






“The role of Sukuk financing in economic growth and poverty reduction: Empirical evidence from selected ASEAN countries”

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THE ROLE OF SUKUK FINANCING IN ECONOMIC GROWTH AND POVERTY REDUCTION: EMPIRICAL EVIDENCE FROM SELECTED ASEAN COUNTRIES

Abstract

Sukuk has received growing recognition as a Sharia-compliant financial instrument that promotes inclusive economic development and poverty alleviation. This study aims to investigate the dual impact of Sukuk financing on economic growth and poverty reduction in Indonesia, Malaysia, and Brunei Darussalam – three ASEAN countries with active Sukuk markets and shared development priorities.

A quantitative research design is adopted using pooled (panel) data covering the period from 2019 to 2023. Data were collected from the Asian Development Bank, Brunei Darussalam Islamic Finance, and the Financial Services Authority. Empirical investigation employs simultaneous panel equations to explore the interdependence between variables. The study applies the instrumental least squares method and the two-stage least squares technique to address potential endogeneity. Economic growth is measured by gross domestic product growth rate, while the poverty headcount ratio quantifies poverty levels. Sukuk financing is represented by the total volume of Sukuk issued. Control variables include the Human Development Index, which reflects social progress, and the inflation rate, which captures macroeconomic stability.

The findings indicate that a one percent increase in Sukuk financing results in a 0.09 percent rise in gross domestic product growth ($p < 0.05$), enhancing job creation and infrastructure development. Furthermore, a one percent increase in economic growth leads to a 5.97 percent decrease in poverty levels ($p < 0.01$), while inflation leads to a 0.64 percent rise in poverty ($p < 0.05$). These results confirm the effectiveness of Sukuk as a sustainable financing tool for long-term growth and poverty reduction in selected ASEAN countries.

Keywords

Sukuk, growth, poverty, ASEAN, finance, inclusion, development

JEL Classification

G18, E62, I32, H54

INTRODUCTION

In recent years, Islamic finance has gained considerable momentum as a viable and ethical alternative to conventional financial systems. Distinguished by its Sharia-compliant principles, Islamic finance emphasizes asset-backed transactions, risk-sharing, and social justice, providing an inclusive financial model that addresses both economic and ethical concerns. Among its various instruments, Sukuk – often referred to as Islamic bonds – has emerged as a leading mechanism for mobilizing funds for public sector development, infrastructure investment, and social welfare programs. Unlike conventional bonds that rely on interest-based debt, Sukuk structures are based on ownership of tangible assets, ensuring that financing is linked to real economic activities and minimizing speculative behavior.

Within the ASEAN region, particularly in Indonesia, Malaysia, and Brunei Darussalam, Sukuk issuance has expanded rapidly, supported by government strategies to diversify funding sources and meet development goals. These countries have employed Sukuk not only as a fiscal instrument but also as a catalyst for sustainable economic development (Nasir & Mridha, 2017; Naz & Gulzar, 2022). However, despite the growing adoption of Sukuk in these economies, the empirical evidence concerning its direct impact on economic growth and poverty alleviation remains limited and inconclusive. While some scholars suggest that Sukuk contributes positively to macroeconomic performance through increased investment and market deepening, others argue that its effects on poverty reduction are less straightforward and mediated by structural and institutional factors. This ambiguity underscores the need for deeper analytical investigation into the role of Sukuk in fostering economic advancement and reducing socio-economic disparities in developing contexts.

1. LITERATURE REVIEW AND HYPOTHESES

A growing body of literature has examined the role of Islamic financial instruments – particularly Sukuk – in supporting macroeconomic development and social welfare across emerging economies. The rapid growth of Islamic finance has drawn considerable attention to Sukuk, a Shariah-compliant financial instrument increasingly used to finance public projects and stimulate sustainable development. Sukuk issuance is expected to reach approximately USD 6,667 billion by 2027, reflecting the growing global demand for ethical investments and asset-backed securities (Mohamad et al., 2023). Compared to conventional bonds, Sukuk mobilizes capital through ownership of real assets, reducing financial speculation and aligning investments with tangible economic outcomes. Scholars have highlighted Sukuk's potential to support green finance, infrastructure development, and inclusive growth, especially in emerging economies such as those in ASEAN (Hafsa & Oumaima, 2021; Metoui & Ghorbel, 2023).

Within ASEAN, countries such as Indonesia, Malaysia, and Brunei Darussalam have steadily increased Sukuk issuance to fund infrastructure, energy, and social programs. However, economic growth across these nations has remained relatively modest, with Indonesia's GDP growth persistently below 5.5% in recent years despite the continued issuance of Sukuk instruments. This has prompted discussions regarding the extent to which Sukuk contributes to economic acceleration and poverty alleviation. Some studies, such as Ali et al. (2023), report that Sukuk positively influences economic performance, particularly when allocated toward productive sectors. Conversely, others argue that

the benefits may take time to materialize and are contingent upon institutional capacity and regulatory effectiveness (Yıldırım et al., 2020; Novreska & Arundina, 2024).

Research on the role of Sukuk in supporting economic growth consistently demonstrates its capacity to fund productive investments without relying on interest-based mechanisms. Sukuk supports long-term financing of large-scale infrastructure and public development projects, enhancing national competitiveness (Liu & Lai, 2021; Faisal et al., 2023). Empirical evidence from Indonesia, for example, shows that the country issued USD 6.9 billion in Green Sukuk between 2018 and 2022, divided among global, retail, and project-based instruments (Ledhem, 2022). These instruments not only attracted foreign investors but also reinforced the government's commitment to environmental sustainability. To maintain growth momentum, scholars have recommended institutional strengthening of the Islamic finance sector (Strobbe et al., 2023), along with reforms to encourage broader market participation (Marfatia, 2023; Wahyuningsih & Nurzaman, 2020).

However, debate remains as to whether Sukuk has any short-term effects. In their cross-country study, Yıldırım et al. (2020) found that Sukuk had a positive effect on long-run economic growth but had no, or at most negligible, effect in the short term. This is in line with Romer's endogenous growth theory, which emphasizes domestic factors like innovation, institutional quality, and persistence of policies as the determinants of economic growth (Jones et al., 1997). The growth potential of sukuk is only possible through the support of complementing macroeconomic and financial environments.

Apart from growth, the connection between economic performance and poverty reduction remains complex. Earlier models assumed that growth would trickle down and accrue to low-income groups automatically. Recent studies have challenged this assumption, arguing that fair distribution of income, opportunities in the labor market, and financial access are pivotal in ensuring that economic growth is felt in poverty reduction (Bui et al., 2017; Maryam et al., 2024). Here, Sukuk provides an effective instrument for inclusive growth as it will enable governments to finance social welfare such as housing, health, and education (Sarracino, 2019; Yumna et al., 2024).

Sukuk has been increasingly utilized in ASEAN countries to fund specific programs targeting the poor. The strategies' success, nonetheless, largely relies on open governance, public enlightenment, and effective disbursement of funds (Rahman & Khan, 2023). In addition, macroeconomic determinants – such as inflation and the Human Development Index (HDI) – have a mediating influence on the poverty reduction function in growth. HDI, a composite index of achievement in income, education, and health, has been validated to promote long-term development (Soleman et al., 2022). On the other hand, inflation often incapacitates poverty alleviation for poor households (Wen et al., 2022; Hafsa & Oumaima, 2021).

In summary, there is firm evidence in the literature that exists for Sukuk's positive role in bringing about growth and social development. However, the specific role it plays in eradicating poverty is underresearched and situation-specific. There is mounting need for empirical study combining both macroeconomic statistics and institutional factors in an effort to uncover the full extent of Sukuk's socio-economic contribution.

This study aims to explore the double role of Sukuk financing in supporting economic development and reducing poverty in Indonesia, Malaysia, and Brunei Darussalam – three ASEAN nations with an active Sukuk market and shared development objectives.

Based on the research context and goals, the hypotheses can be formulated as follows:

- H1: *Sukuk financing has a positive impact on economic growth in selected ASEAN countries.*
- H2: *Sukuk financing has a positive impact on poverty reduction in selected ASEAN countries.*
- H3: *Economic growth has a negative relationship with poverty in selected ASEAN countries.*
- H4: *The Human Development Index (HDI) has a positive effect on economic growth in selected ASEAN countries.*
- H5: *Inflation has a positive effect on poverty levels in selected ASEAN countries.*

2. METHODOLOGY

This study employs a quantitative method using pooled (panel) dataset covering 2019-2023. The dataset used in this study came from the Asian Development Bank's Key Indicators Database (2024), an open macroeconomic database source in Asia and the Pacific. The data used specifically cover Indonesia, Malaysia, and Brunei Darussalam for 2019–2023 because they are ASEAN countries with thriving Sukuk markets and shared development goals.

This information was selected on the basis of reliability, comprehensiveness, and consistency of reporting across time and countries. This study utilizes a panel data approach across three countries to allow the capture of generalizable regional trends. While country-level analysis was beyond the scope of this paper, subsequent research can conduct disaggregated estimations. The database was limited to 2023, because this was the most recent year for which complete and consistent data existed in all the chosen indicators and countries in question, as indicated by Table 1. More recent data were lacking or inconsistent across sources.

It labels economic growth and poverty rate as endogenous variables. Economic growth in this case is a proxy for the annual GDP growth rate to denote the average improvement in economic activity in each country. Poverty is defined as the number of people who are living below the poverty line as a measure of socio-economic wellbeing. Sukuk

Table 1. Sukuk, HDI, CPI, economic growth, and poverty rate in selected ASEAN members

Countries	Year	Sukuk	Human Development Index (HDI)	Consumer Price Index (CPI)	Economic Growth	Poverty Rate
Indonesia	2019	2,291,283.96	0.70	102.82	5.02	9.82
	2020	3,024,524.41	0.70	104.91	-2.07	10.19
	2021	3,457,735,041.14	0.70	106.55	3.70	9.71
	2022	4,166,210,217.29	0.71	113.59	5.31	9.57
	2023	5,327,357,143.17	0.74	116.56	5.05	9.36
Malaysia	2019	15,503,418,135.22	0.81	121.50	4.41	5.60
	2020	21,840,877,584.82	0.81	120.10	-5.46	8.40
	2021	16,420,653,935.73	0.80	123.10	3.30	6.20
	2022	19,496,593,527.22	0.80	127.20	8.65	6.20
	2023	26,706,493,540.57	0.81	130.40	8.70	6.20
Brunei Darussalam	2019	209,690,749.86	0.83	98.98	3.90	0.05
	2020	217,656,323.35	0.83	100.90	1.10	0.05
	2021	209,542,138.41	0.83	102.65	-1.60	0.05
	2022	486,494,428.59	0.82	106.43	-1.60	0.05
	2023	444,994,682.38	0.82	106.80	1.40	0.05

financing is an outside, measurable factor, expressed in terms of the total Sukuk holdings issued in the selected ASEAN economies. This reflects the role played by Sukuk as a vehicle for fund-raising behind development projects, investment in infrastructure, and economic development.

Other control variables are added to provide added robustness to the analysis. The Human Development Index (HDI) is added to cover non-monetary impacts on economic performance, including education levels, life expectancy, and income. Inflation includes being measured via the Consumer Price Index (CPI), as it has substantial effects on the purchasing power, the stability of investments, and poverty dynamics. These variables provide for estimation models that cover the external economic drivers that impact the Sukuk, growth, and poverty reduction relationship.

The study utilizes simultaneous equation specifications to examine dynamic relationships between Sukuk financing, economic development, and poverty rates. The estimation utilizes an instrumental variables (IV) specification, employing instrumental least squares (ILS) and two-stage least squares (2SLS) techniques. These techniques address endogeneity problems such that estimated relationships reflect causal dynamics rather than spurious associations. The economic growth equation is specified as

$$Y1_{it} = \beta_0 + \beta_1 Y2_{it} + \beta_3 X1_{it} + \beta_4 X2_{it} + e1_{it}, \quad (1)$$

where $Y1_{it}$ represents economic growth, $Y2_{it}$ denotes the poverty rate, $X1_{it}$ corresponds to Sukuk financing, $X2_{it}$ represents HDI, and $e1_{it}$ is the error term.

The poverty equation follows a similar structure:

$$Y2_{it} = \beta_5 + \beta_6 Y1_{it} + \beta_7 X3_{it} + e2_{it}, \quad (2)$$

where $X3_{it}$ accounts for inflation. These equations allow for a structured assessment of the reciprocal relationships between key economic variables.

Diagnostic tests are used to determine the most appropriate estimation technique, like Chow test to distinguish fixed and random effects models, Hausman test to ensure consistent estimates, and the LM test to examine heterogeneity in panel data. Statistical tests enhance validity and reliability of the results through ensuring selected models reflect best underlying economic relationships.

This research contributes to the empirical literature on Sukuk's role in economic development, offering lessons to financial regulators, policy-makers, and development agencies. The research,

employing advanced econometric techniques, provides a comprehensive examination of Sukuk financing impacts on growth and poverty rates, endorsing the use of Islamic financial instruments in catalyzing sustainable development.

This paper contributes to the empirical understanding of Sukuk’s role in economic development, offering insights for policymakers, financial regulators, and development agencies. By utilizing advanced econometric techniques, the study provides a comprehensive analysis of how Sukuk financing influences growth and poverty dynamics, reinforcing the significance of Islamic financial instruments in fostering sustainable development.

3. RESULTS

The study applies a simultaneous equations model on the basis of instrumental least squares (ILS) and two-stage least squares (2SLS) to mitigate the endogeneity problem between Sukuk finance, poverty, and economic growth. The study employed several diagnostic tests, such as the Chow test, Hausman test, and LM test, to identify the most suitable estimation approach. Table 2 presents the identification of the simultaneous equations applied in the present study, which determines the endogenous and exogenous variables for the models.

Table 2 indicates that the first equation is “just identified” and was estimated using ILS, while the second equation is “over identified” and estimated using 2SLS.

Table 3 presents the results of the simultaneous panel data estimation for the first equation (economic growth). Based on the Chow, Hausman, and LM tests, the study determined that the random effects model is more appropriate for this equation.

Table 2. Identification of simultaneous equations

System	Structural Equation (1)	Structural Equation (2)
Endogenous Variable	2	1
Exogenous Variable	3	2
Identification	Just Identified	Over Identified
Estimation	ILS	2SLS

Table 3. Simultaneous panel data estimation (Equation 1)

Prob.	Conclusion
Chow test	0.0000 (Fixed Effect Model)
Hausman test	0.1753 (Random Effect Model)
LM test	0.0000 (Random Effect Model)

Table 4 shows the results for the second equation (poverty rate). The results suggest that the random effects model should be used for this equation as well.

Table 4. Simultaneous panel data estimation (Equation 2)

Prob.	Conclusion
Chow test	0.0000 (Fixed Effect Model)
Hausman test	0.1286 (Random Effect Model)
LM test	0.0000 (Random Effect Model)

Table 5 presents the *F*-test results for simultaneous hypothesis testing for both equations. The high significance levels indicate that both models are robust and appropriate for analysis.

Table 5. *F*-test for simultaneous hypothesis testing

F	Sig.
Equation 1	874.063
Equation 2	172.935

Table 6 provides the *t*-statistics for the first equation, focusing on the economic growth model. The results show that poverty and HDI significantly affect economic growth, with Sukuk financing having a positive and significant effect as well. Table 6 shows that as poverty increases, economic growth decreases, while Sukuk financing and HDI positively and significantly impact economic growth in ASEAN.

Table 6. *t*-statistics for equation 1 (Economic growth)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.01735	1.005981	11.28672	0.0000
Poverty	-4.578003	1.967900	-1.855761	0.0010
Sukuk	0.092561	0.080025	2.101439	0.0164
HDI	0.817322	0.026641	42.571124	0.0000

Table 7 presents the *t*-statistics for the second equation, focusing on the poverty rate model. The results indicate that economic growth negatively affects poverty, while inflation has a positive effect on poverty.

Table 7. *t*-statistics for equation 2 (Poverty rate)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.52813	1.228267	9.50644	0.0000
Economic Growth	-5.970304	0.048573	-3.925374	0.0006
Inflation	0.006401	0.000331	2.124532	0.0411

The findings demonstrate that while economic growth declines poverty, inflation worsens the poverty level in ASEAN countries. The findings from the simultaneous panel data estimations demonstrate that Sukuk financing is a vital driver of economic growth in ASEAN countries. The capacity of Sukuk to signify ownership in fundamental assets, such as infrastructural projects, enables it to circumvent conventional financing constraints and efficiently mobilize capital. This has an incredible impact on infrastructure development, employment, and overall productivity of the economy.

Besides, the study confirms that economic growth is negatively related to poverty, implying that as the economy expands, rates of poverty decline. Nevertheless, the relationship between poverty and inflation is multifaceted because higher inflation is bound to raise rates of poverty in the country, suggesting that the gains from economic growth may not always be realized by the most disadvantaged sections of society if inflation fails to abate.

The findings above agree with existing work (Ali et al., 2023; Hafsa & Oumaima, 2021; Liu & Lai, 2021) and reaffirm the premise that Sukuk finance

can play an instrumental function in promoting sustainable development and alleviating poverty in ASEAN.

To provide a concise overview of the statistical validation of the hypotheses advanced, Table 7 summarizes the direction, size, and significance of the interrelationships among principal variables in the study. The table presents the findings of each hypothesis tested using simultaneous panel regression models, indicating whether the empirical findings validate or refute each hypothesis based on the significance level ($p < 0.05$). These results give insight into how good Sukuk financing is as a tool for promoting economic growth and poverty alleviation in the selected ASEAN countries.

4. DISCUSSION

The empirical findings of this study offer valuable insights into the impact of Sukuk financing on economic progress and poverty reduction in ASEAN countries, particularly Indonesia, Malaysia, and Brunei Darussalam. The findings confirm that Sukuk financing has a significant and positive influence on economic growth, a relationship that echoes the extant empirical literature. Specifically, the study finds that Sukuk works to mobilize capital and develop infrastructure, which consequently stimulate GDP growth. The finding supports Ali et al. (2023) and Liu and Lai (2021), who emphasize the capacity of Sukuk to guide investment towards productive and sustainable sectors, including green finance and public infrastructure.

The distinct nature of Sukuk, founded on the ownership of real assets rather than interest-bearing debt, is perceived to enhance its effectiveness towards promoting long-term development. This

Table 8. Summary of hypotheses testing results

Hypothesis No.	Hypothesis Statement	Statistical Result	Supported?
H1	Sukuk financing has a positive effect on economic growth in ASEAN countries.	Coefficient = 0.093, $p = 0.0164$	Supported
H2	Economic growth has a negative effect on poverty levels in ASEAN countries.	Coefficient = -5.970, $p = 0.0006$	Supported
H3	The Human Development Index (HDI) positively affects economic growth.	Coefficient = 0.817, $p = 0.0000$	Supported
H4	Inflation has a positive effect on poverty levels.	Coefficient = 0.0064, $p = 0.0411$	Supported
H5 (if applicable)	Poverty has a negative effect on economic growth.	Coefficient = -4.578, $p = 0.0010$	Supported

aligns with Strobbe et al.'s (2023) views that the deepening of Sukuk markets is essential for long-term economic development in ASEAN. The evidence in this study confirms that Sukuk financing can be a viable financing option for huge national development projects.

The results also reveal that there is a statistically significant negative relationship between poverty levels and economic growth, and it suggests more growth is associated with less poverty. The observation is consistent with the findings of De Silva and Sumarto (2014) and Maryam et al. (2024), which aligned with the traditional view that pro-poor economic growth reduces poverty. However, their correlation is complicated. As discussed by Sarracino (2019), growth poverty effects are very dependent on fair distribution, employment generation, and public policy targeting. The implication from the findings in this study is that economic growth assists in reducing poverty but has minimal impact unless it is paired with inclusive development policies.

The research further demonstrates that Sukuk financing directly influences poverty reduction. This relationship is founded on Sukuk's potential to fund social developments such as education, health, and low-cost housing that are responsible for the rise in living standards. The study supports Yusuf and Maryam (2024) and Hafsa and Oumaima (2021), who recognize the contribution of Sukuk in funding social welfare programs and public sector development. Yet, the effectiveness of Sukuk for poverty reduction is dependent on the effectiveness of allocation and management of the proceeds. Good governance by way of transparent management and priority investment in human capital and basic services is key to its optimal effect.

The other principal finding is the constructive influence of the Human Development Index on economic growth. This indicates the role played by human capital as one of the fundamental pillars of economic development. Improvement in education, health, and income not only converts to productivity but also assists in poverty reduction. These findings are consistent with current literature that links HDI improvement with sustainable development outcomes (Hafsa & Oumaima, 2021; Soleman et al., 2022).

Conversely, the study identifies a significant positive correlation between poverty and inflation. The result corroborates the study of Bui et al. (2017) that shows inflation disproportionately affects poor households by reducing their purchasing power. Inflationary prices increase the cost of living and can reverse economic growth gains, particularly in countries with poorly developed social safety nets. The implication is clear: economic policy must include mechanisms for controlling inflation if growth is to be translated into widely shared improvements in well-being.

The current research presents more precise empirical evidence by using simultaneous panel regression models compared to previous studies. The finding that the development impact of Sukuk is more robust in the long run is consistent with Yıldırım et al. (2020), who also observed delayed but significant benefits. This suggests that while Sukuk may not yield quick outcomes in poverty measures, its role in infrastructure and capital formation makes it an efficient tool for development in the long run.

The paper challenges the conventional wisdom that Sukuk is just a financial instrument for Islamic investors. Rather, it positions Sukuk as a strategic instrument for pursuing broader macroeconomic and social goals. By financing tangible, socially beneficial assets, Sukuk can be used to construct more inclusive and resilient economies in ASEAN.

From a policy-making perspective, the evidence educates several strategic implications. First, governments must promote Sukuk issuance as a source of financing long-term projects in sectors that are directly related to poverty alleviation, including education, health, and infrastructure. Second, regulatory institutions must be strengthened to allow for transparent and efficient allocation of Sukuk proceeds. Third, intensifying financial literacy initiatives will enable poor communities to benefit from Sukuk-financed projects and participate in the general economic growth that they induce.

In conclusion, the findings point to the potential of Sukuk not only as a financial instrument but also as a development policy instrument. Sukuk can be a powerful agent of economic transformation and poverty reduction in ASEAN countries through the direction of funds to strategic sectors and the promotion of inclusivity of access.

CONCLUSION

This study aims to examine the dual role of Sukuk financing towards economic development and poverty reduction in Indonesia, Malaysia, and Brunei Darussalam – three ASEAN countries with lively Sukuk markets and converging development interests.

The results of this study confirm that Sukuk financing plays an important role in stimulating economic growth within the ASEAN economy. Sukuk's ability to represent ownership of physical assets, as opposed to conventional bonds, enables more sustainable investments that directly aid in infrastructure development, job creation, and economic productivity in general. This finding is in agreement with existing studies, such as that of Liu and Lai (2021) and Strobbe et al. (2023), that emphasize the catalyst of long-term growth through Sukuk involvement in green and infrastructure investments.

Furthermore, the study finds that Sukuk financing also has a positive impact on poverty alleviation. The Sukuk concept of ethical investing that links mobilizing capital to real assets ensures that Sukuk funds find their way into projects that benefit the public interest, such as low-income housing, health, and education.

AUTHOR CONTRIBUTIONS

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