

Is Zakat Important in Reducing Poverty?

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Abstract—Poverty is a problem in all countries especially in several countries in ASEAN. Some policies taken to diminish the poverty have not yet effective considering the poverty is still high in ASEAN countries. Considering ASEAN countries have a predominantly Muslim population who annually spend some of their wealth for zakat, it is important to study whether zakat can be effective to be used as one of alternative policy to improve the rate of economic growth which will ultimately have an impact on poverty alleviation as well. This study uses panel data analysis to compare the effect of zakat on economic growth in several ASEAN countries, namely Indonesia, Malaysia, Brunei Darussalam and Singapore from 2010 to 2015. The results show that zakat have a positive but not significantly effect on economic growth. Thus, it is recommended for the government to improve the implementation and evaluation of zakat distribution so that zakat can directly improve the welfare of people, and hence improve the economic growth in ASEAN countries.

Keywords—Zakat; Economic growth; ASEAN countries; Panel data.

I. INTRODUCTION

Every country has a desire to be the best country with a good level of economic growth in the world, and that is no exception with countries from Southeast Asia. However, this is still an ideal for some countries because of the high level of poverty that will lead to low levels of economic growth. Economic growth is one of indicator in seeing the success of development in the economy of a country. An economy can be said to be advanced if seen by the magnitude of growth shown in changes in national output. Adisasmita (2013) said the increase in output capacity in increasing economic growth can be measured through Gross Domestic Product (GDP) as well as Gross Regional Domestic Product (GRDP) in the region.

According to Prof. Simon Kuznets in Todaro (2000), economic growth is an increase in the long-term capacity of existing countries to provide various economic goods to their population. Capacity building occurs due to technological advances, institutional and ideological institutions and various conditions that can support it.

Kusniawati (2011) said as for increasing the level of economic growth, a policy is needed. The policy is in the form of fiscal policy. In general, the function of fiscal policy is a function of allocation, distribution and stabilization in the economy. In terms of allocation, it is used for state financial resources, the distribution function concerns how the state's policy to manage its expenditure in order to create a fair economic distribution mechanism in the community, and the stabilization function is about how the state is able to create an economy that continues at a stable level.

Muhammad (2002) explains in Islamic economics, the objectives of fiscal policy differ from conventional economies, but there are similarities in terms of analyzing and also making economic policies. If from a conventional perspective, the fiscal policy carried out by the government still has various problems such as the difficulty of creating a fair economic distribution mechanism. In Islam, fiscal policy can be seen in terms of the obligation of the community to issue zakat and also the prohibition of usury.

Pramanik (1993) has stated that zakat has a significant role in the distribution of wealth and income within Muslim societies. In his study, Pramanik stated that the macroeconomic context, zakat can be used as an instrument that can provide incentives to increase production, investment, and work. Zakat is the best form of transfer mechanism in society. In a more macro context, the concept of zakat is believed to have a tremendous impact. Even in western countries, in recent years, there has been a concept that encourages the development of sharing economy or gift economy, in which the economy must be based on the spirit of sharing and giving.

In the Al-Qur'an of Al-Taubah: 103, "Take zakat from their property, to cleanse and purify them, and pray for them. The truth is your prayer (growing) the peace of the soul for them. Allah is the Hearer, the Knower (At Taubah: 103). From the Al-Quran verse, it can be concluded that Allah SWT stipulates the rights and obligations between the two groups, namely between the rich and the poor groups in the distribution of wealth distribution, the existence of the zakat mechanism.

According to Kahf (1997) zakat has the main purpose of achieving social economic justice. Zakat is a simple form of transfer with a certain size from the assets of a capable group that is allocated to groups who are unable to achieve balance. Zakat can be said to be an effective means and very potential in empowering the economy of the people.

If zakat can be managed effectively by the state, zakat will be a source of funds that can be distributed as social security so as to encourage the acceleration of the development process in the country, which of course when development occurs quickly, economic growth can be affected as well. The existence of zakat institutions that have been formed is expected to be able to work professionally so that poverty alleviation can be resolved. This shows that good zakat management can effectively alleviate poverty.

The productive use of zakat will develop small or medium industries which of course will increase employment, so that this will be able to reduce the level of unemployment which can have an impact on the increase in people's purchasing power. An increase in people's purchasing power will be followed by increased production growth as well, with the growth of the production sector will be one indicator in increasing economic growth which will eventually be able to reduce poverty.

II. LITERATURE REVIEW

A. *Economic Growth Theory*

According to Prof. Simon Kuznets in Todaro (2000), economic growth is a long-term increase in capacity from the existing country to provide various economic goods to the population. Capacity building that occurs is due to the existence of institutions and ideologies that can support the situation and also technological advances.

B. *Definition of Zakat*

According to the language of zakat is developing or growing. In Islamic law zakat is taking certain assets according to certain characteristics and also given to certain groups. According to Hafidhuddin (2002) in terms of zakat is a certain condition required by Allah SWT in the form of property to be issued then given to those who are entitled to receive it with certain conditions. It can be concluded that in the implementation of zakat is defined as a mechanism that can drain wealth from a group of capable people to a group of poor people. The purpose of zakat is to be able to flatten the differences that exist between those who are able and those who cannot (to have and have not), in other words those who have the property are obliged to provide assistance to those who do not. Conversely, those who do not have property have the right to receive assets (zakat) from those who have assets.

C. *Economic Growth in Islam*

There are some basic understandings of economic growth seen from the Islamic point of view; the view of economic growth in Islam is not the same as capitalist understanding, which means that economic issues are seen from the aspect of wealth issues and the lack of available sources of wealth. Islam views economic growth which is seen as capitalist, in fact, has been provided by Allah SWT to fulfill the needs of living beings which are also intended to overcome the problems of life of living beings on the face of the earth.

Just as the concept is capitalist, in Islamic economic growth there are several factors that will influence economic growth that is (Marthon, 2004):

- Economic, social and political stability
- Increased Investment Activities
- Production efficiency
- Market urgency

D. *Poverty Theory*

Poverty according to World Bank is measured by one's income. Suryawati (2005) explains that the poor category is someone who has an income of less than US \$ 1 per day. According to the Central Bureau of Statistics explained the poverty rate is based on the amount of rupiah for consumption in the form of food which is 2100 calories per person per day (from 52 types of commodities which are considered to represent the lower population consumption pattern), and non-food consumption (from 45 types of food commodities according to the agreement national and not differentiated between rural and urban areas).

III. RESEARCH METHOD

A. *The scope of research*

The scope of this research is to analyze the influence of zakat on economic growth in ASEAN countries which cover the countries of Indonesia, Malaysia, Brunei Darussalam and Singapore. The variables used are data on the number of zakat in the

four ASEAN countries and the level of economic growth that is proxied from the data on Gross Domestic Product (GDP) in the four ASEAN countries from 2011-2015.

B. Types and Data Sources

The use of data in the study is secondary data. The entire data is in the form of panel data consisting of time series data during the period 2011-2015 and cross sections from four countries in ASEAN. Zakat data is obtained from the website of the Badan Amil Zakat Nasional (BAZNAS) for Indonesia, Majlis Agama Islam Negeri-Negeri (MAIN) for Malaysia Jabatan Majlis Ugama Islam Kementerian Hal Ehwal Ugama for Brunei Darussalam, and Majlis Ugama Islam Singapura for Singapore. Gross domestic product data is obtained from the website of World Bank.

C. Data Analysis Model

The data analysis model used in this study is a panel data regression model. Data panel is a combined data between time series data and cross section data. According to Winarno (2011) the data panel is a combination of the characteristics of both types of data which consist of several objects and also includes some time. Formulated into this study as follows:

$$PDB = \alpha + \beta Z_{it} + e$$

Where PDB is the Gross domestic Products; α is a constant; β is the Regression coefficient; Z is the Zakat; e is an error term, iis ASEAN Countries (Indonesia, Malaysia, Brunei Darussalam, Singapura) and t is the Time period (2011-2015)

IV. RESULTS

There are three models used in data regression in this study, specifically Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). From the results of the regressions using three models different results were obtained. After knowing the regression results for the three models, the next step is to look at the model that can be used in estimating panel data regression. However, to find out, some tests of the F test (chow test), Hausman test and Lagrange multiplier test are needed. After conducting these tests, an analysis will be carried out to see how the relationship or influence of the independent variables on the dependent variable is, the effect of zakat on economic growth in the four countries in Southeast Asia in the period 2010-2015.

The constant value of this regression is $3.55E + 12$ which means that when all independent variables are considered constant the GDP will increase by $3.55E + 12$ or by 3,550,000,000,000. The logzakat coefficient is 6.740452, meaning that if logzakat rises by one percent, the GDP will increase by 6,740452.

TABLE I. CONTRIBUTION OF ZAKAT TO THE ECONOMY

Year	Negara (Percentage)			
	Indonesia	Malaysia	Brunei Darussalam	Singapura
2010	0.052	0.047	0.034	0.036
2011	0.062	0.049	0.025	0.032
2012	0.075	0.058	0.028	0.035
2013	0.096	0.052	0.033	0.037
2014	0.138	0.056	0.039	0.041
2015	0.170	0.065	0.043	0.048

Based on Table I, the results of the analysis of zakat in the four countries have a very small percentage of economic growth in Indonesia, Malaysia, Brunei Darussalam and Singapore. This is due to calculating economic growth other than using the zakat variable but there are control variables needed. In addition, each country has the characteristics of each control variable in its country in calculating economic growth.

In accordance with the regression results it can be concluded that the zakat variable has a positive and insignificant effect on economic growth in the four countries in Southeast Asia as in previous studies conducted by Lapopo (2008), which states that the results of zakat fitrah have a positive and insignificant effect on poverty, this is because fitrah has a temporary nature which is only used for consumptive matters so that it has little effect because zakat fitrah is only paid once a year and only in a small amount so it still has a low influence on poverty reduction.

In addition, research from Farid et.al in 2015 concluded that the distribution of zakat funds from LAZ AZKA Al Baitul Amien in Jember Regency had a positive effect but not significant to profits. It can be said that the assistance of zakat funds has not been

able to influence business profits for mustahik. This is supported by the research of Arif (2010) which states that productive zakat does not have a significant influence on business profits and income for the mustahik.

V. CONCLUSION

This research examines the effect of zakat on economic growth in four countries in Southeast Asia covering Indonesia, Malaysia, Brunei Darussalam and Singapore for six years, namely from 2010 - 2015. It is concluded that zakat has a positive effect but not significant on economic growth which means that zakat still has an influence in increasing economic growth but however, the effect of zakat is not significant because there are other variables that influence economic growth in the four countries that were not examined in this study. Zakat is paid once a year and only in small amounts so that the effect is still low on reducing poverty.

1. It is recommended for the government in implementing fiscal policy to increase the zakat collected to enhance the economic growth of countries that collect zakat in Southeast Asia.
2. It is recommended for increasing in supervision in the zakat management thus zakat which is distributed can be more effective.
3. It is expected that the results of this study can be a reference for further researchers, and it is expected that the researchers can then add other variables and use data with a longer span of years in the research so that the results of further research can provide more comprehensive results.

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