

How the Impact of Islamic Stocks and ZIS (*Zakat, Infaq & Shodaqoh*) on Poverty

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ABSTRACT

The role of Islamic stock in poverty reduction was sometimes dubious. This research empirically aims to address any questions and doubts about the impact of Islamic stocks and ZIS (zakat, infaq, & shodaqoh) in reducing poverty. The study chose the period from 2002 to 2015. It is the starting year of Islamic stocks traded in Indonesia until its peak of growth. The method used here is VAR (Vector Autoregressive), which can capture reciprocal relationships among all variables. Based on the calculation with VAR, we found that Jakarta Islamic Index (JII), as a proxy for Islamic stocks, ZIS and poverty have a negative impact reciprocally. The Granger-Causality test shows that all variables have a significant impact on influencing each other. In this research, we propose that stock markets do not directly eradicate poverty, but through the mechanism of capitalisation in real sectors. Meanwhile, ZIS, as an Islamic philanthropy, can provide a direct impact on the poor to improve their welfare.

Keywords: *Islamic stocks; poverty; ZIS (zakat, infaq, & shodaqoh)*

INTRODUCTION

The Islamic stock market has seen rapid growth in Indonesia, but its role in poverty reduction is sometimes questionable. The capital market is often perceived as wealthy assets and less responsive to real societal issues, namely, poverty. Our research attempts to prove scientifically the ability of the Islamic financial sector in mitigating poverty.

In Indonesia, there are conventional and Islamic stocks. The Islamic capital market was initiated by PT. Danareksa Investment, namely with the establishment of Danareksa Syariah on July 3, 1997. On July 3, 2000, investors began investing their capital with Islamic principles with the formation of the Jakarta Islamic Index (JII) (Munawiroh & Rumawi, 2022).

The development of Islamic stocks is quite encouraging, because the public response to the sharia stock market continues to improve. Over time, the sharia capital market in Indonesia continues to show positive developments, reflected in the increase in the number of sharia stocks and the number of sharia investors over the past five years. In the period 2019-2024, the number of sharia stocks listed on the IDX has increased by 53% from 429 sharia stocks to 656 sharia stocks in 2024 (IDX, 2025). The formation of halal capitalisation is very encouraging for investors. Its progress and increase every year is very good. It is responded to positively by the public (Munawiroh & Rumawi, 2022).

The magnitude of the Islamic capital market potential makes it so important, including in efforts to meet the improvement of people's welfare. The Islamic capital market is believed to be able to contribute to the provision of investment funds for the SDGs (Sustainable Development Goals)—program, whose mission is to solve poverty, inequality of income, protect the environment and the promotion of human rights (Tempo, 2018).

In general, it is believed that the Islamic finance potential to be very large and able to become one of the solutions to world problems, because it is in line with the targets of the SDGs launched by the United Nations (Merdeka, 2016).



In addition, Islamic stocks are very strictly bound by Islamic principles. During the global financial crisis in 2008, Islamic institutions prohibited holding subprime mortgage securities and a number of derivatives. This caused Islamic stocks to be relatively stable during the financial crisis (Akhtar & Jahromi, 2017).

The novelty of this study can be seen in that it is the first empirical research using a case study in Indonesia to examine the impact of Islamic stocks on poverty reduction with an econometric approach. While numerous studies, both in Indonesia and internationally, have focused on conventional stocks on poverty, research specifically examining the impact of Islamic stocks on poverty with empirical data has been lacking. Researchers often merely explain the conceptual framework, opportunities, and potential of Islamic finance for poverty eradication, without utilising empirical data using an econometric approach. Our study addresses this gap. This research will fulfil the lack of references concerning the role of Islamic stocks. Through this work, any questions and doubts about the role of the Islamic capital market in improving the standard of living can be answered.

Besides, this study also contributes to the literature by involving ZIS, namely Islamic philanthropy, which plays an important role in providing financial assistance to the poor. Islamic teachings require every adherent who has excess wealth to give some of their wealth to the poor. So the study of poverty reduction in Islamic literature cannot be separated from the involvement of ZIS (*zakat, infaq, & shodaqoh*).

LITERATURE REVIEW

Stocks Market

An empirical research of financial development, both banking sector and stock market development, has been proven to have a significant positive impact on poverty reduction in emerging market economies (Bayar, 2017). This research was conducted for the period 1993 – 2012. The stock market contributed significantly to reducing poverty in Brazil, China, Egypt, Hungary, India, Peru, and Thailand.

Another study finds that stock market development, which is proxied by stock market capitalisation, stock market traded value or stock market turnover ratio, does not have a significant impact on poverty reduction (Odhiambo, 2023). The researcher admitted that this finding is not surprising due to the nature and dynamics of the stock market in many SSA (sub-Saharan African) countries still under development and not well-established yet. The results of this research reinforce the idea that in order for the stock market to have a serious impact on poverty reduction, the ecosystem around the stock market must be strong.

Interestingly, the general Islamic financial sector continues to attract the interest of the world community. The total global Islamic financial assets are always rising every year. In 2012, the total value of Islamic finance was US\$1,693 billion (Alawode, 2017). Its value continues to grow. In 2024 the value jumps up to US\$5.5 trillion, and it has been projected to reach US\$7.5 trillion by 2028 (Standard, 2025). The great magnitude of this potential signifies a positive direction for the development of Islamic finance in the world.

It is proven that Islamic values can be universally accepted. It is because the Islamic stock markets are heavily reliant on real economic activities (Arshad, 2017). The major role of this Islamic stock market is to drive the economy in society, especially the Islamic economy, which is closely related to the real economy.

The number of people who are sympathetic to the Islamic financial sector is not only because of the moral issues, but also due to its performance, which is very effective. In the case of stocks, for example, we see that Islamic stocks are shares that fund various types of halal businesses, and not illegal ones. People with rational thought will think deeply and agree that various halal businesses have never harmed anyone at all. The halal businesses must have a positive and beneficial impact if we manage properly and professionally.

The Islamic capital market actually has similarities to the conventional capital market. The transaction mechanism is regulated by Law Number 8 of 1995 concerning the Capital Market (UUPM) (OJK (Otoritas Jasa Keuangan), 2018).

What distinguishes the Islamic stocks from conventional ones is that it is not used to finance illicit businesses such as gambling, brothels, or producing food and beverages that are prohibited by Islam. Furthermore, Islamic stocks are also very strictly regulated regarding transaction types. Halal stocks have clear and strict boundaries regarding the types of shares that are permitted and what types of stock transactions are appropriate according to Islamic teachings (Huda *et al.*, 2023). Short-selling, for example, is strictly prohibited because it contains elements of gambling, although the Sharia Council has no authority to punish traders or investors (Umar *et al.*, 2024). Muslims are free to make transactions as they want to buy shares based on Islamic values. Although Islamic stocks have its *raison d'être*, it is a complement to the conventional capital market, which is unable to meet all the needs of the Muslim community.

In Indonesia, Muslims are the majority. Therefore, the government should meet the needs of the Islamic capital market. Interestingly, the establishment of a sharia capital market has only begun since the issuance of mutual funds by Danareksa Investment Management in 1997. Then in 2000, a JII (Jakarta Islamic Index) was released. The amount of capitalisation is smaller than the capital markets of other countries with fellow ASEAN members; instead, the number of Muslims in Indonesia is more than in other countries.

There are many reasons why people do not want to invest in the Islamic capital market. Occasionally, people do not invest in the Islamic capital market due to a lack of knowledge and socialisation about the Islamic stocks (Supriyadi & Hariyanto, 2017). Those who are interested in investing are people who have full trust that the Islamic stocks comply with Islamic values. In addition, they also believe that the Islamic stocks are more able to survive if one day an economic crisis occurs. This kind of perception has proven to be a strong consideration.

It is a fact that cannot be neglected that the number of Indonesian people who want to invest in the capital market is still low (Kemu, 2016). When we compare to fellow ASEAN countries, such as Singapore, Thailand, the Philippines and Malaysia, the amount of capitalisation in the Indonesian capital market is relatively small. This is due to their low participation in the capital market, which recorded by 2014, was around 0.35% of the total population. The main reason for the reluctance is that they lack access to capital market literacy. Some reasons explain why literacy is not going well: 1) the assumption that transactions in the capital market require large funds; 2) lack of understanding of how to transact in the capital market; 3) the assumption of the capital market is the same as gambling; 4) stories about losses in the capital market; 5) lack of human resources in government financial institutions such as OJK (Financial Services Authority) and KSEI (Indonesian Central Securities Custodian), KPEI (Indonesian Securities Guarantee Clearing) and IDX (Indonesian Stock Exchange) for socialization of capital markets.

The Islamic capital market is an interesting theme to study because the Islamic financial sector is trusted to have a positive impact on poverty reduction (Sadiq & Mushtaq, 2015). Therefore, we try to obtain consistency that Islamic financial institutions and various SDGs (Sustainable Development Goals) programs have the same goal. The advancement of Islamic stocks is in line with the Sustainable Development Goals. It should have an impact on reducing the number of poor people.

ZIS (zakat, infaq, and shodaqoh)

Poor, a word that is synonymous with all havoc, in the view of Islam, is not absurd; instead, quite clear. The poor people, according to Islamic teachings, are not subject to the obligation to pay zakat (one of the Islamic philanthropy funds that must be paid by Muslims). On the other side, they have the right to receive zakat. This is a differentiator between Islam and other religions in general. Nor is the size of poverty relative, but it is adjusted to the situation and conditions. As a result, the size and level of poverty can vary nominally in various places. However, the situation of poverty will be the same if we see the capability to pay zakat. High income disparities in society could exacerbate economic problems (Holik, 2021).

An empirical study shows that zakat can reduce poverty, which is in line with SDGs (Sustainable Development Goals) (Aziz *et al.*, 2020). A survey of Tunisians from 2010 to 2015 shows a significant reduction in poverty in households due to zakat (Bouanani & Beihadj, 2020). These findings support the view regarding the real potential benefits of zakat for the poor.

The size of zakat, as explained in *fiqh* (Islamic jurisprudence), depends on the type of wealth. There are several types of zakat: 1) *zakat mal* (general wealth: money, gold, silver); 2) *zakat tijarah* (trade); 3) *agricultural zakat*; 4) *zakat rikaz* (treasury); 5) *zakat mal al-mustafad* (profession). The term zakat for the profession did not exist in the time of the Prophet Muhammad, but as time goes by, many scholars have discussed it. Contemporary scholars such as Sheikh Yusuf al-Qordhowi apply the calculations which are now recognised throughout the world as 5 *wasaq* or 653 kg paddy for Indonesian people.

Trading stocks in the capital market can be subject to the obligation to pay professional zakat. Of course size of 5 *wasaq* must be fulfilled first. If our trade does not receive income (profit) equal to 5 *wasaq* in one month, we are not obliged to pay zakat.

People who invest in the capital market, particularly in Islamic stocks, have a clear plan. Thorough financial planning for the future is an act of financial intelligence, as people are accustomed to preparing for their financial needs to live a decent life (Holik & Mahmud, 2023).

In this study, we propose several hypotheses as follows:

- a. Islamic stock has an impact on poverty reduction
- b. ZIS (zakat, infaq, and shodaqoh) has an impact on poverty reduction

METHOD

This research is quantitative, using empirical data as the object of analysis. There are 4 variables used in this study, namely: 1) data on the number of poor people in Indonesia obtained from BPS (Badan Pusat Statistik; Central Bureau of Statistics), 2017); 2) JII (Jakarta Islamic Index) as a proxy for Islamic stocks, data obtained from the OJK (Financial Service Authority) website in the form of sharia stock statistics; 3) GDP (Gross Domestic Product) as a control variable, data obtained from ADB (Asian Development Bank), 2017; 4) ZIS (Zakat, Infaq, Shodaqoh) data were obtained from Baznas (National Zakat Agency). All data are in the form of annual data. To facilitate analysis, all data are converted into natural logarithms as we want to obtain the growth rate. The study was conducted from 2002 to 2015. We chose this period due strating Islamic stocks traded in Indonesia. Meanwhile the 2015 was the year of significant growth of Islamic stocks, signified by an increase of companies listed and investors as well. Our research aims to capture the phenomenon over the period and elaborate on it deeply.

By considering this research as a time series, we carried out several tests first before entering into regression, especially the stationary tests. Based on the analysis, it was found that the data is not stationary at the level, but stationary at the first difference. Estimation results are explained below:

Table 1. Stationary Test

Variable	t-statistic	Prob.*
Poor	-2.713612	0.0113
JII	-3.861228	0.0011
GDP	-2.966604	0.0067
ZIS	-3.415538	0.0032

Source: Calculation by Author

The test results show that all the data are stationary. This test is considered important because the results of a coherent analysis of time that does not provide a stationary condition will produce false regression. Therefore, to eradicate the problem, all error terms must be constant all the time. Because the data we use is relatively small when comparing time series and the number of variables, we have difficulty in conducting a cointegration test.

The method of analysis in this study is VAR (Vector Autoregressive), which allows us to be able to trace the influence of one variable each another. The reciprocal relationship between variables is feasible (Widarjono, 2009). This method was first proposed to elaborate the reciprocal relationship among variables (Sims, 1980). It is a way of tracing the relationships between variables which theoretically lack strong support. The main objective in this research is to find out the

influence of the variable Islamic capital market, which is proxied by Islamic stock capitalisation funds, on the number of poor people in Indonesia.

We include the GDP as a control variable. The amount of GDP signifies the productivity of a country. If productivity is low, the number of poor people increases. Conversely, if productivity is high, the number of poor people will decrease because they can work and live well.

ZIS data are entered to be a complementary variable that allows Islamic capitalisation to run smoothly. The zakat, infaq and shodaqoh are the important components of the empowerment program for the poor. Muslims who are able materially, obliged to pay zakat, while infaq and sodaqoh are only voluntary. If we speak of Islamic finance, the context is not only about how much wealth a person has, but also how the distribution and equity of people's welfare can be achieved.

The model for VAR analysis is arranged as follows:

$$\begin{aligned}
 1) \Delta \ln Y_t &= \beta_{01} + \sum_{i=1}^n \beta_{i1} \Delta \ln Y_{t-i} + \sum_{i=1}^n \delta_{i1} \Delta \ln X_{t-i} + \sum_{i=1}^n \mu_{i1} \Delta \ln Z_{t-i} + \\
 &\quad \sum_{i=1}^n \vartheta_{i1} \Delta \ln M_{t-i} + e_{1t} \\
 2) \Delta \ln X_t &= \beta_{02} + \sum_{i=1}^n \delta_{i2} \Delta \ln X_{t-i} + \sum_{i=1}^n \beta_{i2} \Delta \ln Y_{t-i} + \sum_{i=1}^n \mu_{i2} \Delta \ln Z_{t-i} + \\
 &\quad \sum_{i=1}^n \vartheta_{i2} \Delta \ln M_{t-i} + e_{2t} \\
 3) \Delta \ln Z_t &= \beta_{03} + \sum_{i=1}^n \mu_{i3} \Delta \ln Z_{t-i} + \sum_{i=1}^n \delta_{i3} \Delta \ln X_{t-i} + \sum_{i=1}^n \beta_{i3} \Delta \ln Y_{t-i} + \\
 &\quad \sum_{i=1}^n \vartheta_{i3} \Delta \ln M_{t-i} + e_{3t} \\
 4) \Delta \ln M_t &= \beta_{04} + \sum_{i=1}^n \vartheta_{i4} \Delta \ln M_{t-i} + \sum_{i=1}^n \mu_{i4} \Delta \ln Z_{t-i} + \sum_{i=1}^n \beta_{i4} \Delta \ln Y_{t-i} + \\
 &\quad \sum_{i=1}^n \delta_{i4} \Delta \ln X_{t-i} + e_{4t}
 \end{aligned}$$

Where:

$\Delta \ln Y_t$ = first difference of the natural logarithm of JII (Jakarta Islamic Index) capitalization fund

$\Delta \ln X_t$ = first difference of the natural logarithm of GDP (Gross Domestic Products)

$\Delta \ln Z_t$ = first difference of the natural logarithm of poor people

$\Delta \ln M_t$ = first difference of the natural logarithm of ZIS (Zakat, Infaq, Shodaqoh)

β_0 = constant

$\beta_i, \delta_i, \mu_i, \vartheta$ = coefficient

e = error term

In this research, we propose a Granger Causality Wald Test analysis in order to explain the causal relationship between variables robustly. Granger Causality Wald is very strict in the test (Toda & Yamamoto, 1995). The idea is a continuation of the plain pairwise Granger Causality test.

RESULT

Analysis of VAR (Vector Autoregressive)

Based on the analysis using VAR, we get the following results:

Table 2. VAR Analysis

	LJII	LGDP	LPOOR	LZIS
LJII(-1)	1.174223	2.545036	-0.935162	2.513242
s.e.	(0.72333)	(0.50900)	(0.17168)	(1.13763)
t-stat	[1.62337]	[5.00008]	[-5.44720]	[2.20919]
LJII(-2)	1.154176	1.263482	-0.751242	2.107820

s.e.	(0.58353)	(0.41063)	(0.13850)	(0.91777)
t-stat	[1.97792]	[3.07696]	[-5.42420]	[2.29668]
LGDP (-1)	-1.226658	-1.498239	0.654456	-1.986854
s.e.	(0.53214)	(0.37447)	(0.12630)	(0.83695)
t-stat	[-2.30512]	[-4.00100]	[5.18169]	[-2.37393]
LGDP (-2)	-0.458989	-0.862609	0.318999	-0.827790
s.e.	(0.25829)	(0.18176)	(0.06130)	(0.40623)
t-stat	[-1.77702]	[-4.74594]	[5.20356]	[-2.03772]
LPOOR(-1)	-7.869890	-18.52647	6.779430	-14.98759
s.e.	(5.14887)	(3.62322)	(1.22206)	(8.09803)
t-stat	[-1.52847]	[-5.11326]	[5.54755]	[-1.85077]
LPOOR(-2)	-8.447573	-0.177287	-0.903414	-1.186816
s.e.	(0.89162)	(0.62743)	(0.21162)	(1.40232)
t-stat	[-9.47440]	[-0.28256]	[-4.26900]	[-0.84632]
LZIS(-1)	-2.169881	-4.799588	2.130500	-4.700944
s.e.	(1.49440)	(1.05160)	(0.35469)	(2.35036)
t-stat	[-1.45201]	[-4.56409]	[6.00669]	[-2.00010]
LZIS(-2)	1.965001	2.933329	-1.014942	2.464835
s.e.	(0.77133)	(0.54278)	(0.18307)	(1.21313)
t-stat	[2.54756]	[5.40430]	[-5.54400]	[2.03180]
C	-0.500188	-0.252963	0.017623	-0.071381
	(0.13328)	(0.09379)	(0.03163)	(0.20961)
	[-3.75303]	[-2.69726]	[0.55713]	[-0.34053]
R-squared	0.991106	0.991739	0.961934	0.886831

Source: Calculation by Author

From table 2 above, we get some results as follows. JII is known to have a significant positive effect on GDP. At the 1st lag, every 1 percent increase of JII will cause GDP to increase by 2.54 percent. While at the 2nd lag, the positive impact decreased slightly by 1.26 percent. JII is known to have a significant negative effect on the number of poor people. At the 1st lag, when the JII capitalisation value increased by 1 percent, the number of poor people could decrease by -0.93 percent. While at the 2nd lag, the effect decreased to -0.75 percent. JII is known to have a positive impact on ZIS funds. In the 1st lag, every 1 percent increase of JII capitalization value can increase ZIS by 2.51 percent. Whereas in the second lag, the value becomes 2.10 percent.

GDP in this study shows a number of anomalies. GDP is known to have a negative impact on JII. This is an oddity, but we can explain the fact that the magnitude of GDP does not support the enlargement of capitalisation in the capital market. Indonesia's GDP is currently growing, but the addition of JII capitalisation is very slow. If we compare to capitalisation among ASEAN countries, the amount is very small. But the relationship between the two variables sometimes happens otherwise. It means that capitalisation in the Islamic capital market can actually sustain GDP. Likewise, the influence of GDP on the poor. The number of poor people should decrease with the increase in GDP. In this study, there was no such thing, but GDP has a significant positive impact on increasing the number of poor people. The anomalies have to be our consideration. The economic growth should have reduced the number of poor people, and not just increased the productivity of goods and services.

The poor people in Indonesia are known to have a negative influence on JII in the 2nd lag. When there was an increase in the number of poor people by one percent, JII fell by 8.44 percent. The number of poor people also has a negative impact on GDP. In the second lag we find that when there is an increase in the number of poor people by 1 percent, GDP growth can drop by 18.52 percent. This number is indeed relatively large, but we get results that are in line with rational economic views. When there was a 1 percent increase in the poor, ZIS funds could decrease by 14.98 percent. The poor increase, who pay zakat, infaq and shodaqoh reduced.

The ZIS is known to have a significant positive impact in the 2nd lag on the JII. When there was a ZIS increase of 1 percent, JII could increase by 1.96 percent. The influence of ZIS on GDP is known to have a significant negative value on the 1st lag. While in the 2nd lag the value becomes positive, namely when there is a 1 percent increase in ZIS, GDP will increase by 2.93 percent. The effect of ZIS on the poor in the 1st lag is positive, 2.13 percent. While in the 2nd lag, when there was a 1 percent increase in ZIS funds, the number of poor people decreased by 1.01 percent. The more the ZIS funds are distributed, the poor people will decrease.

Analysis of Granger Causality Test

To strengthen our analysis, we propose the Granger Causality test. The result as follows:

Table 3. Granger Causality Wald Test

Dependent variable: LJII			
Excluded	Chi-sq	df	Prob.
LGDP	6.072826	2	0.0480
LPOOR	100.9152	2	0.0000
LZIS	20.59823	2	0.0000
All	178.2557	6	0.0000
Dependent variable: LGDP			
Excluded	Chi-sq	df	Prob.
LJII	177.9618	2	0.0000
LPOOR	27.70868	2	0.0000
LZIS	35.02128	2	0.0000
All	234.9359	6	0.0000
Dependent variable: LPOOR			
Excluded	Chi-sq	df	Prob.
LJII	29.74002	2	0.0000
LGDPB	28.09716	2	0.0000
LZIS	36.91901	2	0.0000
All	49.80398	6	0.0000
Dependent variable: LZIS			
Excluded	Chi-sq	df	Prob.
LJII	5.439354	2	0.0659
LGDP	5.771819	2	0.0558
LPOOR	4.888672	2	0.0868
All	12.52261	6	0.0513

Source: Calculation by Author

In the first model, the variable JII is used as a dependent variable. The result shows that all independent variables (GDP, number of poor people, ZIS) have a significant effect on the dependent variable (poor people) with $\alpha = 5$ percent. This signifies that the role of the JII was influenced by these three things.

In the second model, the GDP variable is used as the dependent variable. The results show that all independent variables (JII, number of poor people, ZIS) have a significant effect on the

dependent variable, even at degrees $\alpha = 1$ percent. This finding explains that the amount of GDP value is much influenced by the three independent variables.

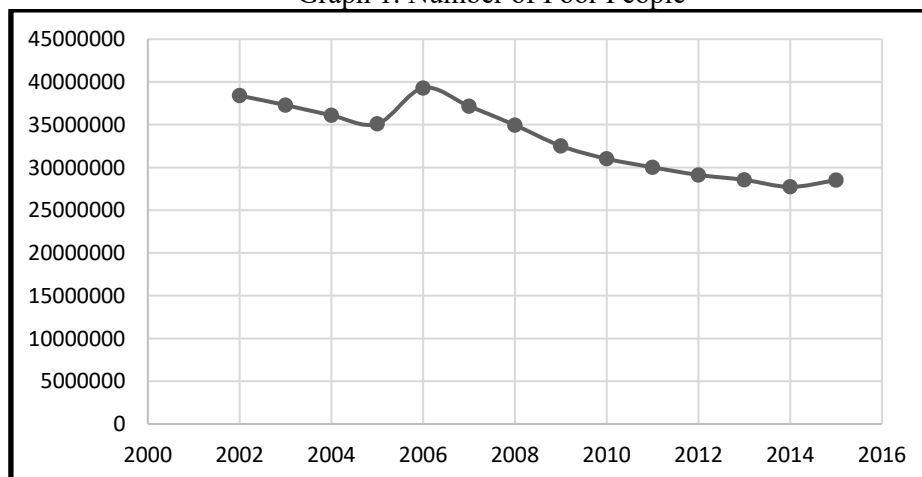
The third model places the number of poor people as the dependent variable. The analysis shows that all three independent variables (JII, GDP, ZIS) are able to significantly influence the dependent variable, even at degrees $\alpha = 1$ percent. This calculation proves that the number of poor people is affected by capital market conditions, economic productivity in GDP, and the amount of ZIS funds.

While the final model puts ZIS data as an endogenous variable. The empirical finding shows that all exogenous variables (JII, GDP, number of poor people) influence the ZIS variable at $\alpha = 10$ percent.

Discussion

To attract someone or a group of people out of the poverty trap is not easy. We need to create an integrated, strong system from the capital to empower the poor. To reduce poverty is not enough by providing financial assistance to the poor, but also by providing jobs so people can improve their standard of living. During the observation period (2004 to 2015), the average poor in Indonesia continued to decline. The graph as follows:

Graph 1. Number of Poor People



Source: BPS (Badan Pusat Statistik—Center of Statistics)

Based on graph 1 above, we find that the number of poor people in Indonesia continues to decline. In this research, we cannot directly obtain the influence of capital market variables on the decline in the number of poor people. There is a mechanism that explains how the influence occurs. The influence of Islamic stocks on poverty reduction can generally be traced through some paths, maybe direct and/ or indirect channels. Those channels will be discussed. First, the strengthening of the price of the stock market means that company owners gain profits because the shares are sold on the market. They can use the profit from the sale of their shares to develop their business. New business units will be created. When business increases, the need for employment also increases. The demand for labour is increasing, so that many people can work with a sufficient income. Real business will provide many jobs and recruit new workers. It will provide better jobs for many people. The flow of capital in the stock market can be channelled to the real economy. The number of poor people will decrease. But it needs time to actualise in reality.

Second, stocks in general can help reduce poverty through the profits received by investors. Their gain from buying stock consists of two things: increases in price and dividends given by the companies. When buying shares, both conventional stocks and Islamic stocks, the investors actually hope to gain profits from rising prices and dividends that are distributed per period, which can be annually or biannually or sometimes quarterly. With these profits, investors can use their funds for various things, including financing their own business. When this happens, more jobs become

available. Poverty can decrease because many of the working people are absorbed into new employment opportunities. The true investors want to make their profits to develop real business units. Therefore, the capital market is only a tool in creating the welfare of society, and not an end goal.

The stock market is open to everybody; easy to access for everyone, whatever the background. The stakeholder's role is to remind and give understanding to society of the role of the capital market. It is not enough that policymakers only remind and or provide education to the public to invest in the capital market. What is also important are the following actions: building a real business and empowering the economic potential of the community. Through direction and advice that is continuously channelled, it can influence society. The role of the capital market in boosting the welfare of the people's economy finds its relevance. The potential for developing Islamic capital markets in Indonesia is very large. The value of market capitalisation is increasing every year, even in the period of recession.

Policymakers need to strengthen the Islamic stocks ecosystem by creating regulations that protect investors and companies. Screening of various types of Islamic stocks must be carried out more carefully to prevent investors from being deceived by false sharia-compliant and unscrupulous companies. Sometimes, bad companies listed on the stock exchange cause losses for investors. In the worst case, the company will be delisted from the stock exchange by resulting in many investors losing. Good supervision and monitoring systems are imperative.

The results of this study are in line with the findings of the negative influence of capital markets on poverty in several countries, such as Brazil, China, Egypt, Hungary, India, Peru, and Thailand (Bayar, 2017). But our paper contradicts the study in the African region (Odhiambo, 2023), due to the ecosystem of the capital market in that area has not been fully formed. Although their research used conventional stock markets, we believe that in the context of trading and profit, there are no differences between Islamic and conventional stocks. Our research confirms that Islamic stocks also have a significant negative impact on poverty.

The concept offered by Islamic philanthropy through ZIS is in line with the first agenda in the SDGs (Sustainable Development Goals) program initiated by the United Nations (United Nations), namely: zero poverty. This research finding is supported by other researchers who focused on the role of zakat and SDGs—sustainable development goals—in eradicating poverty in Pakistan (Aziz *et. al*, 2020). Our study also produced the same conclusion as that found by other researchers who used a multi-year survey in Tunisia, namely the influence of zakat on poverty (Bouanani & Beihadj, 2020).

In the context of Islam, empowering people to turn out from the poverty line is one of the obligations of the haves. Zakat in this case is social worship, or called worship *ghoiru mahdoh*. While prayer and fasting are *mahdhoh worship*: pure worship to God. ZIS funds that have been collected nationally by representatives of the government or by Islamic non-government organisations spread throughout the archipelago for the poor.

CONCLUSION

Our research has successfully proven that the Islamic stock market and ZIS have an impact on eradicating poverty. Based on estimation using VAR and Granger causality, it was found that each variable in this study had a significant effect on reciprocal relationships. Islamic stock and ZIS have proven to have a significant negative effect on the number of poor people in Indonesia. Meanwhile, the variable GDP has a significant positive impact on poor people. On the other side, the variable of poor people has a negative impact on these variables—JII, ZIS, and GDP: when there is an increasing number of poor people, all of those variables will decrease.

From this research, we explain that the Islamic capital market, although proven to have a significant impact in reducing the number of poor people, but its a role is only a provider of funds. Investors must be given an understanding that the profits they earn in the capital market must be used to empower real economic activities. By providing real business, the capital market finds its relevance in improving the welfare of society.

This study specifically enriches the discourse of Islamic stocks, particularly by using a quantitative econometric approach. Overall, the research's insights shed light on how Islamic stocks

can contribute, similarly to conventional stocks, to poverty reduction. Practically, this research can serve as a guide for policymakers in encouraging the development and strengthening of Islamic markets. Total Islamic finance assets around the world continue to grow every year, indicating its acceptance by the global community.

Due to limitations of the data, this study cannot measure the shocks of one variable to another with the impulse response approach. It also does not involve an analysis of the influence of one variable on another variable in the future through variance decomposition. The other researchers can broaden their perspective by entering more data to obtain a more comprehensive analysis.

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