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Fiscal Policy and Zakat: Their Impacts on Poverty Reduction in Banten Province, Indonesia

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Abstract

Poverty remains a major development challenge in Indonesia, particularly at the regional level, where disparities in income distribution and access to economic opportunities persist. In addition to government fiscal interventions, zakat has emerged as an important Islamic fiscal instrument that can support poverty reduction efforts. However, empirical evidence regarding the combined contribution of fiscal policy and zakat to poverty reduction remains limited, particularly in regional contexts. This study aims to examine the impacts of fiscal policy and zakat on poverty reduction in Banten Province. This research employs a quantitative approach using panel data from five districts/cities in Banten Province during the period 2017–2021. Fiscal policy is represented by regional government expenditure (APBD), while zakat is measured through zakat collection and distribution data. The analysis employs panel data regression techniques to estimate the effects of fiscal policy and zakat on poverty reduction. The results indicate that fiscal policy has a significant effect on poverty reduction, suggesting that regional expenditure contributes to improving welfare and reducing poverty levels. Zakat also has a significant effect on poverty reduction through its role in supporting vulnerable households and enhancing social welfare. Furthermore, fiscal policy and zakat jointly strengthen poverty reduction efforts, demonstrating that public fiscal instruments and Islamic social finance can complement one another in addressing socio-economic challenges. This study contributes to the growing literature on poverty reduction by providing empirical evidence on the role of government fiscal policy and zakat in reducing poverty at the regional level. The findings suggest that stronger coordination between government expenditure programs and zakat management institutions can improve the effectiveness of poverty reduction strategies in Banten Province and other regions with similar socio-economic characteristics.

Keywords: Fiscal Policy; Zakat; Poverty Reduction; Regional Expenditure; Banten Province

Abstrak

Kemiskinan masih menjadi salah satu tantangan utama pembangunan di Indonesia, khususnya di tingkat daerah yang masih menghadapi kesenjangan pendapatan dan keterbatasan akses terhadap peluang ekonomi. Selain intervensi fiskal pemerintah, zakat juga memiliki potensi sebagai instrumen fiskal Islam yang dapat mendukung upaya pengurangan kemiskinan. Namun demikian, kajian empiris yang menganalisis kontribusi kebijakan fiskal dan zakat secara simultan terhadap pengurangan kemiskinan, khususnya pada tingkat daerah, masih relatif terbatas. Penelitian ini bertujuan untuk menganalisis pengaruh kebijakan fiskal dan zakat terhadap pengurangan kemiskinan di Provinsi Banten. Penelitian ini menggunakan pendekatan kuantitatif dengan data panel yang mencakup lima kabupaten/kota di Provinsi Banten selama periode 2017–2021. Kebijakan fiskal direpresentasikan oleh realisasi Anggaran Pendapatan dan Belanja Daerah (APBD), sedangkan zakat diukur berdasarkan data penghimpunan dan penyaluran zakat. Analisis dilakukan menggunakan regresi data panel untuk menguji pengaruh kebijakan fiskal dan zakat terhadap pengurangan kemiskinan. Hasil penelitian menunjukkan bahwa kebijakan fiskal memiliki pengaruh signifikan terhadap pengurangan kemiskinan melalui peningkatan aktivitas ekonomi, pelayanan publik, dan program kesejahteraan masyarakat. Zakat juga memiliki pengaruh signifikan terhadap pengurangan kemiskinan melalui peningkatan kapasitas ekonomi kelompok masyarakat berpendapatan rendah dan penguatan perlindungan sosial. Selain itu, kebijakan fiskal dan zakat secara simultan memperkuat upaya pengurangan kemiskinan, yang menunjukkan bahwa instrumen fiskal pemerintah dan instrumen fiskal Islam dapat saling melengkapi dalam mengatasi berbagai permasalahan sosial ekonomi. Penelitian ini memberikan kontribusi pada pengembangan literatur mengenai pengurangan kemiskinan dengan menghadirkan bukti empiris tentang peran kebijakan fiskal dan zakat pada tingkat daerah. Temuan penelitian mengindikasikan bahwa sinergi antara program belanja pemerintah daerah dan pengelolaan zakat yang lebih efektif dapat meningkatkan keberhasilan strategi pengurangan kemiskinan di Provinsi Banten.

Kata Kunci: *Kebijakan Fiskal; Zakat; Pengurangan Kemiskinan; APBD; Provinsi Banten*

INTRODUCTION

Poverty is still one of the main problems in regional economic development in Indonesia, including in Banten Province. Although Banten is known as one of the capital buffer areas with a relatively high level of economic growth, reality shows that the distribution of welfare between regions is still uneven. Some districts/cities still face fairly high levels of poverty, low access to basic services, and development inequality. Not only caused by the limitations of individuals in accessing and developing economic potential, but poverty also reflects the ineffectiveness of governance in distributing resources and formulating fiscal policies that are fair and on target (BPS TNP2K, 2010). This condition shows that economic growth has not been fully able to create a trickle-down effect on the welfare of the community at large. In this context, fiscal intervention through regional spending is an important instrument for the government to encourage equitable development and poverty reduction. Data from the Central Statistics Agency shows that the poverty rate in Indonesia tends to fluctuate, even increasing in September 2013 to 28.55 million people from 28.07 million people in March of the same year. Although in recent years it has shown a downward trend, such as in March 2019, which reached 9.41% and decreased to 9.22% in September 2019, the national poverty rate has not fully recovered to pre-pandemic conditions (BPS, 2022).

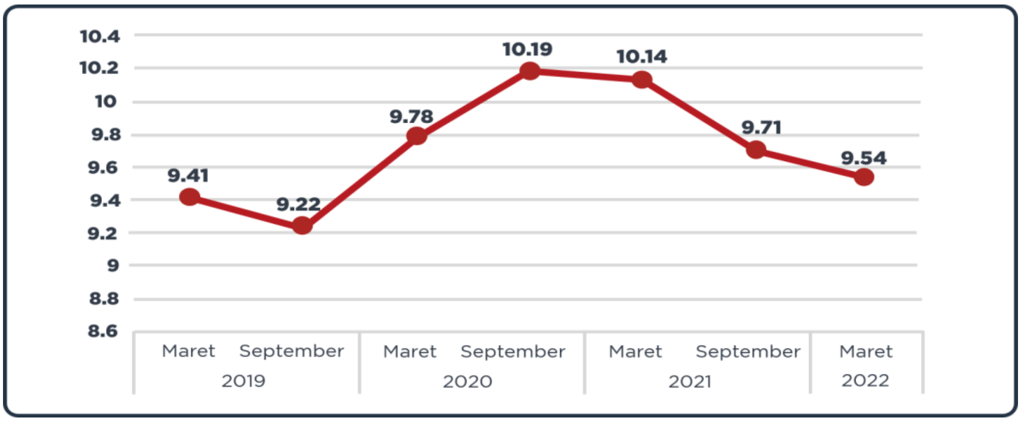

Figure 1. Indonesia's Poverty Rate in 2002-2022

Source: (BPS, 2022)

Theoretically, regional spending has allocation, distribution, and stabilization functions that can improve community welfare through infrastructure development, public services, social assistance, and community economic empowerment. Meanwhile, zakat is an economic instrument in Islam that aims to build the welfare of the people, as well as an instrument of income equality. (Evi, et.al, 2020). Zakat plays an important role in supporting individuals living below the poverty line through income redistribution and welfare improvement programs (Evi, 2020).

In the global context, especially in developing countries, the problem of poverty not only encompasses a high number of poor people but also reflects significant income inequality. Indonesia faces similar challenges, where social inequality and unequal access to resources exacerbate conditions of structural poverty (Athoillah, 2015). Given that contemporary poverty is closely associated with economic deprivation, increasing household income remains one of the primary mechanisms for lifting individuals above the poverty line. Therefore, poverty in Indonesia was around 8.47 percent in March 2019, as simulated by Pratama & Yuni (2020), and should not exist if the amount of zakat reaches the estimate made by Firdaus et al (2020) (Pratama, 2023).

On the other hand, the development of the sharia economy in Indonesia presents zakat as an Islamic social financial instrument that has great potential in supporting poverty reduction. Zakat not only functions as a religious obligation, but also as an income redistribution mechanism that can strengthen the social protection of the poor and vulnerable. In Banten Province, data show that in the 2017-2021 period, there was an increase in fiscal allocation through the APBD and the acquisition of zakat funds, but it was not in line with the expected poverty reduction trend. The poverty depth index in Banten fluctuated and showed an increasing trend, from 0.763 in 2019 to 1.088 in 2021 and 1.088 (Publications, 2022). A number of studies have proven that zakat is able to improve the welfare of mustahik through consumptive assistance and productive empowerment programs. However, most studies on zakat still focus on micro aspects, such as the effect of zakat on the household income of beneficiaries, and have not been linked to regional fiscal policies in the framework of regional economic development.

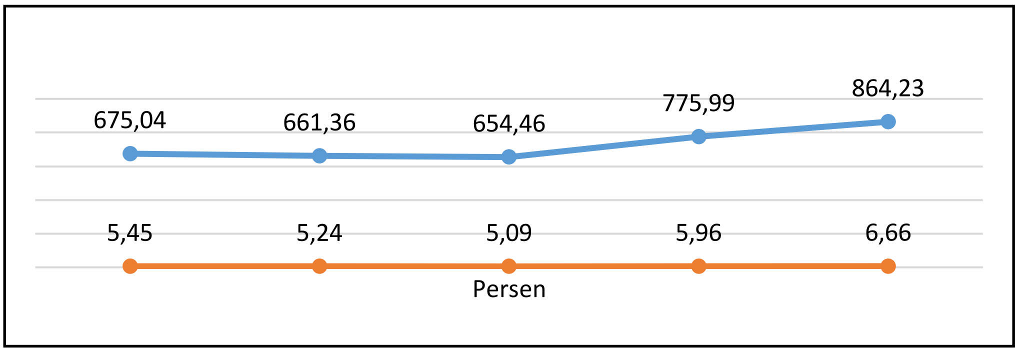

Figure 2. Number of Poor People in Banten Province in 2017-2021

Source: BPS Banten Province, 2021

This condition raises an important question: have increases in regional fiscal expenditure and zakat distribution during the last five years significantly contributed to poverty reduction in Banten Province? Or are there other factors that determine the dynamics of community welfare in Banten?

Based on the literature review, several research gaps are identified that provide the primary rationale for conducting this study. For example, Muslaim Ridho'i and Ahmad Mifdlol Muthahar (2020) concluded that national fiscal policy through the State Budget does not show a significant influence on poverty reduction, while Tatik Mariyanti (2011) and Hardius Usman (2022) underline that zakat plays an important role in reducing the number of poor people (Muslaim & Muthohar, 2020; Mariyanti, 2011; Usman, 2022). This study provides an early indication that sharia fiscal instruments such as zakat may have higher effectiveness than conventional fiscal policies in certain contexts.

However, there has been no study that has simultaneously and partially examined the influence of the APBD and zakat on poverty at the provincial level, especially in Banten. In fact, this approach is very important to assess the effectiveness and synergy between two different conventional and Sharia fiscal approaches in the context of inclusive regional development. Beyond the inconsistent findings reported in previous studies, there remains a theoretical gap regarding the integration of public fiscal policy and Islamic fiscal instruments within a single analytical framework. Most empirical studies examine government expenditure and zakat separately, resulting in a fragmented understanding of their respective roles in poverty reduction. In practice, however, both instruments pursue a similar objective, namely improving social welfare and reducing poverty. Fiscal policy operates through public expenditure and social programs, while zakat functions through wealth redistribution and economic empowerment of disadvantaged groups. The absence of an integrated perspective limits a comprehensive understanding of how these two instruments can jointly contribute to regional development outcomes.

In addition, empirical evidence at the regional level remains relatively limited. Existing studies predominantly focus on national data or examine zakat and fiscal expenditure independently across different regions. Consequently, little is known about the comparative and simultaneous effects of regional fiscal spending and zakat on poverty reduction within a specific province. This limitation is particularly relevant in the case of Banten Province, where proportional improvements in social welfare indicators have not always accompanied economic growth. Therefore, investigating the relationship between fiscal policy, zakat, and poverty within a regional context may provide more context-specific policy implications. This study argues that poverty reduction should not be viewed solely as the responsibility of government fiscal intervention, nor exclusively as the outcome of Islamic social finance initiatives. Rather, sustainable poverty alleviation requires complementary mechanisms that combine formal public expenditure policies with community-based redistribution instruments such as zakat. By examining both variables simultaneously, this research seeks to provide empirical evidence regarding the extent to which public and Islamic fiscal instruments can complement each other in supporting poverty reduction at the regional level.

To address these gaps, this study offers an integrative perspective by examining regional expenditure and zakat as complementary instruments for poverty reduction. This study not only analyzes the effectiveness of local government spending, but also includes zakat as a strategic variable that can strengthen poverty reduction policies. Another novelty lies in the focus of research in Banten Province, which has unique economic characteristics, namely an area with high economic growth but still faces significant social inequality. Using a five-district/city panel data approach, this study is expected to provide a more comprehensive empirical picture of the effectiveness of formal fiscal interventions and Islamic social finance instruments in reducing regional poverty. This research is also based on relevant theoretical frameworks, y which emphasize the importance of fiscal intervention in stabilizing, including Keynesian theory, which emphasizes the role of fiscal intervention in promoting economic stability and reducing poverty, and Abu Yusuf's sharia fiscal theory, which emphasizes the proportional and locally-based separation and distribution of zakat collected by Capra (Indah et al., 2023).

This study is expected to contribute to the development of a more integrated approach to regional development by combining public fiscal policy and Islamic social finance instruments in poverty reduction strategies. Accordingly, this research contributes to both public economics and Islamic economics literature while offering practical implications for local governments and zakat management institutions. Thus, this research has a theoretical contribution in the development of public economic studies and Islamic economics, as well as a practical contribution for local governments and zakat management institutions in formulating a more inclusive, effective, and sustainable poverty reduction strategy.

LITERATURE REVIEW

Poverty reduction

According to Todaro and Smith (2017) Poverty refers to inhabitants living in conditions of malnutrition and poor health, having low levels of education, residing in areas with poor environments, and having low incomes (Wahyuni, 2024). According to Rahmansyah and Lusinia (2022) and Utami (2020), based on the concept of the ability to meet basic needs (basic needs approach), poverty is a condition of inability to meet basic needs, including food and non-food needs, measured from the expenditure side. The poverty line is the amount of expenditure for food and non-food items (Wahyuni, 2024). Emphasized that poverty reduction strategies in conventional economics involve government policies, social assistance programs, economic growth, and improvements in human development. Poverty reduction programs in conventional economies include: government policies, Non-Cash Food Assistance (BPNT), Family Hope Program (PKH), Gross Regional Domestic Product (GDP), and Human Development Index (HDI) (Samsubar, 2002).

Fiscal Policy Variables

Fiscal policy refers to government actions related to revenue collection and public expenditure aimed at achieving economic and social objectives. According to Boediono (2016), fiscal policy constitutes a macroeconomic instrument implemented through the State Revenue and Expenditure Budget (APBN). Fiscal policy encompasses a series of taxation and expenditure measures designed to influence economic activity, promote growth, and improve social welfare. Similarly, Rozalinda (2014) argues that fiscal policy is an instrument used by governments to regulate public revenue and expenditure in order to maintain economic stability and encourage economic development.

Fiscal policy is basically a policy that regulates state revenue and expenditure. Revenue from the state is sourced from taxes, non-tax revenues, and even revenues derived from foreign loans/assistance from abroad. Before the reform period, are categorized as state revenues. Thus, fiscal policy is the government's policy in managing state finances in such a way that it can support the national economy: production, consumption, investment, labor shortages, and price stability (Fathurrahman, 2012).

The Regional Revenue and Expenditure Budget (APBD)

In accordance with Article 1 of Law No. 17 of 2003 concerning State Finance, the Regional Revenue and Expenditure Budget (APBD) is defined as the annual financial plan of the local government approved by the Regional House of

Representatives (DPRD). Based on Government Regulation Number 12 of 2019 and Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 64 of 2020, regional revenues are divided into four main components, namely: (1) Regional Original Revenue (PAD), (2) Balance Fund, (3) Other Legitimate Regional Revenues, and (4) Financing Revenues (Wahyuningsih, 2020). The policy instrument of local governments is known as the Regional Revenue and Expenditure Budget (APBD). This regional fiscal policy is a very important part of regional financial management (Moenek & Suwanda, 2019). Referring to Government Regulation Number 12 of 2019 and Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 64 of 2020, regional revenue consists of four components, namely: (1) Regional Original Revenue (PAD); (2) Balance Fund; (3) Other Legal Regional Revenues; and (4) Financing Receipts. The budget managed by the local government consists of: (1) Routine expenditure, which consists of routine expenditure and capital expenditure; and (2) Development expenditure, which consists of routine expenditure and capital expenditure (Irawan et al., 2025).

Zakat

Zakat is one of the instruments in Islam that is used to improve the welfare of the community through the distribution of income and wealth. In its implementation, zakat involves three main stakeholders, namely muzakki, mustahiq (zakat recipients), and zakat management organizations (Zakiy, 2024; Hayati & Putri, 2020). According to Hammudah Abdalati (1998), technically, zakat can be interpreted as the expenditure of part of the wealth owned by Muslims, both in the form of goods and money. It is emphasized by Yusuf Qardhawi (2002) that zakat is a number of assets that are required by Allah SWT to be handed over to those who are entitled to receive it. According to Ah. Fathonih (2019), zakat in the perspective of state finance is a levy from property with a spiritual statement due to the grace of Allah, not a voluntary gift, and also not a tax set by a government institution (Fathonih, 2019).

Zakat can function as one of the instruments of fiscal policy and state financing. It offers two solutions that the state can take: (1) Zakat is used as a source of non-tax state revenue; and (2) Zakat can be used as a source of state financing, through Sukuk or Sharia Securities (Athoillah, 2015). From the macroeconomic aspect and consumption, zakat can encourage increased consumption and help encourage economic growth. Socially, zakat as social capital is a form of good relations in a society, with an emphasis on the values of togetherness and trust (Anton, 2020). From a development perspective, zakat serves not only as a religious obligation but also as an instrument of Islamic social finance that contributes to poverty reduction and income redistribution. Through the transfer of resources from economically advantaged groups to eligible beneficiaries (mustahik), zakat can improve welfare, strengthen social protection, and support community economic empowerment. Consequently, zakat has increasingly been recognized as a complementary instrument to government fiscal policy in addressing poverty and social inequality.

Fiscal policy and zakat represent two distinct yet complementary instruments for addressing poverty. Fiscal policy operates through government expenditure, public services, social protection programs, and economic empowerment initiatives funded through public revenues. Meanwhile, zakat functions as an Islamic redistributive mechanism that transfers wealth from higher-income groups to eligible beneficiaries, thereby strengthening social welfare and reducing economic inequality. Although both instruments share the common objective of improving societal welfare, previous studies have generally examined their effects separately. Fiscal policy has been widely analyzed within the framework of public economics, whereas zakat has primarily been studied within the context of Islamic social finance. Consequently, limited attention has been given to understanding how these two instruments may jointly contribute to poverty reduction, particularly at the regional level.

In the context of Banten Province, the simultaneous examination of fiscal policy and zakat is particularly relevant because both instruments have experienced substantial growth during the study period. Evaluating their respective and combined contributions is therefore important for understanding the effectiveness of welfare-oriented interventions and for identifying policy strategies that can support more inclusive and sustainable poverty reduction. Despite the growing literature on fiscal policy and zakat, empirical evidence examining their simultaneous effects on poverty reduction at the provincial level remains limited. This study seeks to address this gap by investigating the roles of fiscal policy and zakat in reducing poverty in Banten Province.

Hypothesis Development

Fiscal Policy and Poverty Reduction

Fiscal policy deals with how a country obtains state revenue and spends it for the benefit of society. Boediono (2016) stated that fiscal policy is a macro policy carried out through the State Revenue and Expenditure Budget (APBN). This fiscal policy is reflected in the structure of positions in the State Budget, not only from the value of receipts and expenditures, but also refers to a series of taxation and expenditure measures designed to affect the economy (Boediono, 2016). The fiscal policy in this study is the Banten State Budget for 2017-2021. According to Wahyuningsih (2020), regional revenue is divided into four main components, namely: (1) Regional Original Revenue (PAD), (2) Balance Fund, (3) Other Legal Regional Revenues, and (4) Financing Revenues (Wahyuningsih, 2020). Muslim Ridho'i and Ahmad Mifdhol Muthohar (2020) stated that fiscal policy does not show a positive and significant influence on poverty reduction in Indonesia and Malaysia (Muslaim & Muthohar, 2020). Based on the theoretical framework and empirical findings of previous studies, the following hypotheses are proposed:

H1. Fiscal policy has a significant effect on poverty reduction in Banten Province

Zakat and Poverty Reduction

The more people pay zakat, the greater the level of welfare of the poor, because one of the purposes of zakat is to reduce the burden on the poor. (QS. 9:60). According to Abdul Hanafi Harahap (2023), stated that zakat has no effect on the economic growth of the people of North Sumatra, but zakat is able to eradicate the poverty of the people of North Sumatra (Harahap at al., 2023). According to Hadrius Usman (2021), stated that zakat receipts have a significant influence on the decline in the number of poor people in Indonesia (Usman, 2021). And it is strengthened by the results of Anton Athoillah's (2015) research that zakat has a direct effect on economic growth, unemployment, and poverty on the island of Java. To improve the management of zakat, Annisa Fitri Maulidia Alfian and Muhammad Zilal Hamzah (2024) stated that to increase the effectiveness of zakat management, human resources and good governance are needed, as well as the adoption of technology in the digital era (Alfian & Hamzah, 2024). Therefore, the hypothesis can be formulated as:

H2. Zakat has a significant effect on poverty reduction in Banten Province

Fiscal and Zakat policies and poverty reduction

The fiscal policy in this study is the APBD, where, according to Muslaim Ridho'i and Ahmad Mifdhol Muthohar (2020), fiscal policy does not show a positive and significant influence on poverty reduction in Indonesia and Malaysia. In contrast to the results of Herlan Firmansyah's (2021) research, PAD and zakat have a positive and significant impact on economic growth and unemployment in West Java (Firmansyah, 2021). Widya Indri Lestari dan Ida Busnetty (2022) Faktor-Faktor yang Mempengaruhi Kemiskinan Per Provinsi di Indonesia dalam Perspektif Islam (Lestari & Busnetty, 2022). And Kamil Husain (2022) stated that productive zakat simultaneously has no effect on the pattern of independence, and independence has no effect on the welfare of mustahik (Husain, 2022). Thus, the following hypotheses can be formulated:

H3. Fiscal policy and zakat simultaneously have a significant effect on poverty reduction in Banten Province

RESEARCH METHOD

This study employs a quantitative approach with an explanatory research design to examine the effects of fiscal policy and zakat on poverty reduction in Banten Province. The explanatory approach is used to investigate the causal relationships between the independent variables, namely fiscal policy and zakat, and the dependent variable, namely poverty reduction, which is proxied by the poverty rate reported by BPS. The study utilizes secondary panel data collected from five districts/cities in Banten Province, namely Serang Regency, Pandeglang Regency, Lebak Regency, Serang City, and Cilegon City during the period 2017–2021. The panel data combine cross-sectional and time-series dimensions, allowing a more comprehensive analysis of regional variations and temporal changes. Data were obtained from official sources, including the Central Statistics Agency (BPS), the Directorate General of Fiscal Balance (DJPK), and the National Amil Zakat Agency (BAZNAS). Fiscal policy is represented by the realization of the Regional Revenue and Expenditure Budget (APBD), while zakat is measured using zakat collection and distribution data. Poverty is measured by the percentage of poor people in each district/city as reported by BPS.

The selection of Banten Province as the research setting is based on its unique socio-economic characteristics. As one of the provinces adjacent to the national economic center, Banten has experienced relatively high economic growth over the last decade. Nevertheless, poverty and regional inequality remain persistent challenges across districts and municipalities. This condition makes Banten an appropriate case for examining whether fiscal policy and zakat have effectively contributed to poverty reduction. Furthermore, the availability of consistent fiscal, zakat, and poverty data during the observation period enables a reliable empirical investigation of the relationships among these variables.

The data were analyzed using panel data regression techniques to estimate the effects of fiscal policy and zakat on poverty reduction. The panel data approach was selected because it provides more informative data, greater variability, lower multicollinearity among variables, and more efficient parameter estimates than pure cross-sectional or time-series analysis. In addition, panel data regression allows the model to capture both regional heterogeneity and temporal dynamics, thereby improving the accuracy of the estimation results. To determine the most appropriate estimation model, To determine the most appropriate estimation model, the analysis employed the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test. The Chow Test was used to compare the Common Effect Model (CEM) and Fixed Effect Model (FEM), while the Hausman Test was applied to determine whether the Fixed Effect Model or Random Effect Model (REM) was more appropriate. The Lagrange Multiplier Test was used to compare the Common Effect Model and the Random Effect Model. Based on these tests, the most suitable model was selected for hypothesis testing. These tests were used to select the most suitable model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The selected model was subsequently used to estimate the impact of fiscal policy and zakat on poverty reduction. The estimated regression model is formulated as follows:

$$Poverty\_it = \alpha + \beta_1 FiscalPolicy\_it + \beta_2 Zakat\_it + \varepsilon\_it \quad (1)$$

Poverty represents the poverty rate in district/city *i* during year *t*, FiscalPolicy denotes regional fiscal expenditure (APBD), Zakat refers to zakat collection and distribution, α is a constant, β_1 and β_2 are regression coefficients, and ε represents the error term. Unlike previous studies that generally examined fiscal policy and zakat separately, this study incorporates both variables within a single empirical framework. This approach enables a comparative assessment of the relative contribution of public fiscal expenditure and Islamic social finance to poverty reduction. By integrating these two instruments, the study provides a broader perspective on welfare-oriented development policies and offers empirical evidence regarding the potential complementarity between government intervention and zakat-based redistribution mechanisms.

To ensure the robustness and reliability of the findings, several diagnostic tests were conducted, including tests for multicollinearity, heteroscedasticity, and autocorrelation. The results of these tests were used to evaluate the validity of the regression model and ensure that the estimated coefficients were unbiased and consistent. This study aims to provide empirical evidence regarding the role of fiscal policy and zakat in reducing poverty and contribute to the growing discussion on the integration of public fiscal policy and Islamic social finance in regional development.

RESULTS AND DISCUSSION

The Influence of Regional Fiscal Policy and Zakat on Poverty Reduction

The empirical results indicate that fiscal policy and zakat significantly influence poverty reduction in Banten Province during the 2017–2021 period. The estimated model demonstrates that regional fiscal expenditure contributes positively to poverty reduction through the provision of public services, infrastructure development, social assistance programs, and economic empowerment initiatives. Similarly, zakat plays an important role in supporting poverty reduction by improving the welfare of low-income households and enhancing access to basic economic resources. These findings suggest that both public fiscal intervention and Islamic social finance contribute to improving social welfare and reducing poverty at the regional level. Efforts to alleviate poverty cannot only rely on economic growth but also require policy interventions that are able to create a more equitable distribution of welfare. In this context, regional fiscal policy and zakat are two important instruments that have a strategic role in supporting poverty reduction.

The significant effect of regional fiscal expenditure confirms the important role of local governments in addressing poverty. Fiscal expenditure enables local governments to provide education services, healthcare facilities, transportation infrastructure, and social protection programs that directly benefit vulnerable groups. In the context of Banten Province, increasing public expenditure may contribute to improving access to economic opportunities and reducing structural barriers that perpetuate poverty. This finding is consistent with Keynesian fiscal theory, which argues that government spending can stimulate economic activity and improve social welfare through public investment and redistribution mechanisms.

This study identified the significant influence of two independent variables, namely regional fiscal policy (APBD) and zakat, on dependent variables in the form of poverty reduction rates in five districts/cities in Banten Province during the 2017–2021 period. Table 1 presents the descriptive statistics of the research variables. The APBD variable has an average value of 21,645, with a relatively low data distribution, as shown by the standard deviation of 0.040. The zakat variable has a slightly higher average, which is 21,703, while the poverty reduction variable recorded an average of 11,672, with slight variations in the data.

Table 1. Descriptive Statistics of Research Variables

Name	Mean	Median	Min	Max	Std. Deviation
APBD	21.645	21.650	21.580	21.700	0.040
ZAKAT	21.703	21.730	21.530	21.800	0.093
PK	11.672	11.670	11.580	11.800	0.070

Source: Statistics of Research Variables, 2025.

The descriptive statistics indicate that both fiscal expenditure and zakat exhibited relatively stable growth patterns during the observation period. This finding is consistent with the broader trend observed in Banten Province, where regional fiscal capacity and zakat collection increased substantially between 2017 and 2021. Despite these improvements, poverty indicators remained uneven across districts and municipalities, suggesting that increases in financial resources alone may not automatically translate into proportional reductions in poverty. Therefore, evaluating the effectiveness of fiscal policy and zakat becomes essential for understanding their actual contribution to welfare improvement.

The significant influence of zakat reinforces the view that Islamic social finance can serve as an effective complementary instrument for poverty reduction. Unlike public expenditure, which generally operates through large-scale development programs, zakat directly targets eligible beneficiaries (mustahik) through redistribution mechanisms. The growth of zakat collection in Banten Province during the observation period reflects the increasing capacity of zakat institutions to mobilize social resources and support vulnerable households. Therefore, zakat contributes not only to short-term consumption support but also to broader socio-economic welfare improvement.

The results of the multicollinearity test in Table 2 do not show a high correlation between independent variables, with the value of each well below the critical threshold of 10. This finding provides certainty that the regression model used is free from distortions due to multicollinearity, so that the interpretation of the relationship between variables can be carried out more validly. Furthermore, the results of multiple linear regression revealed that partially, both the APBD and zakat have a positive and significant influence on poverty reduction. The APBD variable exhibits a positive coefficient of 0.281, with a T-statistical value of 6,006 and a significance of 0.000, while zakat also shows a significant influence, even though it is negative on the standard coefficient (-0.272), but the T-statistical value remains high (9,674) and significant at the level of 0.000. These findings suggest that both play an important role, although the mechanisms and impacts can differ depending on the implementation of policies and management systems. Zakat has a significant negative relationship with poverty, indicating that higher zakat distribution contributes to lower poverty levels.

Table 2. Results of the Multicoloniality Test

APBD	2.184
ZAKAT	1.745
PK	2.171

Source: Multicoloniality Test, 2025

The analysis of the direct influence supports the previous results, in Table 2, which shows that the relationship between the APBD and poverty reduction zakat is above the statistical threshold value (T > 1,674 and P < 0.05). Simultaneous testing through ANOVA reinforced these findings, with an F value of 674.590 and a significance value of 0.000, indicating that both instruments have a strong collective influence in significantly lowering poverty rates. Substantively, these findings suggest that the optimal allocation of APBD funds, especially those earmarked for strategic public sectors such as education, health, infrastructure, and social assistance, is able to increase the resilience of people experiencing poverty to economic risks. Meanwhile, zakat as a sharia-based fiscal instrument shows potential as a complement to government fiscal intervention, especially in reaching vulnerable groups of people who the APBD program may not have accommodated.

One of the important findings of this study is the complementary relationship between fiscal policy and zakat. While fiscal expenditure provides broad-based public services and development programs, zakat offers targeted support for economically disadvantaged groups. Consequently, the combination of these two instruments creates a more comprehensive poverty reduction framework than relying solely on government expenditure or charitable redistribution. This finding supports the argument that public fiscal policy and Islamic social finance should be integrated within regional development strategies to promote more inclusive and sustainable welfare outcomes.

This study extends the existing literature by examining fiscal policy and zakat simultaneously within a single analytical framework, thereby providing evidence on the complementary roles of public finance and Islamic social finance in reducing poverty at the regional level. The findings also support the argument that poverty reduction requires a combination of broad-based fiscal intervention and targeted social redistribution mechanisms. While regional expenditure provides public goods and services that benefit society collectively, zakat offers a more direct channel for reaching vulnerable households. In regions where socio-economic disparities remain relatively high, the complementary role of these two instruments becomes increasingly important. This evidence strengthens the view that public finance and Islamic social finance should not be treated as separate policy domains but as mutually reinforcing instruments for promoting inclusive development.

If analyzed simultaneously, regional fiscal policy and zakat actually have a complementary relationship. Regional fiscal policy functions as a macro instrument that provides infrastructure, public services, and social programs on a broad scale, while zakat functions as a micro instrument that is closer to the needs of the poor. The combination of the two can create a more effective synergy in reducing poverty than if they were run separately.

The relevance of zakat as a poverty reduction instrument is further supported by the substantial growth in zakat collection in Banten Province. During the study period, zakat collection increased from approximately IDR 5.9 billion in 2017 to more than IDR 22.2 billion in 2021, indicating a significant expansion of Islamic social finance capacity in the region. This trend suggests that zakat has evolved beyond its traditional charitable role and increasingly functions as a strategic socio-economic instrument capable of supporting poverty reduction efforts.

The results of the research by Ariyani Widyastuti and Agung Nusantara using a simultaneous statistical model of significance, while partially, fiscal decentralization and balance funds have no effect on poverty. Therefore, only economic growth does it. Then, the regression results of the analysis showed that the level of fiscal decentralization had a negative, but not significant, impact on poverty. Another result is that the DAU, DAK, and DBH balance funds do not have a significant effect on poverty, and again, the results of the regression analysis make it clear that it is only economic growth that has a significant impact on poverty reduction. (Widyastuti & Nusantara, 2022).

Based on this analysis, the formulation of the problem regarding the influence of regional fiscal policies and zakat on poverty reduction is important to be researched because it can provide an overview of the effectiveness of the two instruments in improving people's welfare. This research can also be the basis for local governments and zakat management institutions in formulating policies that are more targeted, integrated, and oriented towards the empowerment of the poor. Thus, poverty reduction is not only the responsibility of the government, but also involves community social participation through the optimization of zakat management.

The Effectiveness of Zakat as a Poverty Reduction Program

Zakat is one of the Islamic economic instruments that has a spiritual as well as socio-economic dimension. In Islamic teachings, zakat is not only understood as an obligation of worship for Muslims who can afford it, but also as a mechanism of income redistribution to create social balance and reduce economic inequality. Therefore, zakat has a very strong relevance in poverty reduction efforts, especially in countries or regions with a majority Muslim population.

Conceptually, the effectiveness of zakat in poverty reduction can be seen from its ability to help the poor meet basic needs and increase their economic capacity. Zakat funds distributed to the mustahik group can be used to meet consumption needs such as food, clothing, health, and education. In the short term, zakat functions as a social protection instrument that helps the poor survive economic pressure. Meanwhile, in the long term, zakat can be directed to productive programs that encourage the economic independence of the community. Based on studies (Abdulwasaa & Kawale, 2023; Ghazi & Dhahir, 2024; Wirayudha & Prasetyia, 2024), poverty is influenced by economic, social, and demographic factors. This model combines zakat as a tool to alleviate poverty, in addition to standard determinants such as unemployment, population, and HDI (Runtiningsih, et.al, 2026). The results of this study show that the variables of Zakat, Infaq, and Alms have a positive, although insignificant, effect on poverty in 34 provinces in Indonesia. Research supporting these findings includes studies by Martaliah et al. (2023). The study found that the distribution of zakat did not have a significant or positive impact on poverty in Jambi Province. Studies by Fatchullah et al. (2023) and Widiastuti & Kosasih (2021) also found that the ZIS variable did not have a significant impact on poverty. (Febrianto et al, 2025).

From an economic perspective, zakat has a multiplier effect on people's economic activities. Zakat funds distributed to low-income groups will increase people's purchasing power, thereby encouraging consumption and local economic turnover. In addition, the productive zakat program can create new job opportunities and strengthen the micro business sector, which is the economic basis of small communities. Thus, zakat not only has an impact on individual recipients but also on the economic growth of the community more broadly.

Another challenge is the dominance of the zakat distribution pattern, which is still consumptive rather than productive. Many zakat institutions focus more on short-term assistance because it is considered faster and easier to distribute. In fact, without a sustainable economic empowerment program, the poor will still depend on aid. Therefore, it is necessary to transform the paradigm of zakat management from just charity-oriented to empowerment-oriented.

In addition, synergy between zakat institutions and the government is an important factor in increasing the effectiveness of zakat as an instrument of poverty reduction. Integration of poverty data, coordination of social assistance programs, and collaboration on economic empowerment can avoid overlapping assistance and improve the efficiency of zakat distribution. In this context, zakat can be a complement to the government's fiscal policy in creating community welfare.

The empirical findings of this study provide additional support for the argument that zakat contributes to poverty reduction when managed effectively and distributed to eligible beneficiaries. Although previous studies have reported mixed results regarding the impact of zakat on poverty, the evidence from Banten Province indicates that zakat remains a relevant instrument for improving social welfare. This finding reinforces the importance of strengthening zakat governance, expanding collection mechanisms, and improving the productivity orientation of zakat distribution programs.

Thus, the effectiveness of zakat as a poverty reduction program is not only determined by the amount of funds collected, but also by the quality of management, the accuracy of distribution targets, and the orientation of programs that focus on community empowerment. If managed optimally and integrated with socio-economic development policies, zakat has great potential to be a strategic instrument in creating social justice, reducing economic disparities, and sustainably realizing community welfare.

Policy Recommendations and Practical Implications

The policy recommendations proposed in this study are derived from the empirical evidence that both fiscal policy and zakat significantly contribute to poverty reduction. The findings imply that poverty reduction policies should move beyond sectoral approaches and adopt a more integrated framework that combines public expenditure programs with Islamic social finance initiatives. Such an approach is particularly relevant in regions characterized by persistent socio-economic disparities despite relatively strong economic growth.

The results of the analysis on the influence of regional spending and zakat on poverty reduction in Banten Province show that poverty reduction requires a more integrated, adaptive, and community-oriented approach. So far, regional fiscal policies tend to focus on increasing budget allocation without being balanced with optimizing the quality of spending and the accuracy of program targets. On the other hand, zakat, as a religious socio-economic instrument, has great potential, but it has not been fully integrated into regional development strategies. Therefore, policy recommendations are needed that are able to strengthen the synergy between local governments and zakat management institutions so that poverty reduction efforts become more effective and sustainable.

One of the main recommendations is to strengthen the orientation of regional spending that is pro-poor or in favor of the poor. Local governments need to ensure that budget allocations are directed more towards sectors that have a direct impact on improving people's welfare, such as education, health, social protection, job creation, and MSME empowerment. Regional spending is not only focused on physical development and administrative spending, but also on programs that are able to increase the economic productivity of the poor in a sustainable manner.

In addition, local governments need to improve the effectiveness and accountability of budget management through an outcome-based approach. The success of poverty reduction programs cannot be measured solely by the high realization of the budget, but must be seen from the real impact on reducing poverty rates, reducing unemployment, and increasing people's income. Therefore, program evaluations need to be carried out periodically using measurable welfare indicators so that fiscal policies truly provide benefits to vulnerable groups.

In the context of zakat, policy recommendations are directed at optimizing the collection and distribution of zakat funds more professionally and productively. Zakat management institutions need to strengthen a transparent, accountable, and digital technology-based governance system in order to increase public trust. Digitization of zakat payments, integration of muzakki and mustahik data, and transparency of financial statements can increase the effectiveness of zakat collection and expand the scope of beneficiaries.

Furthermore, the pattern of zakat distribution needs to shift from a consumptive approach to a productive approach and economic empowerment. Zakat assistance is not only given in the form of basic needs assistance, but is also directed at micro business development, job skills training, business capital assistance, and business assistance for the poor. This approach is important to create economic independence for the mustahik so that they do not continue to depend on social assistance.

Another important recommendation is to build institutional synergy between local governments and zakat management institutions. This collaboration can be carried out through the integration of poverty data, synchronization of social assistance programs, and cooperation in community economic empowerment programs. With good coordination, the distribution of aid can be more targeted and avoid overlapping programs. Local governments can use zakat institution data to identify vulnerable community groups that have not been reached by government assistance, while zakat institutions can support government programs through community-based social financing.

The practical implications of this study suggest that poverty reduction cannot rely solely on an administrative approach through government fiscal policies. The involvement of various social actors is needed, including zakat institutions, community organizations, the private sector, and local communities. This collaborative approach will strengthen the effectiveness of the program because each institution has different advantages and capacities in reaching the poor.

In addition, this research provides the implication that regional economic development must emphasize the aspect of inclusivity. High economic growth will not have a significant impact on poverty reduction if the distribution of development benefits is uneven. Therefore, fiscal policy and zakat management need to be directed at reducing socio-economic disparities and increasing the access of the poor to productive resources.

From the academic side, this research also opens up opportunities for the development of studies on the integration of fiscal instruments and Islamic economic instruments in regional development. So far, government fiscal policy and zakat are often seen as two separate mechanisms. In fact, both have the same goal, which is to create social welfare and reduce poverty. With the right integration, the two instruments can become a more inclusive and equitable socio-economic development model.

Thus, rethinking fiscal intervention means changing the paradigm of poverty reduction from just assisting with community capacity building. Regional spending and zakat must be positioned as strategic instruments that complement each other in sustainably creating community welfare. If this policy synergy can be realized optimally in Banten, then poverty reduction will not only be an administrative target for development, but also part of a more just and inclusive socio-economic transformation.

CONCLUSION

The results of this study indicate that fiscal policy, represented by regional expenditure (APBD), and zakat significantly influence poverty reduction in Banten Province. The findings demonstrate that regional fiscal expenditure remains an important instrument for improving social welfare through the provision of public services, infrastructure development, social protection programs, and community economic empowerment. At the same time, zakat plays a significant role as an Islamic social finance instrument by supporting income redistribution and strengthening the economic capacity of vulnerable households. Collectively, these findings confirm that both fiscal policy and zakat contribute to poverty reduction and welfare improvement at the regional level.

This study provides empirical evidence that public fiscal policy and Islamic social finance should not be viewed as separate mechanisms, but rather as complementary instruments in addressing poverty and promoting inclusive development. While regional expenditure operates through broad-based government programs and public investment, zakat provides a more targeted redistribution mechanism that directly reaches eligible beneficiaries. The combination of these two instruments creates a more comprehensive poverty reduction framework and strengthens efforts to improve social welfare in regions characterized by persistent income disparities and unequal access to economic opportunities.

The study also contributes to the existing literature by integrating fiscal policy and zakat within a single analytical framework. Previous studies have generally examined government expenditure and zakat separately, resulting in a limited understanding of their combined role in poverty alleviation. By simultaneously analyzing the effects of regional expenditure and zakat on poverty reduction, this research offers a broader perspective on the interaction between public finance and Islamic social finance in regional development. The findings support the argument that sustainable poverty reduction requires not only government intervention but also active participation from social and religious institutions through effective redistribution mechanisms. From a policy perspective, the findings suggest the need to strengthen the pro-poor orientation of regional expenditure. Local governments should prioritize budget allocations for sectors that directly improve community welfare, including education, healthcare, social protection, employment creation, and MSME empowerment. In addition, zakat management institutions should continue improving governance quality through greater transparency, accountability, professionalism, and the adoption of digital technologies to increase public trust and optimize zakat collection and distribution. More importantly, stronger institutional collaboration between local governments and zakat management organizations is needed through the integration of poverty databases, synchronization of social assistance programs, and joint community empowerment initiatives. Such collaboration can enhance policy effectiveness, reduce program overlap, and improve the targeting of poverty alleviation interventions.

Despite its contributions, this study has several limitations. The analysis is limited to five districts/cities in Banten Province during the 2017–2021 period and focuses only on fiscal policy and zakat as explanatory variables of poverty reduction. Therefore, the findings should be interpreted within the context of the study area and observation period. Future studies are encouraged to incorporate additional socio-economic variables, such as economic growth, unemployment, income inequality, human development, and institutional quality, to obtain a more comprehensive understanding of poverty dynamics. Further research may also explore the governance dimensions of zakat management and investigate the potential integration of Islamic social finance instruments with public policy frameworks in supporting sustainable regional development and poverty alleviation.

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