveness through the involvement of Civil Society Organizations (CSOs), media, philanthropy, businesses, and academics and experts (Novita, Ngindana, Putra, Virgiyansha, & Nalendra, 2024).

The annual SDG progress report shows that every rich country faces challenges to meet the SDGs related to sustainable consumption, environment and biodiversity (Mangukiya & Dann, 2023). Many developing countries face great difficulties in providing sufficient funds to finance critical sectors such as infrastructure, education, and health that are indispensable for achieving the Sustainable Development Goals (SDGs). This challenge is further compounded by limited national budgets, low tax bases, and high dependence on external debt. According to the World Economic Forum, developing countries are estimated to need more than US\$3 trillion per year to finance the achievement of SDG targets, particularly in essential sectors such as clean water, renewable energy, and poverty alleviation (Al-fadhat & Savitri, n.d.).

The health sector is also inseparable from financing issues. In many developing countries, health systems are still poorly integrated and underfunded, leading to disparities in access to appropriate health services. The World Health Organization (WHO) estimates that low- and middle-income countries need around US\$371 billion per year until 2030 to achieve universal health coverage, a key target in the SDGs (Watson, Minarto, Sukotjo, Rah, & Maruti, 2019). Developing countries' reliance on external debt to cover development financing gaps also adds to their fiscal burden.

Fiscal policy plays a very important role in economic development, especially through two main channels: resource redistribution and public service provision (Ananda, Fajri, 2018). One of the main functions of fiscal policy is to reduce economic and social inequality in society through taxes and public spending. Progressive taxes allow the government to collect more revenue from the rich and redistribute it through social programs aimed at the poor and vulnerable (Oktivany, Agustria, & Tika, 2024). Fiscal policy is also crucial in providing the public services needed to improve people's welfare and boost economic productivity. The provision of education and health services is a vital part of government spending directed at improving the quality of human resources. According to a World Bank report (2020), investments in public services such as education and health not only improve the quality of life but also contribute to long-term economic growth by creating a more productive and healthy workforce. (Mahadiansar, Ikhsan, Sentanu, & Aspariyana, 2020)

Fiscal policy in many developing countries faces serious challenges in financing the Sustainable Development Goals (SDGs). Although fiscal policy is designed to raise revenue through taxes and public expenditure to achieve social and economic goals, it is often inadequate to meet all development financing needs. Among the fiscal challenges in developing countries are:

- 1) Many developing countries have suboptimal tax systems, with low levels of tax compliance and high levels of informal economic activity (Maulana & Furqon, 2021).
- 2) An International Monetary Fund (IMF) report in 2020 showed that

some developing countries have very high debt burdens, which affect their ability to allocate sufficient funds to important social sectors (Darmawan, 2022).

- 3) Developing countries explain that weak bureaucracy, inability to do long-term budget planning, and corruption make available funds inefficiently managed. This results in the allocation of funds for critical projects often being inadequate or late. The World Bank notes that a lack of administrative capacity and fiscal transparency means that public funds are often not optimally used to achieve development goals (Afandi & Agung, 2018).
- 4) Social spending in developing countries is often insufficient to address poverty, education and health issues. Many developing countries still allocate a large share of public spending to the defense sector or fuel subsidies, leaving other important sectors with limited budgets. This worsens their ability to fund SDG targets that require sustainable financing (Faradilah et al., 2023).

Fiscal policies in developing countries are still unable to fully fund the enormous needs required to achieve sustainable development. Development should be geared towards reducing wealth and income inequalities and ensuring greater access to economic opportunities for all social groups (Mirakhor & Iqbal, 2013). The limited tax base, high dependence on debt, and weak fiscal management are major constraints. Therefore, innovative approaches and international support are needed to help developing countries achieve the SDGs.

With limited fiscal capacity, developing countries face difficulties to achieve sustainable development goals independently. Fiscal policy, including an appropriate tax structure, is critical to creating fiscal balance. Mismanagement of fiscal policies, such as inefficient tax structures, can affect developing countries' efforts to achieve economic stability. (Todaro & Smith, 2020) According to the United Nations Conference on Trade and Development (UNCTAD) in 2014 estimated that to achieve the SDGs worldwide more than US\$ 2.5 trillion per year is needed in developing countries, and most of these needs have not been met. (Parulian, Mintarja, & Alexander, 2020)

Zakat, which is seen to contribute to the fiscal order, especially in alleviating poverty and reducing social inequality, is still faced with several challenges so that the real value of zakat collection in aggregate is still far from the potential. Indonesia, as a country with a high level of social inequality, faces serious challenges in reducing this gap. According to data from the Central Bureau of Statistics, Indonesia's Gini ratio shows a significant increase in inequality, with the Gini ratio recorded to reach 0.385 in 2023, an increase compared to the previous year (Central Bureau of Statistics, 2023). With the condition of social inequality that continues to increase, it is hoped that zakat can contribute in alleviating this gap.

Much different from the urgency of zakat as a fiscal order in Islam, but in Indonesia, zakat has not been fully recognized as part of the national fiscal posture. Zakat has not been fully included in the fiscal order in Indonesia due to several factors related to regulation, state

revenue, and economic structure. Here are some of the reasons:

#### 1) Separate Legal Arrangements

Zakat in Indonesia is regulated by Law No. 23/2011 on Zakat Management, while fiscal policy is regulated by the State Finance Law (Syamsah, 2016). This creates a separation between zakat as a social instrument and tax as a fiscal instrument. Taxes are managed by the Ministry of Finance, while zakat by the National Board of Zakat (BAZNAS) and other *amil zakat* institutions, whose operations are more geared towards social redistribution rather than fiscal policy directly connected to state revenue and expenditure.

#### 2) Constraints of Synchronization with Tax

Although zakat can reduce income tax burden (direct tax reduction for those who pay zakat), it has not been recognized as a major fiscal instrument equivalent to tax (Chasanah, 2017). This is because there are obstacles in the integration of taxation and zakat systems, especially in terms of the mechanism of withdrawal and use. Tax and zakat have different calculation bases and objectives, although both play a role in welfare redistribution.

#### 3) Lack of Awareness and Compliance

Public compliance with zakat has not been evenly distributed, and zakat collection is still relatively low compared to the potential (Sophisticated, Fikriyah, & Yasin, 2017). Although zakat is a religious obligation for Muslims, many individuals and business entities have not fully reported zakat payment formally to the designated institution. This makes it

difficult for the government to rely on zakat as a source of fiscal revenue.

#### 4) Decentralized Management Structure

Zakat management institutions such as BAZNAS, LAZ, and Zakat Collection Unit (UPZ) have a decentralized management system (Supena, 2015). This makes zakat more focused on social and community functions at the local level rather than being a structured national fiscal policy instrument. Zakat has not had a central role in the state budget or infrastructure development that is usually supported by fiscal.

#### 5) Different Modern Fiscal Policy Frameworks

Modern fiscal policy in Indonesia is more oriented towards taxes as the main instrument for managing state revenue, public spending, and controlling inflation (Herza Ayu Menita, 2017). Zakat, which is voluntary and religious-based, is not designed to perform the same functions as taxes, such as macroeconomic control or financing large-scale development projects.

Nevertheless, there is a push to make zakat more integrated with fiscal policy, such as through tax deductible for zakat, as well as some discourse to make zakat as an instrument of development through the inclusion of zakat in poverty alleviation and sustainable development programs. As times and socio-economic dynamics continue to change, it is important to evaluate how zakat can contribute more to Indonesia's fiscal system.

Therefore, many developing countries have to look for alternative solutions, such as international

cooperation, private sector participation, as well as the use of Islamic financial instruments such as zakat, waqf, and sukuk, to fund development projects (Hudaifah, Tutuko, Abdurrobi, Adina, & Albar, 2020). Zakat is the main instrument in Islamic economics for wealth redistribution and poverty alleviation. In the fiscal context, zakat can be used to stabilize the economy and create social justice (Askari, Iqbal, & Mirakhor, 2015).

Based on the description of the framework above, in an effort to alleviate poverty, protect the environment, and promote peace and prosperity for all within the national and global scope, it is necessary to adhere to the pillars of the SDGs. In realizing these efforts, it cannot be separated from policies in the national and global fiscal realms so that programs can be mapped in the State Budget Revenue and Expenditure cycle. However, in its implementation, especially in various developing countries, fiscal challenges are still an obstacle in supporting SDGs programs so that there needs to be support from other financial sectors to strengthen the fiscal posture in terms of revenue. Therefore, this study aims to examine and describe the contribution of the zakat sector to fiscal strengthening, especially in Indonesia as a developing country in realizing programs based on the SDGs pillars.

## Literature Review

### *Definition and Concept of Zakat*

Zakat plays an important role in the Islamic economic paradigm as a built-in stabilization mechanism and a way to distribute wealth. In other words, the contribution of the rich (aghniya/muzaki) to give zakat is intended to automatically

distribute the wealth of that group to the poor, regardless of whether the economy is doing well or going into recession (Hamdiah, 2024). This aims to create a relatively more stable economy, particularly with regard to public consumption. Since zakat can be used to fund the creation of public goods and services, it can also serve as an allocation mechanism.

The utilization of zakat as an instrument of poverty alleviation has actually been mandated through Law Number 23 Year 2011 on Zakat Management. In Article 3 point b, it is stated that the purpose of zakat management is to realize poverty reduction and community welfare (BAZNAS, 2024). One of the most important ways to ensure that zakat payments can be used to reduce poverty is through the role of fiscal policy in increasing the effectiveness of zakat. Zakat is an important component of the fiscal policy framework in the field of public policy in Islamic countries (Hamdiah, 2024).

Zakat, including Infaq and Sadaqah, is part of Islamic Social *finance* (ISF). The contribution of zakat in the concept of Islamic social finance has an important role in solving the problems of poverty, income inequality, global education, access to health, and various other socio-economic problems. The role of Islamic social finance instruments is not only in Muslim majority countries, but also in Muslim minority countries, such as the role of zakat in providing support programs for the poor in Singapore, the role of Islamic social finance to support economic resilience in the UK, and the role of zakat in creating welfare in Germany, France, and Croatia (Widiastuti et al., 2022).

The total zakat collection in 2023 based on the National Zakat Collection and Distribution Target Design for 2024 published by BAZNAS RI is IDR 14.70 trillion from a potential of 327 trillion (Zaenal, 2024). Then for the collection of waqf assets when viewed from the cash waqf sector amounted to IDR 2.23 trillion from a total potential of IDR 130 trillion (Imam, 2023). Based on BAZNAS 2023 Zakat and Poverty Alleviation Report, zakat funds distributed to mustahik (zakat recipients) have had a significant impact on poverty alleviation efforts in Indonesia. In 2023, BAZNAS succeeded in alleviating 47,279 beneficiaries (mustahik) from various categories of poverty, including 21,140 people from extreme poverty. Zakat funds have helped 51.37% of mustahik out of poverty, while the other 48.63% have improved their welfare, although they have not been fully alleviated (BAZNAS, 2024).

Zakat managed by BAZNAS contributes 0.002% to national poverty alleviation. This figure may seem small overall, but zakat has great potential if managed more optimally to reduce poverty, especially in the extreme poverty sector. Zakat also helps to reduce the income gap (poverty gap) on all calculation standards. For example, on the extreme poverty standard, the income gap decreased by IDR141,895, and on the had kifayah standard by IDR439,598 (BAZNAS, 2024).

### ***Inclusion of Zakat in Fiscal System***

Yusuf al-Qaradawi in his work *Fiqh al-Zakah* explains that zakat is a fundamental pillar in building a just economic order. According to al-Qaradawi, zakat is not only considered a

religious obligation, but also a social mechanism designed to protect society from extreme economic inequality. He emphasizes that zakat is an effective tool in wealth redistribution, the purpose of which is to maintain a balance between the rich and the poor and ensure that wealth is not concentrated in a few (Ahmed Shaikh & Ghafar Ismail, 2017).

Monzer Kahf, a contemporary Islamic economist, also developed a modern view of the role of zakat in the economic system. In Kahf's view, zakat functions as a fiscal instrument that can be integrated into the state's economic policy to achieve social justice and a more equitable distribution of wealth (Ahmed Shaikh & Ghafar Ismail, 2017). According to Kahf, zakat has two main functions:

#### 1) Wealth Redistribution

Zakat encourages wealth transfer from the rich to the poor, which in turn increases aggregate consumption by the poor. With higher consumption, there is an increase in demand for basic goods produced by the small and medium enterprise sector, which in turn boosts economic growth.

#### 2) Social and Economic Development

Zakat also serves as a source of financing that can be used for poverty alleviation and social infrastructure development. Monzer Kahf points out that zakat can be used to fund education, skills training, and social projects that empower vulnerable groups.

Zakat acts as a direct transfer from the rich to the poor, unlike conventional taxes which often end up in indirect government spending. Thus, zakat is more effective in achieving targeted redistribution. Zakat can be seen as a

solution to the wealth distribution gap, which is often the cause of economic and social instability. In a modern economic system, zakat can serve to support sustainable development by directing resources to sectors of greatest need, such as poverty alleviation and social infrastructure development, which contribute to the achievement of the Sustainable Development Goals (SDGs) (Rehman & Francine, 2024).

### ***Sustainable Development***

The Sustainable Development Goals (SDGs) include various goals involving poverty alleviation, education, health, equality, and environmental sustainability. Zakat has a major role in supporting the achievement of SDGs, particularly in alleviating poverty (SDG 1) and reducing inequality (SDG 10) through wealth redistribution mechanisms (Rehman & Francine, 2024). According to inclusive development theory, sustainable development should include all segments of society, especially the most vulnerable. Zakat is considered as an instrument that supports inclusive development, where the collected funds can be used to fund basic services for the poor and marginalized groups (Raies, 2020).

### ***The Role of Zakat in Achieving Sustainable Development***

Based on the theory of Economic Growth in Islamic Perspective that zakat can encourage economic growth by increasing consumption among the poor, who tend to have a higher marginal propensity to consume (MPC). This will increase aggregate demand and ultimately drive economic growth. (Khoutem & Khouloud, 2020) Zakat not only supports

poverty alleviation, but also strengthens social capital in society. By increasing the sense of solidarity and social responsibility, zakat contributes to more sustainable economic development in the long run, this is referred to as social capital theory (Rehman & Francine, 2024).

## **METHODS**

This research uses a quantitative method with a secondary data analysis approach to measure the contribution of zakat in the fiscal system to sustainable development. This approach was chosen because quantitative research can provide objective and measurable results, and allows statistical analysis of the relationship between independent and dependent variables.

### ***Data Type***

The data used in this research is secondary data collected from various official and reliable sources, namely data on zakat collection and distribution in Indonesia, obtained from the annual report of BAZNAS (National Board of Zakat). This data includes the amount of zakat collected, the allocation of zakat funds to sectors such as health, education, economic empowerment, and the distribution of zakat to recipients (mustahik).

Data on development indicators such as poverty rate, education access, health access, and income inequality obtained from the World Bank and the Central Bureau of Statistics (BPS). This data covers the same time period as the zakat data to enable trend analysis. This trend analysis will also describe the current condition of the national macro fiscal so that it will illustrate how the role

of zakat in strengthening the country's fiscal.

### **Research Variables**

This study measures the effect of zakat on several development variables. The variables analyzed are as follows:

- a. Independent variable is zakat collection (in billion Rupiah) collected from 2017 to 2022.
- b. Dependent variable is 3 (three) indicators of sustainable development goals taken based on the codification of zakat program based on SDGs matrix. Research on the relationship between zakat objectives and the achievement of Sustainable Development Goals (SDGs) and which objectives are prioritized in accordance with the objectives of zakat was conducted by the BAZNAS Strategic Research Center. The decision-making process regarding the function of zakat in Maqashid uses ANP calculation by using Sharia approach. This approach is used to provide a clear picture of the dimensions and variables under study, from which judgments can be made about their importance and priority. So that the results of this approach produced four main priority clumps from 17 SDGs points. The ANP results show that SDGs points number 1, 3, and 2 are the priority groups for zakat towards SDGs. The second priority group consists of SDGs points number 4, 8, 10, and 16. The third priority group includes goals 6, 12, 9, and 7 of the SDGs. While the

rest of the 17 SDGs points are included in the fourth priority group (Badan Amil Zakat Nasional, 2016).

So that researchers underline the four main priorities above, so that one SDGs point is taken from each of the three main priorities that are closely related to the primary elements based on maqashid Sharia, namely the first priority point 1, the second priority point 4 and the third priority point 6. The following is an explanation of the dependent variable of this study:

- a. No Poverty (SDG 1) with an indicator measuring the ratio of the number of poor people to the national poverty line (% of population).
- b. Quality Education (SDG 4) with indicator Junior secondary school completion rate, total (% of relevant age group).
- c. Clean Water and Adequate Sanitation (SDGs 6) with indicator People using at least basic drinking water services (% of population).

### **Data Processing Technique**

The data collected will be analyzed using quantitative statistical techniques. The analysis is carried out in several stages:

- a. Descriptive Analysis: At the initial stage, the collected data will be processed and explained descriptively to provide an overview of the trend of zakat collection and changes in development indicators from year to year.

- b. Correlation Analysis: To test whether there is a relationship between zakat collection and the dependent variables (poverty, education, and availability of clean proper water), Pearson correlation test will be conducted. The value of the correlation coefficient ( $r$ ) will indicate whether the relationship between the independent and dependent variables is positive, negative, or insignificant.
- c. Linear Regression Analysis: After the correlation test, linear regression analysis was conducted to quantitatively measure the effect of zakat collection on each dependent variable.

### ***Significance Testing***

After the regression analysis, a statistical significance test is conducted to determine whether the effect of zakat on the development variable is significant. The p-value generated from the regression will be compared with the 5% significance level ( $\alpha = 0.05$ ). If the p-value is smaller than 0.05, then the relationship is considered statistically significant.

#### **Instruments and Analyzers**

Data processing and analysis will be carried out using SPSS software version 22. This program allows efficient and accurate statistical analysis to test the relationship between variables and provide appropriate interpretation.

## **RESULTS**

National zakat collection is the total funds collected by various BAZNAS/LAZ in Indonesia for a year. The BAZNAS/LAZ in Indonesia are BAZNAS, Provincial BAZNAS,

Regency/City BAZNAS, National LAZ, Provincial LAZ, and official Regency/City LAZ that have the obligation to report collection and distribution to BAZNAS in accordance with the mandate of Law Number 23 Year 2011 on Zakat Management. The types of funds collected by BAZNAS/LAZ include zakat funds which include (1) zakat mal and (2) zakat fitrah. Zakat mal is divided into zakat mal of income and zakat mal of body. The next type of fund is (3) Infak/Sedekah funds, which are divided into Bound and Unbound Infak/Sedekah funds. Unbound Infak/Sedekah (ISTT) are infak/sedekah funds collected by BAZNAS or LAZ directly without specific purposes.

Infak/Sedekah Terikat (IST) is an infak/sedekah fund collected directly by BAZNAS or LAZ which is intended for a specific program (National, 2023).

The trend of zakat collection from year to year continues to increase along with the continued recognition of zakat management institutions in Indonesia. The growth of Zakat, Infaq, Sadaqah and DSKL in 2017-2022 has a positive trend, so this is indicated to be a strengthening of the National macro fiscal foundation in Indonesia.

The macrofiscal policy of the State Budget, especially in 2022, still faces challenges in development and fiscal management. Development challenges include accelerating the handling of the impact of the pandemic and accelerating economic recovery. global and domestic economic conditions that are still surrounded by uncertainty, structural reforms (in the fields of education, health, social protection, infrastructure, and bureaucratic reform), as well as in responding to the impact of climate change and disruption of economic digitalization.

Meanwhile, challenges in fiscal management include: (i) weakening revenue, which is characterized by a declining tax ratio, tax buoyancy is below 1 (one), revenue from Natural Resources is declining, the informal sector and digital economy have not been fully detected in taxation: (ii) limited fiscal space, characterized by low revenue risk, and large operational and mandatory expenditures: (iii) increasing fiscal risks, reflected in the widening primary balance deficit, the growing state budget deficit, and the increasing debt ratio, and (iv) the implementation of fiscal consolidation, namely the deficit returning to a maximum of 3 percent of GDP in 2023.

Weak state revenues followed by a shrinking expenditure portion can have an impact on the limited provision of stimulus to support priority programs and encourage development. (Ministry of Finance of the Republic of Indonesia, 2021)

Based on the results of the trend analysis above, it is considered necessary to also see how the real contribution of the role of zakat in national sustainable development so that its influence can be mapped. Based on the results of data processing and analysis using SPSS version 22 software, the following results are obtained:

#### ***Inclusion of zakat towards SGDs 1 (No Poverty)***

Based on the regression analysis conducted, zakat shows a significant influence on poverty with a Pearson correlation coefficient of -0.957. This indicates a very strong negative relationship between the zakat variable and the poverty rate. In other words, an

increase in zakat significantly reduces the poverty rate. The significance test (Sig. F Change) of 0.003 (smaller than 0.05), indicates that the resulting regression model is statistically significant, so we can reject the null hypothesis (H<sub>0</sub>) which states that there is no influence between zakat and poverty.

This indicates that the contribution of zakat has a significant effect in reducing the poverty rate. This regression model has an R<sup>2</sup> value of 0.916, which means 91.6% of the variability in the poverty rate can be explained by zakat. This shows that zakat plays a very large role in influencing changes in poverty levels. Thus, optimal management of zakat will have a great impact on poverty alleviation. The ANOVA result shows an F-statistic value of 43.733 with a significance value of 0.003, which corroborates that the overall regression model is significant.

This means that the zakat variable together with the regression model makes a significant contribution to the dependent variable, namely poverty. The regression coefficient for zakat is -2.539E-13 with a t-value of -6.613 and a significance value of 0.003. Although nominally the value of this coefficient is very small, the negative direction indicates that any increase in zakat collection has a significant impact in reducing the poverty rate.

The results of this study provide empirical evidence that zakat plays an important role in poverty alleviation. With a high R<sup>2</sup> value and a strong negative relationship, this result supports the idea that zakat can be used as an effective fiscal instrument in reducing poverty, making it relevant in the discussion of sustainable development.

#### ***Inclusion of Zakat towards SGDs 4 (Quality Education)***

However, this correlation is not statistically significant, with a significance value (1-tailed) of 0.156, which means there is not enough evidence to state that there is a significant relationship between zakat and educational attainment at the 95% confidence level.

The coefficient of determination ( $R^2$ ) of 0.250 indicates that about 25% of the variation in educational attainment can be explained by the zakat variable. However, the adjusted  $R^2$  of 0.063 indicates that this model has low predictive power. This suggests that the zakat factor only makes a small contribution in explaining educational attainment in the sample used. The ANOVA test yields an F value of 1.336 with a significance of 0.312. This indicates that the regression model is not significant at the 5% level of significance, so the zakat variable does not have a significant effect on the achievement of quality education in the context of this model.

#### ***Zakat Inclusion against SGDs 6 (Clean Water and Adequate Sanitation)***

Regression analysis shows a very strong correlation between zakat and Clean Water and Sanitation with a Pearson coefficient of 0.988. This positive relationship indicates that an increase in zakat can be associated with an increase in water availability. The significance of this relationship is very strong, with a Sig. (1-tailed) value of 0.000, which means that this model is significant at 99.9% confidence level. Thus, it can be concluded that zakat has a very significant influence on water availability.

The  $R^2$  value of 0.976 indicates that 97.6% of the variability in water availability can be explained by the zakat variable. This indicates that zakat is a very strong predictor of water availability in this model, and only 2.4% of other variables might affect the change in water availability. The ANOVA results show an F-statistic value of 164.768 with a significance value of 0.000. This indicates that the overall regression model is highly significant. This means that the zakat variables together with the regression model contribute significantly to the increase in water availability. The regression coefficient for zakat is 4.407E-13, which although very small in nominal terms, has a t-statistic value of 12.836 and a significance value of 0.000. This indicates that although the regression coefficient does not show a large change in absolute numbers, its effect is statistically highly significant.

The analysis shows that zakat has a highly significant influence on water availability. With a very high coefficient of determination and strong statistical significance, this study supports the hypothesis that zakat plays an important role in supporting access to Clean Water and Adequate Sanitation, which can have implications for sustainable development efforts and improved social welfare.

### **DISCUSSION**

Zakat is one of the main instruments that can drive social and economic progress. Zakat is one of the five pillars of Islam and has an extensive religious history, according to various viewpoints. In addition to being morally obligatory, any Muslim who is able to donate a portion of their wealth to those in

need should do so as an integral part of their devotion and submission to Allah SWT. Muslim communities enhance social cohesion and spiritual bonds by strengthening the practice of zakat.

In the context of fiscal policy, zakat plays a role in filling the gap left by conventional taxes, especially in developing countries that often experience limitations in tax collection and wealth distribution. Conventional taxation systems are often inadequate to effectively tackle economic inequality and poverty, mainly due to the low tax base and unevenness of tax application in many developing countries. (Raies, 2020) Fiscal transparency involves directing tax funds to poverty alleviation in addition to infrastructure development. (Saptono, 2024)

In addition to the fiscal review, it turns out that zakat also has its own role in the monetary aspect related to interest rates. Zakat, an obligatory Islamic charity with a fixed interest rate of 2.5%, can be an alternative to interest rates and its use as a policy tool to promote economic growth. Zakat can help achieve the dual goals of increased liquidity and higher economic growth rates. (Shaukat, 2021)

Zakat, as a sharia-based financial instrument, has great potential to contribute significantly to the achievement of Sustainable Development Goals (SDGs), especially in developing countries. In the context of SDGs, zakat can be used to support various socio-economic programs that focus on poverty alleviation, quality education, and the availability of clean water and proper sanitation which are the main pillars of the global development agenda which is the dependent variable in this study. Transparent zakat management and its role

in sustainable development is based on accountable management aspects. The collection of zakat is also closely related to the commitment of muzaki as obligatory zakat in terms of determining the level of zakat, so that it is pursued in accordance with real gross income / income.

In terms of zakat collection, some muzaki may report a smaller amount of zakat than they should pay (under-reporting). To address this issue, an intelligent machine learning-based approach is proposed to detect cases where zakat is under-reported. The proposed solution aims to improve the detection accuracy of zakat under-reporting cases as well as prioritize which cases are more risky to the state revenue or zakat management institution. (Ismail, 2023)

In a study exploring the contribution of zakat and price stability to poverty reduction in Indonesia from January 2011 to June 2021. Specifically, the study empirically explored the short-term and long-term relationship between zakat, gold price, exchange rate, oil price, and poverty in Indonesia. Using the Vector Error Correction Model (VECM), the study noted that zakat and gold price stability contribute to short-term and long-term poverty reduction. (Azzahra, 2023) The Amil Zakat Institution was established with the aim of maximizing the ability of zakat to provide long-term benefits. On the other hand, the Sustainable Development Goals are closely related to the objectives of zakat, especially poverty reduction. As mandated in Law 23 of 2011, the Amil Zakat Institution must be managed professionally and effectively to collect and distribute zakat. (Herianingrum, 2024)

Based on the description of zakat management problems, there have been

many discourses to integrate zakat with fiscal instruments in Indonesia. Some parties, such as academics and practitioners of Islamic economics, encourage that zakat can be integrated with fiscal policy, especially in efforts to alleviate poverty and redistribute wealth. This idea is based on the potential of zakat to reduce dependence on taxes and balance wealth redistribution fairly. However, the challenge lies in the voluntary nature of zakat and its management under a specialized institution, such as BAZNAS, which has not been fully coordinated with the state's formal fiscal policy.

The adjustment of separate zakat regulations in Law Number 23 Year 2011 so that in its implementation, mandatory zakat/muzaki is only voluntary. Zakat is still considered a voluntary obligation (voluntary system), so that public awareness of zakat is low because there are no sanctions for those who do not pay zakat. (Najiyah, Khasanah, & Asas, 2022) This is a big challenge for zakat managers, especially since the level of zakat literacy in Indonesia is still moderate despite being a Muslim-majority country, which is at 66.78%. (Widiastuti et al., 2022) Then in the institutional aspect, zakat management in Indonesia is still faced with several problems identified as current challenges, namely (Najiyah et al., 2022):

1. Transparency: Zakat management organizations (OPZ), namely BAZNAS and LAZ, still face challenges in information disclosure. Lack of transparency makes muzakki not trust the zakat management organization.
2. Accountability: Some muzakki doubt OPZ's ability to distribute zakat appropriately and want to channel zakat directly to mustahik.

3. Human Resources: Lack of professional and qualified human resources in zakat management, as well as lack of interest from Islamic economics graduates to pursue a career as a zakat amil.
4. Standardization of Accounting System: There is still a lack of clear and unified accounting standards to create financial transparency in zakat management.
5. Synergy between OPZ: The egoism of zakat management institutions, especially between BAZNAS and LAZ, causes a lack of synergy in zakat management at the national level.

Nevertheless, zakat has an important position in the fiscal structure in Indonesia, although it has not been formally recognized by regulation. Zakat has contributed to the economic improvement of the poor so as to maintain economic stability. Zakat acts as an instrument that channels wealth from the rich to the needy (mustahik). This helps reduce economic inequality and increase the purchasing power of the poor. Zakat helps distribute wealth fairly so as to prevent the rich from getting richer and the poor from getting poorer. (Ridwan, Putra, Afri, & Khairi, 2023) In addition to wealth redistribution, zakat also serves to stabilize the economy. By distributing zakat productively, the economy can grow more equitably, and zakat can minimize price instability or inflation. (Ridwan et al., 2023)

In line with the real contribution of zakat in fiscal policy, the sustainability side of the program has not been considered, and it seems that the program ends when the program ends, making it impossible to achieve the main

empowerment goal of turning mustahiq into muzakki. Furthermore, Islamic social fund instruments are currently only partially addressed in terms of governance. To overcome these problems, a possible solution is to formulate the integration of the Islamic social finance sector and build a sustainable management ecosystem. (Widiastuti et al., 2022) Among the steps in realizing zakat as a formal fiscal instrument, it is necessary to make system and institutional improvements so that it is structured and strongly incarnated in the midst of society. So, in the author's opinion, before zakat enters in aggregate to the fiscal system in Indonesia, it needs massive and comprehensive institutional strengthening at every level, both BAZNAS and LAZ. The improvement solution can be described in these aspects, namely increasing public awareness, increasing trust in zakat management institutions, increasing transparency in the collection and distribution of zakat, innovation in collecting zakat from the informal economy sector and improving the legal framework. (Risnawati, Niken, Muin, & Lutfi, 2023)

### SUMMARY

The results of this study show that zakat plays a significant role in supporting sustainable development in Indonesia through its contribution to poverty alleviation (SDGs 1), improved access to clean water and proper sanitation (SDGs 6), and, albeit limited, quality education (SDGs 4). Zakat has a strong negative relationship with poverty with a high coefficient of determination, reflecting its role as an effective instrument in wealth redistribution and welfare improvement.

As a sharia-based fiscal instrument, zakat can fill the gap left by conventional fiscal policy, especially in the context of low tax ratio and challenges in fiscal management in Indonesia. Optimal, accountable, and synergistically integrated zakat management with formal fiscal policy has the potential to strengthen the national economic foundation. It has the potential to strengthen the national economic foundation. However, zakat faces challenges in the form of low public zakat literacy, lack of transparency and accountability of managers, as well as the lack of standardization of accounting systems and synergies between management institutions.

The integration of zakat in Indonesia's fiscal policy needs to be supported by regulations that strengthen its position as an official instrument of development, so as to increase literacy, muzaki participation, and the capacity of amil zakat institutions in channeling funds productively. Thus, zakat can become a more strategic instrument in reducing economic inequality, supporting priority development programs, and promoting equitable economic growth in accordance with the SDGs agenda.

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