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**ZAKAT AND ITS IMPACT ON ECONOMIC GROWTH IN INDONESIA  
AND MALAYSIA**

**PAULINA**

19  
Management Department, Indonesia Banking School, Jl. Kemang Raya No. 35, Jakarta.  
Email: paulina.harun@ibs.ac.id

**MUHAMMAD ERWAN**

Economic Sekolah Tinggi Ilmu Kepolisian, Jl. Tirtayasa Raya No. 6, Kebayoran Baru, Jakarta.  
Email: mear\_ptik@ibs.ac.id

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**DIKDIK SALEH SADIKIN**

Accounting Department, Indonesia Banking School, Jl. Kemang Raya No. 35, Jakarta.  
Email: dikdik.sadikin@ibs.ac.id

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**Abstract**

This study aims to see the impact of zakat distribution in Indonesia and Malaysia on economic growth. The variables used in the study are economic growth in the previous year, financial development, openness, zakat distribution and population. The samples used are Indonesia and Malaysia, and the data processing technique is dynamic panel data with GMM (Generalized Method of Moments). The results showed: 1. Economic growth in the previous year has no significant effect on economic growth; 2. Openness / international trade has no significant effect on economic growth; 3. Financial development / money supply has a significant negative effect on economic growth; 4. Zakat distribution has a significant positive effect on economic growth; 5. Population has a significant positive effect on economic growth. The results of this study indicate that the distribution of zakat in Indonesia and Malaysia follows the growth-led zakat hypothesis, or the so-called 'demand-following view'.

**Keywords:** Zakat, Economic Growth, GMM Model

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**BACKGROUND**

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The Covid 19 pandemic that occurred in almost all countries in the world, including Indonesia, had a tremendous impact, especially on the Indonesian economy in the third quarter of 2020 when compared to the same quarter of 2019 experienced a growth of 3.59%. The next impact of the decline in growth is that it has increased during the middle of 2020, increasing by 4% and is expected to reach 13.22%. The same thing is also experienced by MSMEs, where MSMEs can experience losses around Rp.1,594 trillion.

The Indonesian Ulema Council through the MUI Fatwa responded to this situation, that in the conditions of the Covid-19 pandemic, zakat funds can be distributed to overcome the impact of Covid-19, both in the health and economic fields. The role of zakat in the conditions of the Covid-19 pandemic can be carried out for 3 sectors, namely: the economic sector, through Empowerment of new mustahik due to the economic downturn caused by Covid-19; Education, Social and Humanitarian Sectors, through a. Covid-19 countermeasures and prevention, education in the form of campaigns and calls regarding Covid-19 to the public; b. Zakat funds are channeled to vulnerable communities in the form of assistance; c. Zakat funds are given to

affected MSMEs; Health sector, through a. Personal Protective Equipment (PPE) b. vision of isolation rooms for areas that are lacking c. spraying disinfectants prioritized to red zone as d. Installing hand washing installations in places that have a large potential for Covid-19. Installing hand washing installations in places that have a high potential for Covid-19 clusters. Example: Train stations.

Zakat in the midst of the Covid-19 pandemic has a significant role, considering that in 2019, BAZNAS and LAZ Indonesia have a joint commitment to reduce the poverty rate by 1% in 2020 (Puskas BAZNAS 2019). According to the Covid-19 Handling Report, the role of zakat is at least in 4 sectors; economic sector, education sector, social humanitarian sector and health sector. In the economic sector, the distribution of zakat can be diverted and developed to empower new mustahik due to the economic downturn caused by Covid-19 (Puskas BAZNAS, 2020).

Zakat is money that must be spent if it meets the conditions set by religion and distributed to people who have been determined as well. There are eight groups who are entitled to receive zakat as stated in the Quran Surah At-Taubah Verse 60: According to fiqh terms, zakat means the property that must be removed from the wealth of the rich to be delivered to those who are entitled to receive it with the rules that have been determined in the conditions.

Indonesia is the country with the largest Muslim population in the world. In 2021, 272,229,372 people (Dukcapil, 2021), Indonesia's Muslim population reached 86.88% (Katadata, 2021). Meanwhile, when compared to the total Muslim population in the world, the number of Muslims in Indonesia is equivalent to 13 percent of the total Muslim population in the world. It is certain that with the largest Muslim population, Indonesia also has a large potential for zakat. The national zakat potential itself is very large. Based on the Indicators of Zakat Potential Mapping (IPPZ), as of 2019, Indonesia's zakat potential was recorded at IDR233.8 trillion or equivalent to 1.72% of the 2018 GDP of IDR13,588.8 trillion (Puskas BAZNAS, 2019). In 2019, corporate zakat has a potential of IDR6.71 trillion. In 2020, the potential of corporate zakat reached Rp144.5 trillion. In other words, the total potential of zakat in Indonesia in 2020 is Rp327.6 trillion (Puskas BAZNAS, 2020). If broken down by source, there are five sources of zakat objects as in Table 1. Based on Baznas' research, the national zakat potential in 2020 amounted to IDR 327.6 trillion. This figure should have a tremendous impact on poverty alleviation efforts in Indonesia. The details of zakat potential can be seen in Table 1 below.

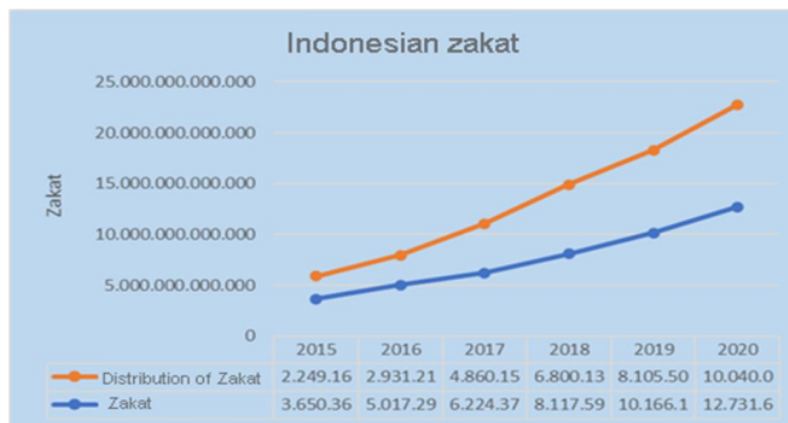
**Table 1: Zakat Potential in Indonesia**

| No | Object of Zakat          | Potential Zakat (Triliun Rp) |
|----|--------------------------|------------------------------|
| 1  | Agricultural Zakat       | 19.79                        |
| 2  | Livestock Zakat          | 9.51                         |
| 3  | Money Zakat              | 7.76                         |
| 4  | Income and Service Zakat | 139.07                       |
| 5  | Corporate Zakat          | 144.50*                      |
|    | Total Zakat Potential    | 327.60                       |

Source: Indicators of Zakat Potential Mapping (IPPZ), 2019 and Puskas, BAZNAS, 2020

Zakat, if managed properly, can be a catalyst for economic growth through various channels of distribution. Zakat in a country will have an impact on the people/society because it can be distributed to those who need it in accordance with the provisions of Islamic law. The distribution of zakat affects the aggregate demand component in terms of consumption, investment and public spending, thus affecting economic growth. The mechanism of the impact of zakat on a country's economic growth can be described as follows: First, zakat encourages increased consumption of the very poor and deprived, this happens because people utilize the zakat obtained to meet their needs. Secondly, investment can be increased with zakat funds into the grassroots development projects of zakat recipients (Choudhury and Harahap, 2008), moreover, due to the obligation of zakat and the prohibition of interest, money that is not invested will be consumed by zakat over time. Therefore, zakat can reduce the demand for money for transactions and prudential reasons and stimulate investment. Shaukat and Zhu (2020) show that zakat is a monetary policy tool to replace interest rates and overcome liquidity constraints in economies in transition. Several strategies can be done related to zakat for investment, namely: (1) providing working capital on a freelance basis; (2) a revolving fund system; (3) investing it in real businesses managed by the mustahiq; (4) investing it in developed businesses, in the hope of getting profit for the mustahiq; (5) channeling it for the construction of public facilities, such as hospitals, so that the poor and needy get good services for health, and get payment relief even if possible they do not pay at all as a social security. Third, zakat funds can replace some government budget expenditures and increase government spending (Shirazi, 2014).

The development of zakat managed by the National Amil Zakat Agency (Baznas) from time to time continues to increase. The development of zakat from 2015 to 2020 can be seen in graph 1 below.



Graph 1: Development of Zakat Receipt and Distribution 2015 - 2020, Baznas

In line with that, as stated by Sarea (2012), zakat seeks to achieve sustainable development through reducing social problems and increasing economic activities. The distribution of zakat

one of the activities carried out from 2015 to 2020 continues to increase, of course this can provide an overview of the benefits of zakat for people in need. The percentage of zakat distribution from 2015 to 2020 can be seen in graph 2 below.



**Graph 2: Percentage of Zakat Distribution 2015 - 2020, Baznas**

Based on the Official News published by Puskas BAZNAS, the potential zakat on corporate shares based on business sector in 2019 was IDR 99.7 billion with an average zakat per share of IDR 400 (Puskas BAZNAS, 2019). More details about the potential of stock zakat in Indonesia can be seen in Table 2 below.

**Table 2: Potential Zakat on Corporate Shares by Business Sector**

| No                  | Sektor  | Potensi Zakat (Milyar Rp) |        | Rata-rata Zakat per-Saham (Rp) |        |
|---------------------|---|---------------------------|--------|--------------------------------|--------|
|                     |   | 2018                      | 2019   | 2018                           | 2019   |
| 1                   | Pertanian                                     | 3.669                     | 3.514  | 72,53                          | 49,02  |
| 2                   | Pertambangan                                  | 6.879                     | 7.408  | 39,69                          | 42,72  |
| 3                   | Industri Dasar dan Kimia                      | 3.513                     | 3.844  | 15,40                          | 13,15  |
| 4                   | Aneka Industri                                | 5.627                     | 6.185  | 15,83                          | 16,61  |
| 5                   | Industri Barang Konsumsi                      | 4.048                     | 4.140  | 132,40                         | 143,67 |
| 6                   | Properti, Real Estate dan Konstruksi Bangunan | 19.554                    | 13.322 | 33,93                          | 25,52  |
| 7                   | Infrastruktur, Utilitas dan Transportasi      | 4.483                     | 4.545  | 8,46                           | 7,70   |
| 8                   | Keuangan                                      | 45.900                    | 48.494 | 47,75                          | 49,79  |
| 9                   | Perdagangan, Jasa dan Investasi               | 7.656                     | 8.281  | 13,39                          | 13,49  |
| Total Potensi Zakat |   |                           |        |                                | 327,6  |

Source: BAZNAS, Indonesia Zakat Outlook 2021

Based on the table above, the financial sector is the sector with the largest zakat potential with a total potential of Rp48.4 trillion in 2019 after previously totaling Rp45.9 trillion in 2018. Within one year there was an increase of approximately IDR3 trillion. This indicates that the potential for zakat in the financial sector has a bright future so that it is necessary to optimize efforts to achieve this potential. As for the lowest potential value in 2018 is the basic industry and chemical business sector worth Rp3.5 trillion and in 2019 it shifted to the agricultural sector with a value of Rp3.5 trillion. Both the basic industrial and chemical sectors and the agricultural sector need better strategies and approaches to maximize the potential for better zakat shares. Based on the explanation above, it can be concluded that the potential of zakat in Indonesia is quite large. In other words, zakat is also very potential to reduce the multidimensional impact of the Covid-19 pandemic. Therefore, it is necessary to optimize the zakat collection process so that the contribution of zakat can continue to be increased in alleviating poverty and realizing social justice, especially when the economic situation is unstable and many people are affected. Malaysia is one of the countries with a Muslim population as much as 66 percent of the population is Muslim. Zakat is also one of the sources of financing in Malaysia.

**Table 3: Zakat Collection (2019) and Allocation during Covid-19 Pandemic (RM Billion)**

| No. | States          | Zakat Collection (2019) (RM) | Distribution During Pandemic (RM) | %     |
|-----|-----------------|------------------------------|-----------------------------------|-------|
| 1   | W P (KL)        | 682.3                        | 34.41                             | 5.04  |
| 2   | Trengganu       | 160.0                        | 20.20                             | 12.63 |
| 3   | Kedah           | 177.0                        | 16.70                             | 9.43  |
| 4   | Selangor        | 510.3                        | 15.00                             | 2.94  |
| 5   | Pulau Pinang    | 121.5                        | 14.52                             | 11.95 |
| 6   | Perak           | 176.2                        | 14.35                             | 8.14  |
| 7   | Kelantan        | 195.0                        | 12.60                             | 6.46  |
| 8   | Pahang          | 143.4                        | 12.12                             | 8.45  |
| 9   | Johor           | 223.2                        | 7.40                              | 3.32  |
| 10  | Sarawak         | 92.0                         | 6.00                              | 6.52  |
| 11  | Sabah           | 29.7                         | 6.00                              | 20.21 |
| 12  | Negeri Sembilan | 131.0                        | 4.30                              | 3.28  |
| 13  | Melaka          | 87.8                         | 4.26                              | 4.85  |
| 14  | Perlis          | n.a                          | 3.98                              | -     |
|     | Total           | 2,729                        | 171.8                             | 6.30  |

Source: Zakat annual report of each state; Distribution until mid-April 2020; 2019 Annual Report for Perlis not available

In Table 3 above, it can be seen that some states such as Sabah, Trengganu and Pulau Pinang allocated the largest allocation of 20.21%, 12.63% and 11.95% respectively while Selangor, Negeri Sembilan and Johor allocated the lowest, 2.94%, 3.28% and 3.32% respectively. It is interesting to note here that Selangor, despite being one of the richest states in Malaysia (DOS, 2018), it allocated the lowest allocation of zakat for the pandemic until mid-April 2020, only

2.94% of the total collection. This is in contrast to Sabah, which is the poorest state in Malaysia but allocated the highest until the same period of 2020. Since the management of zakat institutions is under the jurisdiction of the Islamic religious councils in each state, it is basically up to the discretion of each state zakat institution in handling zakat funds for people who are severely affected by the crisis, hence called people in need. Several studies related to zakat have focused on many areas of accounting, management, administration, payment, collection and distribution both theoretically and empirically (Khan, 2007; Naziruddin et al., 2012; Obaidullah et al., 2015; Asfarina et al., 2019). They also investigated zakat and unemployment (Sarea, 2012; Al-Faizin et al., 2018) or the relationship between zakat and poverty (Shirazi, 2014; Hoque et al., 2015). Furthermore, empirical investigations of the zakat-growth nexus have always been specific to a single country such as Bangladesh (Hassan and Khan, 2007), Indonesia (Khasandy and Badrudin, 2019), Malaysia (Yusoff and Densumite, 2012) or a region within a country. (14 states of Malaysia) (Yusoff, 2011), Selangor (Malaysia) (Mohamed et al., 2019); six provinces in Java (Athoillah, 2018); five states in Indonesia (Suprayitno, 2020). However, they are hardly devoted to using panel data, therefore, this study continues in this direction to bridge this gap. It attempts to enrich the literature on this topic. The study is based on dynamic panel data model so as to identify the impact of zakat and other macroeconomic factors on economic growth in some Islamic countries for the period 2015-2020. The use of panel data analysis offers sufficient information both in quantity and variability (Baltagi et al., 2003). Therefore, this paper aims to find out whether zakat has boosted economic growth or not, using the generalized method of moments (GMM). The samples of Indonesia, Malaysia, Brunei Darussalam, Turkey, and Saudi Arabia depend on the availability of zakat data. In some Muslim countries, zakat payment to the government is voluntary (e.g. Bahrain, Bangladesh, Egypt, Iran, Iraq, Jordan, Kuwait, Qatar and Indonesia), while it is individual without state intervention (Tunisia). In some countries, zakat is collected by the government (Malaysia in various Sultanates, Pakistan, Saudi Arabia, Libya, Sudan and Yemen). Thus, zakat data is absent or missing for some Islamic countries, because it is not well managed. This study aims to determine and analyze: To what extent macroeconomic variables (previous year economic growth, economic openness, financial development and zakat distribution) have an impact on economic growth in Indonesia and Malaysia.

## 2. THEORETICAL FOUNDATION

### Zakat and economic growth

Qur'an (2:215), "They ask you about what they should spend. Say: Whatever wealth you give in charity, it is for your parents, relatives, orphans, the poor, and those on a journey; and whatever good you do, Allah knows it." Zakat aims to purify the wealth of the giver. Zakat is a form of taxation that is likely to have a socio-economic impact. With reference to sharia, there are eight groups of people who are entitled to receive zakat funds. According to Quran 9:60, they are as follows: Fuqaraa (poor), Al-Masakin (destitute), Aamileen (zakat collectors), Muallafatul Quloob (newly converted Muslims who must give up their property), Ar-Riqaab (freed slaves), Ibnus-Sabeel (needy travelers). Well-managed zakat will provide benefits to its recipients and indirectly impact aggregate demand (consumption, investment and public

spending). The role of zakat in income distribution and social development

Zakat is a religious fiscal tool that aims for equitable income distribution. Zakat redistributes wealth from the rich to the poor, thereby reducing income inequality (Aziz and Bin Mohamad, 2016). By bridging the gap between the rich and the poor, zakat is a tool to ensure equality among people in society (Mujaini, 2005; Bakar and Ghani, 2011; Ahmad Fahme et al., 2013). Income redistribution through zakat can affect economic growth. However, the way zakat is distributed in the form of money or equipment is likely to affect the growth process differently. On the one hand, zakat is given through financial support to the poor and needy to enable them to sustain themselves and enjoy other benefits. On the other hand, zakat can be channeled through the provision of tools as work equipment for the able, or as business capital for those with business skills (Ahmed et al., 2017). Siddiqi (1988) suggests that the provision of zakat in the form of capital or other income-generating assets should be made after meeting the basic needs of the poor. At the microeconomic level, zakat can play an important role in the allocation or distribution of funds to recipients. At the macroeconomic level, the effects of zakat include several dimensions such as economic growth, wealth distribution, poverty alleviation and social security (Haq, 2013). Consequently, all forms of expenditure, including consumption, investment, and public expenditure associated with zakat, promote economic development, according to Choudhury and Hoque (2004).

Furthermore, zakat distribution occurs both in the short and long term. Short-term distribution is the concept of annual support needs (Ahmed et al., 2017). However, the distribution of zakat to productive recipients can help them in the long run by improving their quality and standard of living and also through financing their economic projects to become self-reliant (Patmawati and Ruziah, 2014). In this regard, Aziz and Bin Mohamad (2016) classified Fuqaraa, Masakeen, Aamileen and Al-Ghaarimeen as direct recipients whose zakat can alleviate short-term poverty while the remaining zakat can be mobilized, accumulated and saved for further investment and on long-term poverty alleviation by channeling large amounts of funds.

Overall, aggregate supply is affected by zakat in three ways (Kahf, 1997): resource allocation, labor supply (through improved health, nutrition and living conditions for the poor) and productivity as increased employee productivity positively affects the supply of goods in the country. Economy.

The role of zakat in increasing aggregate demand

Since zakat funds can be directed to consumption, investment or government spending, they have an impact on aggregate demand, and indirectly impact economic growth.

The Role of Zakat on Increased Consumption,

Zakat can increase domestic demand, as it stimulates aggregate consumption. Indeed, recipients of zakat funds will spend most of their zakat funds to buy goods. This increases the purchasing power of the poor and aggregate consumption expenditure, thus spurring production and economic growth. Ghassan and Al-Jeefri's (2016) intertemporal Islamic model shows an inverse relationship between consumption growth and wealth zakat. Zakat on wealth



makes consumers more rational in their consumption, and as a result, it offers additional marginal assets for future generations.

#### The Role of Zakat on Increased Investment

In principle, zakat provides an incentive to invest wealth and divert resources without any benefit. In fact, zakat is against hoarding money. Saad and Farouk (2019) highlighted that "zakat can avoid the freezing of property in the economy" through investment activities. Using a sample of 42 companies listed on the Shariah board of the Kuala Lumpur Stock Exchange for the period 1996-2000, Sanusi (2014) provides evidence that zakat can increase the equity financing of firms through reducing the use of leverage.

In addition, Choudhury and Harahap (2008) consider that if zakat is mobilized through Islamic banks into participatory forms of development financing instruments, it generates more gross domestic product (GDP). In another opinion, Alim (2015) notes that in its productive purpose, zakat enables the poor to undertake economic activities and increase income returns. Given the lack of creditworthiness, zakat recipients and low-income households (excluded from traditional finance) can obtain financial capital for their small businesses through zakat funds (Abdullah, 2009).

If zakat is channeled for productive activities, it has a higher effect on economic growth than if it is oriented towards consumption assistance (Hafidhuddin, 2011; Mohamad Soleh Nurzaman, 2010; Samad et al., 2016). Zakat for productive purposes may be better than for consumption in terms of empowerment (Alim, 2015).

#### The role of Zakat on public expenditure.

Zakat can contribute to strengthening public spending policies. Indeed, zakat funds are directed by Islamic banks into government participation projects based on a mix of participatory development financing instruments. Moreover, Shirazi Effects of zakat (2014) argues that if zakat replaces some government budget expenditures, the generated funds can be used for other development expenditures. Considering the case of Bangladesh, Shirazi (2014) sees that zakat funds can replace government budget expenditure in the range of 21% of the annual development plan.

The relationship between zakat and economic growth the relationship between zakat and economic growth is complex. As stated by Bayinah (2017; p.57), there are at least four possible approaches to consider the causal relationship between zakat and economic growth:

1. "zakat is the determinant of economic growth (zakat-led growth hypothesis) or called 'supply-leading view';
2. zakat follows economic growth (growth-led zakat hypothesis), or called 'demand-following view';
3. the reciprocal relationship between zakat and growth (two-way causality view); and
4. the hypothesis that zakat and growth are interconnected." Furthermore, the relationship between zakat-Islamic banks-GDP is circular (Choudhury and Harahap, 2008).

Furthermore, the effect of zakat on growth can be channeled through financial inclusion. Zakat increases the financial inclusion of the poor can increase economic growth. For example, in Brunei Salleh (2015) shows that zakat institutions facilitate the financial inclusion of zakat recipients and help them to fulfill their saving motive. Households with net deficits are more likely to be excluded from bank accounts and credit facilities. To receive zakat search, zakat recipients are required to open at least a basic Islamic bank account. In this way, zakat can serve the saving objectives of zakat recipients and sustain the savings program (Salleh, 2015). Therefore, this approach ensures the financial needs and saving motives of households are slightly deficit. It should be noted that the relationship between zakat and growth is highly influenced by the effectiveness of zakat collection and distribution. Empirically, limited studies conducted have revealed various types of evidence of the relationship between zakat and economic growth. Mahat and Warokka (2013) examined the possibility of zakat as one of the alternative sources of economic growth. Considering the panel macroeconomic data of 19 Muslim countries for the period 2004-2010, they found a strong and significant Pearson correlation value of about 0.809 between zakat and GDP. Athillah (2018) concluded that zakat has a positive and significant effect on the economic growth of six provinces in Java island, during the period 2001-2012. However, it is negatively but insignificantly related to unemployment. Suprayitno (2020) argued that in Malaysia, zakat has a positive impact on economic growth of consumption and investment. However, the effect of zakat value on economic growth is low, as it does not exceed 0.0933. Using GMM for a panel of 38 countries over the period 1996-2015, Shaukat and Zhu (2020) arrive at evidence that zakat rate has a significant positive impact on economic growth. In addition, zakat positively affects domestic and foreign direct investment, but negatively affects corruption. Based on structural equation modeling (SEM) with partial least squares (PLS) software for Indonesia during the period 2011-2016, Khasandy and Badrudin (2019) assessed that zakat does not affect economic growth. They explained this evidence by the small amount of zakat collected by the National Zakat Agency (BAZNAS). Consequently, given the lack of conclusive evidence whether zakat is a growth factor or not, this paper contributes to enrich the research on this topic by considering panel data from eight Muslim countries for the period between 2004-2017.

### 3. RESEARCH METHODOLOGY

The selected sample has been conditioned by the available zakat data distributed for the selected period. The limited role of the state in zakat leads to a lack of oversight. Our panel data includes countries with different growth rates (World Bank, 2020): Indonesia, Malaysia. This allows researchers to properly access the contribution of zakat to economic growth, taking into account other growth factors. Econometric Specifications

$$\ln(Y_{it}) = c + \ln_i(Za_{it}) + \beta_i \ln(X_{it}) + \varepsilon_{it} \dots\dots\dots (1)$$

$$\varepsilon_{it} = v_i + u_{it}$$

Where:  $\ln Y_{it}$  =  $\ln$  Income per Capita;  $\ln_i(Za_{it})$  =  $\ln$  zakat;  $\ln(X_{it})$  =  $\ln$  [control variables namely: financial development; trade openness; population growth]

The specification of the dynamic model by including the dependent variable is lagged between



regressions as economic growth is a long-run path:

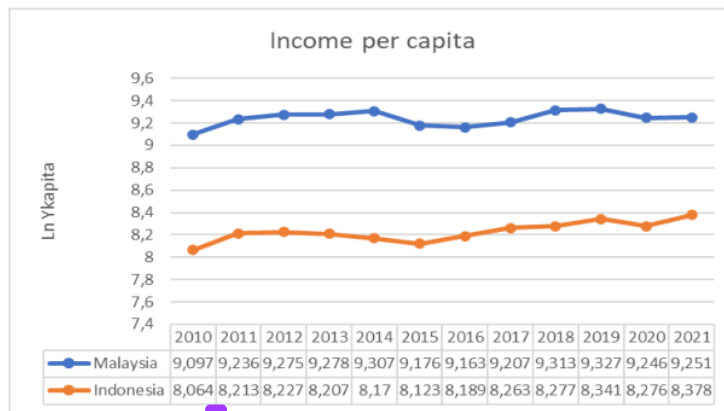
$$\ln(Y_{it}) = c + \delta \ln(Y_{it-1}) + \alpha_i \ln(Za_{it}) + \beta_i \ln(X_{it}) + \varepsilon_{it} \dots \dots \dots (2)$$

$\delta$  measures the speed of equilibrium adjustment.

Model parameters measuring the sensitivity of variables to economic growth, panel data allow for a more robust and meaningful analysis of quite complex social phenomena characterized by multiple dimensions in terms of time, context, and complexity of interacting variables (Gil-García and Puron-Cid, 2015). The advantages of panel data models over regression are: providing more information, increasing the sample size, capturing the heterogeneity involved in both cross-sectional units and time dimensions and better expressing the dynamics of change in social phenomena (Gujarati, 2003; Baltagi, 2008). Thus, panel data improves the specification and estimation of the model that researchers need.

#### 4. ANALYSIS AND DISCUSSION

##### Development of Research Variables



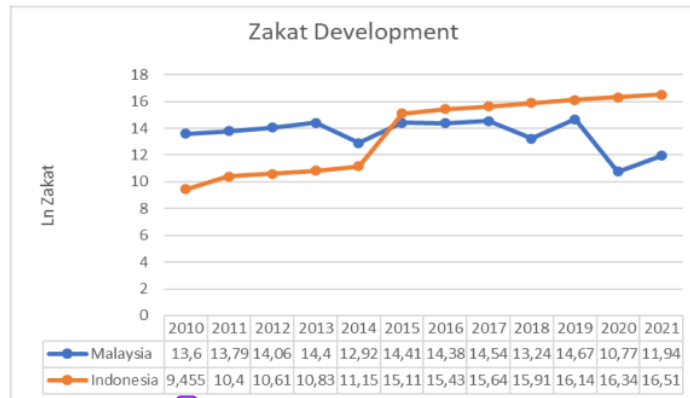
**Graph 3: Income per Capita Malaysia-Indonesia 2010 - 2021, Source: BPS, World Bank**

In 2010 Malaysia had a per capita income of US\$ 8926.34 while Indonesia had US\$ 3178.704 in the same year Malaysia's per capita income was 2.8 times Indonesia's per capita income, and in 2021 Malaysia with a per capita income of US\$ 10412.30 while Indonesia only amounted to US\$ 4349.17. This certainly has an impact on the standard of living of the people in both countries, but the size of per capita income is not the only measure of the welfare of the people in a country but is an important indicator to be addressed by each country. The development of per capita income of Malaysia and Indonesia can be seen in Graph 3 above.

Generally, the development of zakat from time to time has increased both in Malaysia and Indonesia. In 2010 - 2014 the development of zakat collection in Malaysia was higher than in Indonesia, but since 2015 - 2021 the development of zakat collection in Indonesia is higher than Malaysia. This is due to various efforts made by Baznas to increase the amount of zakat

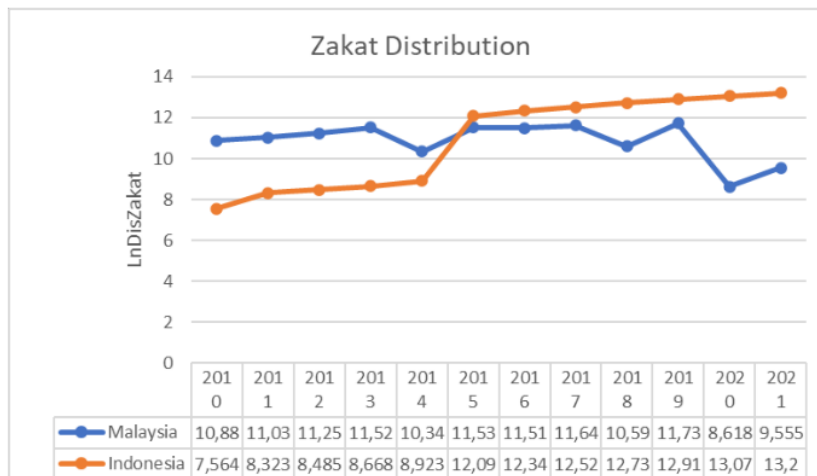


collection through amil zakat institutions and expand the possible parties in paying zakat. the development of zakat can be seen in Graph 4 Below.



Graph 5: Development of Zakat Malaysia, Indonesia in 2010 - 2021, Source: Baznas, PPZ Malaysia

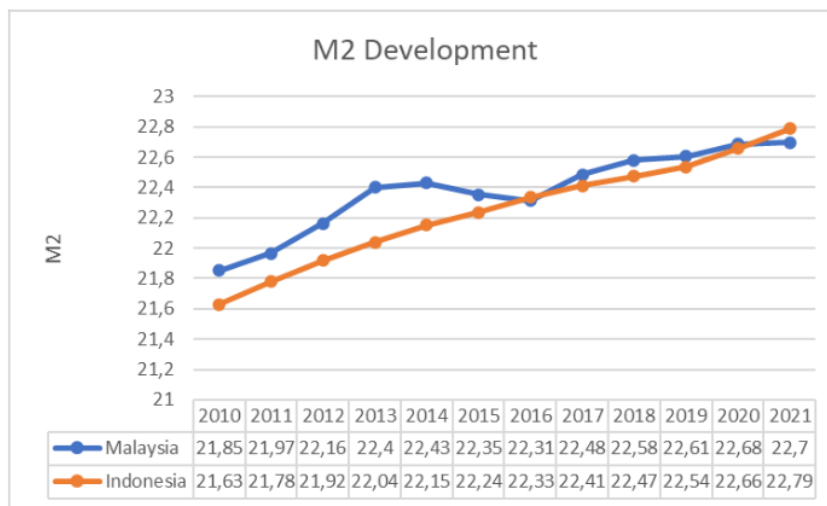
Likewise, with the distribution of zakat, Malaysia from 2010 to 2014 experienced an increase in the distribution of zakat to certain groups, but from 2015 - 2021 the distribution zakat has decreased. For Indonesia, from 2015 - 2021, the distribution of zakat has increased in line with the increase in zakat collection. The development of zakat distribution can be seen in Graph 6 below.



Graph 6: Zakat Distribution Malaysia-Indonesia, Source: Baznas, PPZ Malaysia

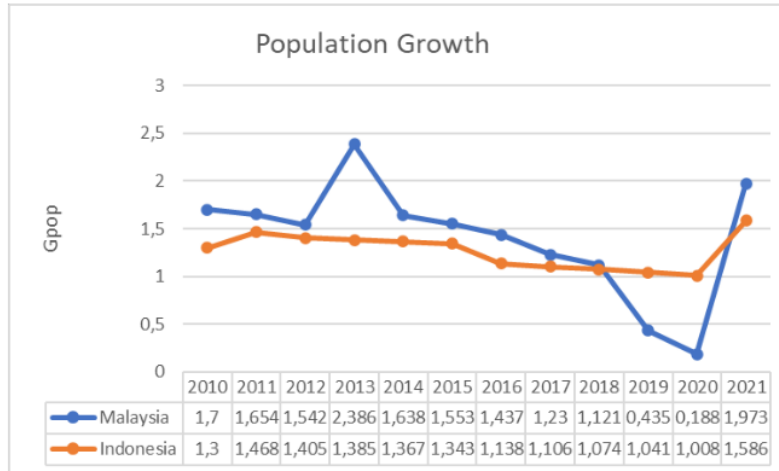
Meanwhile, the development of money supply (M2) as economic liquidity, M2 is M1 plus time

deposits and public savings balances in banks. The definition of money supply in a country may vary according to the condition of the financial and banking sector and the needs of the monetary authorities of the country concerned. Indonesia uses money supply in M1 and M2, while Malaysia M1, M2 and M3. In the United States money supply M1, M2 and M3 while in the UK M1, M2 and M4. In this study, the author uses money supply as a picture of economic liquidity is M2. The development of M2 so far from 2010 - 2021 shows that Indonesia's M2 is higher than Malaysia's M2, this indirectly illustrates the condition of the Indonesian people's demand for money is higher than that of the Malaysian people. The development of money supply that increases over time indicates that economic activity is taking place and indirectly has an impact on supply and demand activities.



**Graph 7: Malaysia-Indonesia M2 development, Source: BI, BNM**

Population is one of the supporting factors for a country's development, Malaysia's population growth rate during the period 2010 - 2021 averaged 1.40 percent, while Indonesia in the same period had an average population growth of 1.27 percent. Whether we realize it or not, population growth will have an impact on development and meeting needs, but the population can also be a source of state revenue such as taxes and other levies. Malaysia with a population of 33,227 million in 2021 while Indonesia is 273,879 million in 2021, has great potential in efforts to raise funds from the community, in this case zakat.



**Graph 8: Malaysia-Indonesia Population Growth, Source: BPS, Departement of Statistics Malaysia**

#### 4.1 Result

Calculations carried out using the panel data model after the chow test and Hausman test, the following results were obtained:

| Redundant Fixed Effects Tests            |                   |              |        |
|--|-------------------|--------------|--------|
| Pool: PANEL_02                           |                   |              |        |
| Test cross-section fixed effects         |                   |              |        |
| Effects Test                             | Statistic         | d.f.         | Prob.  |
| Cross-section F                          | 11.833562         | (1,17)       | 0.0031 |
| Cross-section Chi-square                 | 12.679841         | 1            | 0.0004 |
| Correlated Random Effects - Hausman Test |                   |              |        |
| Pool: PANEL_02                           |                   |              |        |
| Test period random effects               |                   |              |        |
| Test Summary                             | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob.  |
| Period random                            | 10.745672         | 5            | 0.0567 |

Source: Data processing result

From the chow and Hausman tests, the panel data model obtained is the random effect model (REM) model.

|  |             |                    |             |        |
|--|-------------|--------------------|-------------|--------|
| Dependent Variable: LNYIT?                       |             |                    |             |        |
| Method: Pooled EGLS (Period random effects)      |             |                    |             |        |
| Date: 07/12/22 Time: 16:54                       |             |                    |             |        |
| Sample: 2010 2021                                |             |                    |             |        |
| Included observations: 12                        |             |                    |             |        |
| Cross-sections included: 2                       |             |                    |             |        |
| Total pool (balanced) observations: 24           |             |                    |             |        |
| Swamy and Arora estimator of component variances |             |                    |             |        |
| Variable   | Coefficient | Std. Error         | t-Statistic | Prob.  |
| LNYIT_1?   | -0.024835   | 0.031426           | -0.790274   | 0.4397 |
| LNOPEN?  | 0.330639    | 0.183728           | 1.799614    | 0.0887 |
| LNFINANCE?                                       | -0.312997   | 0.037313           | -8.388385   | 0.0000 |
| LNGPOP?  | 5.79E-05    | 1.27E-05           | 4.558483    | 0.0002 |
| LNDISZAKAT?                                      | 0.010820    | 0.005117           | 2.114724    | 0.0487 |
| C  | 11.47116    | 0.515946           | 22.23325    | 0.0000 |
| Weighted Statistics                              |             |                    |             |        |
| R-squared  | 0.996703    | Mean dependent var | 3.851518    |        |
| Adjusted R-squared                               | 0.995787    | S.D. dependent var | 0.519083    |        |
| S.E. of regression                               | 0.033694    | Sum squared resid  | 0.020435    |        |
| F-statistic                                      | 1088.158    | Durbin-Watson stat | 1.818563    |        |
| Prob(F-statistic)                                | 0.000000    |                    |             |        |

Source: Data processing result

Discussion of REM results as follows:

1. Economic growth ( $\ln Y_{it-1}$ ) has no significant effect on economic growth in the current year, this occurs in both Indonesia and Malaysia.
2. Economic openness ( $\ln Openness_{it-1}$ ) has no significant effect on economic growth in both Indonesia and Malaysia.
3. Financial development ( $\ln Finance_{it-1}$ ) has a significant negative effect on economic growth in both Indonesia and Malaysia.
4. Population growth ( $\ln gpop_{it-1}$ ) has a significant positive effect on economic growth in Indonesia and Malaysia.
5. Zakat distribution ( $\ln diszakat_{it-1}$ ) has a significant positive effect on economic growth in Malaysia and Indonesia.

Implications Research variables

- a. Financial development ( $\ln Finance_{it-1}$ ) has a significant negative effect on economic growth in both Indonesia and Malaysia. Financial development in this study using the proxy ratio of money supply (M2) to GDP. M2 is an indicator of money supply that is more stable than M1, and M2 includes money in the hands of the public. Money that is in the hands of the public is mostly used for consumption and investment. The development of the money

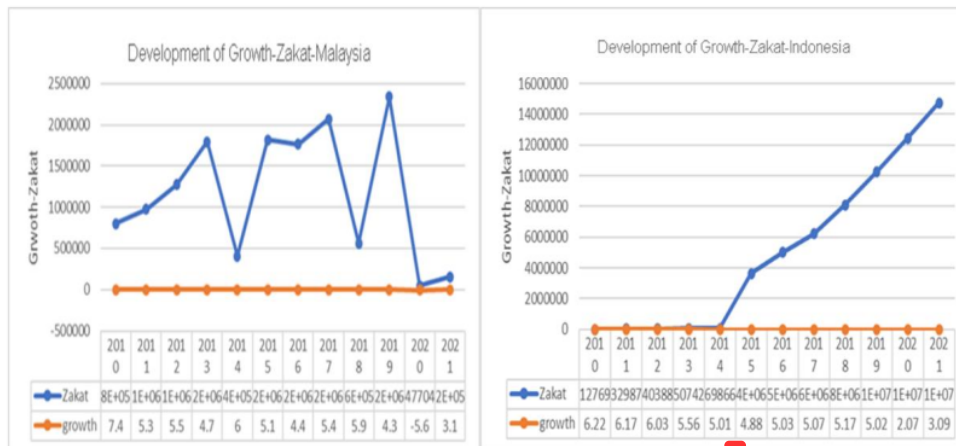
supply M2 if done properly will have an impact on aggregate demand and will indirectly have an impact on national income, economic growth and per capita income of a country. Theoretically, money supply M2 has a positive effect on economic growth, but if the opposite happens, this can be caused by the money supply M2 being used more for public consumption activities which in turn have an impact on inflation. According to the Monetarists, money supply only has an impact on inflation and not on economic growth. This is also reinforced by Milton Friedman's view that money supply growth will affect economic activity and subsequently inflation.

The increase in public demand for goods and services due to the increase in money supply will have an impact on aggregate demand. Monetary policy conducted by a country basically has 4 operational targets, namely: exchange rate, monetary, inflation and implicit target. With regard to zakat, it is one of the efforts of the government and the community to be able to distribute zakat to the rightful parties with the aim of reducing economic difficulties (distribution in the form of direct funds) or in the form of investment. Zakat in the form of cash funds will have an impact on the money supply and aggregate demand. Zakat as one of the revenues that can be used for consumption, investment or government spending will have an impact on aggregate demand and economic growth in the end. However, if zakat is given to the rightful parties (mustahik) only for public consumption activities then the zakat will have an impact on increasing the money supply and will further impact inflation. Therefore, the government through the appointed amil zakat agency should prioritize the distribution of zakat in the form of investment / working capital to the entitled parties so that it will have a positive impact on community economic activity and economic growth, this is also what is suggested by the results of research by Ahmed, et.al, 2017 and Siddiqi 1988.

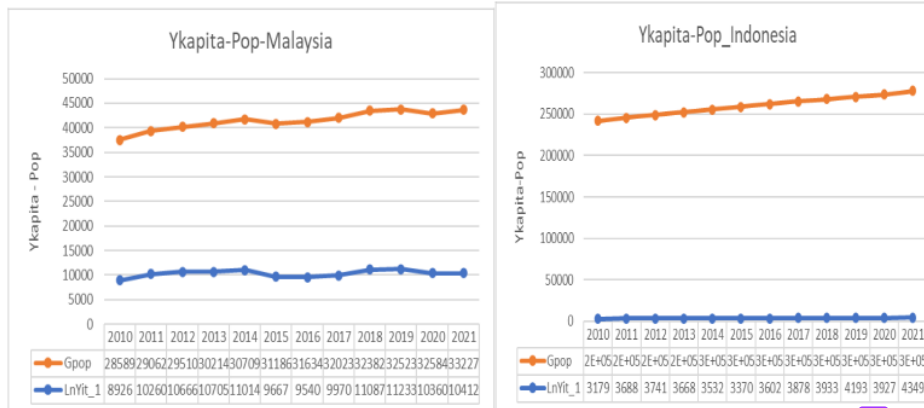
- b. Population growth ( $\ln gpop_{it-1}$ ) has a significant positive effect on economic growth in Indonesia and Malaysia. Population growth is able to encourage economic growth, will expand the market and economic specialization will have an impact on increasing economic activity. Indonesia as a country with the largest Muslim majority population in the world has great potential in collecting zakat. With the composition of the productive age population of 70.72 percent of the total population and 86.80 Muslims of the total population has a large potential for zakat as well. Malaysia with a Muslim population of 66 percent of the total population, is a great potential in the collection of zakat.
- c. Zakat distribution ( $\ln diszakat_{it-1}$ ) has a significant positive effect on economic growth in Indonesia and Malaysia. The role of zakat in the economy is a religious fiscal tool that aims for a fair distribution of income. Zakat redistributes wealth from the rich to the poor, thus reducing income inequality (Aziz and Bin Mohamad, 2016). By bridging the gap between the rich and the poor, zakat is a tool to ensure equality among people in society (Mujaini, 2005; Bakar and Ghani, 2011; Ahmad Fahme et al., 2013). Income distribution through zakat can affect economic growth. At the microeconomic level, zakat can play an important role in the allocation or distribution of funds to recipients. At the macroeconomic level, the effects of zakat include several dimensions such as economic growth, wealth distribution, poverty alleviation and social security (Haq, 2013). Consequently, all forms of expenditure,



including consumption, investment, and public expenditure associated with zakat, promote economic development, according to Choudhry and Hoque, 2004. zakat distribution occurs both in the short and long term. Short-term distribution is the concept of annual support needs (Ahmed et al., 2017). The distribution of zakat to productive recipients can help them in the long run by improving the quality and standard of living and also through financing community economic activities to become self-reliant (Patmawati and Ruziah, 2014). Aziz and Bin Mohamad (2011) classified Fuqaraa, Masakeen, Aamileen and Al-Ghaarimeen as direct recipients whose zakat can alleviate short-term poverty while the remaining zakat can be mobilized, accumulated and saved for further investment and long-term poverty alleviation by channeling large amounts of funds. Supply aggregate zakat in three ways (Kahf, 1997): resource allocation, labor supply (through improved health, nutrition and living conditions for the poor) and productivity as increased employee productivity positively affects the supply of goods in the country.



d. As we know, per capita income is one of the indicators to see the level of a country's economy, the level of welfare, the basis for government decision-making, comparison of the level of economy and prosperity of a country, and to monitor the level of progress of a country's development. The previous year's per capita income ( $\ln Y_{(it-1)}$ ) should also be one of the above indicators to reach the current year's per capita income. In this study, the previous year's per capita income does not have a significant effect on per capita income ( $\ln Y_{it}$ ) this is due to the creation of per capita income in the previous year is not entirely utilized to make expenditures in the following period, although this happens but the impact is not too great for the increase in per capita income in the current year, or it can also occur due to higher population growth than the increase in per capita income at the same time. As we know, per capita income is related to the population of a country.



e. Economic openness (Ln  $[\text{open}]_{it}$ ) is one of the variables with the proxy ratio of exports and imports to GDP. In this study, the economic openness variable has no effect on economic growth. Economic openness as a reflection of international trade that occurs in a country has no effect because international trade activities have an impact on economic growth in both Malaysia and Indonesia. International trade will have a positive impact on a country's economic growth if the country's exports are greater than its imports. According to the Heckscher-Ohlin theory, net exports are one of the components of national income, so that changes in net exports will have an impact on changes in national income. The tendency in many developing countries is not to benefit much from international trade because there are more imports than exports (net imports).

f. The results of this study indicate: zakat follows economic growth (growth-led zakat hypothesis), or called 'demand-following view'. This means that the distribution of zakat carried out in both Indonesia and Malaysia, encourages an increase in public demand for goods and services (the distribution of zakat is more in the form of cash to the entitled parties).

## 5. CONCLUSIONS AND SUGGESTIONS

### 5.1.1. Conclusion

This study aims to look at the effect of zakat on economic growth in several countries, especially in Indonesia and Malaysia. The result of this study indicates: zakat follows economic growth (growth-led zakat hypothesis), or called 'demand-following view'. This means that the distribution of zakat carried out both in Indonesia and Malaysia, encourages an increase in public demand for goods and services (the distribution of zakat is more in the form of cash to the entitled parties).

Based on the data analyzed using eviews, the following research results are shown:

1. Economic growth in the previous year has no significant effect on economic growth
2. Openness / international trade has no significant effect on economic growth
3. Financial development / money supply has a significant negative effect on economic growth
4. Zakat distribution has a significant positive effect on economic growth
5. Population has a significant positive effect on economic growth

Research Limitations and Suggestions

### 5.2.1. Research Limitations

Based on the results of the research and discussion, several research limitations that can be conveyed include:

1. The research conducted is only limited to 2 countries, namely: Malaysia and Indonesia, this is because the data needed for this research is difficult to obtain for several other countries (Brunei and Turkey).
2. The model and research variables used in this study are limited to macro variables only (income per capita, import-export, GDP, population, and zakat distribution), not including micro variables.

### 5.2.2. Suggestion

1. Further researchers add research objects (countries) that collect and distribute zakat.
2. Using a better analysis model other than panel data such as ECM
3. Adding research variables from the micro side to see the further impact of zakat on economic growth, such as: distribution of zakat in non-cash form, aggregate demand and aggregate supply and consumption of zakat recipients.

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