

The Impact of Zakat Against Poverty Alleviation, Inequality & Economic Growth (Case Study of Indonesia)

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ABSTRACT

The purpose of this study is to investigate the impact of zakat in term of poverty alleviation, income distribution in the society and accelerating economic growth of the country. The study has employed annual time series data from company's financial statement from IDX and data states from Indonesia (BPS) over the period of 2007 up to 2016. The tools in the method used were normality, multicollinearity, heteroscedasticity, and autocorrelation. The data were analyzed using statistical software – SPSS 20. The study finds that zakat has a positive impact on economic growth. Furthermore, the impact is huge and long term. Hence, this study recommends that zakat payment and distribution should be not limited to the fulfillment of consumable needs only, but also should cover other forms of monetary aid that can improve the economic growth.

Key words: Zakat, poverty alleviation, income inequality, economic growth, auto-correlation

INTRODUCTION

Due to the global economic meltdown and slow growth, World Bank estimates that approximately 3 billion citizens are living in poverty and 46 million people will have income level of US\$1.25 a day. Thirty-five percent of these people are Muslims from Islamic countries (1). In 2015, the global poverty line of \$1.90 released by World Bank, the nominal poverty line between 2005 and 2011 was raised to adjust for inflation. There was two experiments were conducted to determine the countries' inflation rate to use, one approach was to inflate the poverty lines of the 15 countries in 2005, by taking the average of inflationary rates. Another approach was to inflate the poverty lines of the other 101 countries. Thus, both methods raised the line to \$1.88 and \$1.90, respectively (2).

In 2017, global economic growth approached 3 per cent, the highest rate since 2011. At the global level, growth is

expected to remain steady at 3.0 per cent in 2018 and 2019. As the World Economic Situation and Prospects 2018 demonstrates, current macroeconomic conditions offer policymakers greater scope to address some of the deep rooted systematic issues and short term thinking that continue to hamper progress towards the Sustainable Development Goals (3). More than six decades ago, the relationship between economic growth and income inequality had captured the attention of the line of work in the world. The seminal work of Simon Kuznet in 1955 has documented the phenomenon of the correlation between economic growth and income inequality. However, the improvement of income distribution followed with the increasing per capita income - reversed curve U – (4).

In Islamic perspective, zakat is considered as the most effective and tested tool to fight poverty and all its unwanted consequences (5). It was established to alleviate the concentration of wealth in few

hands, to ensure thoughtful wealth redistribution, to encounter poverty in society, to achieve social security and economic prosperity (6). The studies on the relationship between zakat and poverty alleviation describes how zakat has in one way or another helped to improve the welfare of people and confront the gap between the rich and the poor in society. It is a tool to create equality among people in the society (7). One possible evidence for such contradictory findings is that inequality's impact on growth have vary greatly depend on economic condition. Some scholars consider zakat as a social insurance for members of the muslim community through which a better future is granted (8). Furthermore, the alleviation of poverty by policy emphasizing the average income and a strategy for direct pro-poor interventions (9).

Nigeria, with over 177 million population and which over 50 per cent muslims (10). It is blessed with plenteous land and other natural resources. Therefore, the level of economic activities obtained the

wealth creation. However, since the government reintroduction of zakat for about one and half decades ago, little success was realized toward having a vibrant functional zakat system that could stand the test of modernity and simultaneously in full adherence to the Islamic injunction. Notwithstanding the merciless efforts of successive governments at different levels in Nigeria, to put in place a functional zakat system, not much has been achieved (11).

This study highlights the impact of zakat in Indonesia and suggests how zakat institutions can made the function effectively to reduce poverty, alleviate inequality income among societies. And also, for the long term goal is to accelerate the countries' economic growth. In addition, this paper gives insight into the various institutions or drivers of economic growth, that collection and disbursement of zakat can accelerate economic growth of the country. The table 1 below shows that the ZIS collection fund increased through the year.

Table 1. Time series of ZIS collected in Indonesia

<i>Year</i>	<i>Billion IDR</i>	<i>Million USD</i>	<i>Annual Growth (%)</i>	<i>GDP Growth (%)</i>
2008	920.00	66.96	24.32	6.20
2009	1200.00	87.34	30.43	4.90
2010	1500.00	109.17	25.00	6.10
2011	1729.00	125.84	15.30	6.50
2012	2200.00	160.12	27.24	6.23
2013	2700.00	196.51	22.73	5.78
2014	3300.00	240.17	22.22	5.02
2015	3700.00	269.29	21.21	4.79

*1 USD = IDR 13,740

Financial development, economic growth and Income inequality

A lot of empirical research supports the view that development of the financial system contributes to economic growth (12). A well-functioning financial system is considered as one of the key foundation on which sustained economic development can be built (13). However, there is no consensus on the relationship between

financial development and economic growth. The most high debated issues in the literature of financial economics is the finance-growth nexus. (14), (15), (16), and (17) provided some arguments and evidence for an inverse relationship between financial development and the economic growth. Moreover, (18) concluded that financial intermediaries exert a large positive impact on the total

factor productivity growth, which feeds through to overall GDP growth.

Though there are some arguments on the relationship between financial development and economic growth, the majority of the recent studies have not ignored the importance of financial sector development on the growth of an economy. (19) found that financial development is positively related to economic growth in China. In line with this, a more recent study by (20) used four different proxies of financial development (banking sector development, bond market development, stock market development, and insurance sector development) to examine the finance-growth relationship in ASEAN region for the period of 1991-2011. Their studies show that the fourth sector mentioned before in relationship to economic growth shared a cointegration relationship in long run. However, in the case of causality, their results are sensitive to the use of financial development proxy. The study accounted a unidirectional causality from banking sector development to economic growth and a bi-directional causality from banking sector development and economic growth, and insurance sector development and economic growth.

Schumpeter 1911 discussed that banking system as a financial intermediary played an important role in economic growth through allocation effectiveness and thereby increasing productivity, technical change and economic growth (21). Policy directed toward enable the financial intermediation has a strong and enthusiastic financial sector through two systems. Firstly, cheaper credit, boost entrepreneurial activities, generate employment opportunities and enhance the welfare of the poor. Secondly, the availability the credit cheaper cost can provide crucial support in turn improves the income distribution. Credit model suggests that capital market imperfections might affect the income distribution during economic development. (22) present a

theoretical model analyzing the role of financial development in fostering economic development. A more recent study by (23) on the non-monotonic relationship between financial development and economic growth is that they are conducted and highly heterogeneous panels (including higher, lower, middle or low-income countries). To this end, it is important to note that higher level of development of financial sector may not always be beneficial for economic growth.

In contrary to (22), (24) and (25) argued that long run income inequality in income levels of wealthy and needy will not necessarily happen in economies with capital market imperfections and an initially unequal disbursement of wealth, will maintain this inequality and grow more slowly than a similar economy with a more equitable model of distribution wealth. Hence market imperfections are linked to inequalities in income and distribution wealth, which suggest that those who have financial, physical and human capital resources are likely to gain advantages from financial development (26).

With the current emphasis on inclusive growth objectives and the importance attached to the role played by financial development in the context, this highlights the complexities of finance growth inequality linkages. (27) provide the empirical evidence on which to proceed with more disseminated as effective instruments for achieving inclusive growth in SAARC countries. (28) proposed two important hypotheses; supply leading and demand following hypothesis. Based on his argument, the early stage of the country's economic development, the financial system leads economic growth. Whereas, as the country advances toward becoming a developed nation, the growth creates demand for the financial sector to be developed.

Zakat Distribution and Poverty

In Islam, Zakat is one of the key mechanisms as a fiscal policy and operations for a country. It is considered as a natural fiscal tool that serves as a impartial distribution instrument for income and becomes the catalyst for economic activity of the country. Different with conventional one, the Islamic fiscal policy recognizes zakat helps balance the nation's income through the distribution of income from the rich to the poor. There are two scenarios as a fiscal basis affected by zakat, such as, increases the aggregate demand through zakat. It is imposed on the rich to be distributed to the poor. In addition, zakat can avoid the freezing of property in the economy through investment activities. Eventually, it can increase the tendency of consumer to spend in the economy. Zakat money distributed to the poor will be used by needy group to purchase basic necessities.

Zakat means to give a certain proportion of one's wealth to the less fortunate ones in society. Meanwhile, based on lexicological, it means to "purify" something with the connotation to grow or increase (29). The holy Quran says in Q.S 9 verse 103: "take from their wealth so that you might purify and sanctify them". Implying that, zakat purifies the givers from selfishness and greed for accumulation of wealth, and uplifts the recipients in society. Apart from individual ventures, the main themes of various collective (social) functions of zakat as an institution such as keeping wealth in circulation and promoting human brotherhood and self-respect.

In the past research, (30) conclude that zakat disbursement to productive asnafs will support them in the long term to improve their quality and standard of living and offer finance for the economic activity. Moreover, long period of time, they are expected self-reliant and productive, then have ability to pay zakat in return. Therefore, the main goal from the

productiveness of resources to eradicate poverty will be reached. There are some advantages of zakat system for both individual and societal level. Individually, zakat provides a sought of platform to train individuals for generosity, self-purification, sincerity of faith, the obedience of the stipulated law, giving special assistance and others (31).

Fundamentally, modern zakat governance over the world could be classified into two; some countries with government support and some countries without. Those countries with the backing by the government support could further be categorized into two: countries where zakat is voluntary such as Indonesia, Egypt, Jordan and Kuwait (11) and countries where zakat is compulsory such as Malaysia, Sudan and Saudi Arabia (32). For instance, zakat in Malaysia is strongly supported by government. It is provided by law where each state is empowered to enact the zakat law and administer it as appropriate (33). On the other hand, those without government support could further be categorized into two: zakat is either discharged privately by individual payers or coordinated by non-governmental organizations of Islamic scholars or professionals or a combination of both (32).

There was a rapid developed of zakat management in Indonesia. It is reflected from the establishment of BAZNAS, the national benefaction agency and LAZ (Lembaga Amil Zakat), as the zakat institutions. BAZNAS as a National Board of Zakat in Indonesia is the official and the governmental zakat institution which was established based on the Indonesia Presidential Decree No. 8 year 2001. Indonesia, as a country with more than 80 per cent of muslims, the government should seriously pay attention to optimize the usage of zakat as the source of investment funds for economic growth and development, which is mostly believed that zakat gives a more socio-economic justice and equitable disbursement of

wealth (34). Following that statement, from a microeconomic perspective, the impacts of Zakat can lead to the preservation of maqasid al-shariah at three different levels. First, zakat can fulfill the necessities of the destitute and the poor such as the staple of foods, clothes, shelter, and education. At the second level, zakat can educate people in term of intellectual capacity as well as human dignity.

According to the Indonesia Masterplan Sharia Finance Architecture, the funds collected as zakat in Indonesia are estimated between Rp 11.5 to Rp 19.3 trillion, while BAZNAS collected the data of zakat only an amount of Rp 9.85 billion. Any differences of reason, such as, there is no comprehensive database which contains the information on the amount of zakat collected from BAZNAS or LAZ as the accredited institutions, mosques, Islamic boarding schools, or other informal institutions which also collect zakat, as well as the amount of zakat distributed directly to the mustahiq. Other reasons which make this become a bigger problem are as follows: low awareness and understanding of the muzakki, especially regarding zakat calculation, low confidence with the government or zakat institution, and the muzakki's perception that zakat should be distributed directly.

Contribution of Growth to Poverty Reduction

In term of literacy, poverty is "state of being extremely poor and the state of being inferior in quality or insufficient in amount", in France meaning "poverty" and in Latin language "paupertas" from "pauper" which is means poor. In 1998, PBB (United of Nations) interpret the poverty as "violation of human dignity here humans are denied of having choice and opportunities". However, World Bank define the poverty "as someone being destitute of well being, which encompasses various issues namely low income, lack of access to basic living facilities,

malnutrition, lack of education and mental stress". In addition, according to Smelser and Baltes, poverty is a condition where a family cannot have the ability to generate income.

Indonesia, with the large population, also faces poverty. Poverty measurement in Indonesia based on people's ability to meet their basic needs. In March 2018, according to Indonesia's Central Statistics Agency (BPS) there were 25.95 million Indonesian people living in poverty, and the poverty line applied is defined as IDR401,220 (\$27.72 USD) a month. This number declined sharply from 2017 with the absolute poor people about 26.58 million (10.12%). Poverty and income inequality are a unit that affects each other, a weak of income distribution will lead to the sustainable poverty. This condition leads to the bad impact for some people to increase their income to fulfill basic needs. The differences of income levels in households, causes the variation of health, education and training demands. However, people in the society are create for social service programs to be successful to be culturally sensitive and recognize the importance of social relationship to others (35).

Based on these explanations, the research hypothesis is arranged as follows:

- H1: Zakat has a significant effect on poverty in Indonesia.
- H2: Inflation has a significant positive impact on poverty alleviation.
- H3: Economic growth has a significant positive impact on poverty alleviation.
- H4: Zakat, inflation, economic growth has a significant positive impact on poverty alleviation.

Research Method

The primary focus of this study to provide evidence for the relationship between the zakat disbursement, poverty alleviation and income inequality in low income country. Fo which, this study purposes a simple

linear regression model. The data used in this study are the time series which have been collected from BAZNAS, 2017 Indonesia Zakat Outlook and the website country economy. The dependent variable is poverty is HCI (Head Count Index), and the independent variables are zakat, economic growth (RGDP) and inflation. On the basis of an extensive review of the literature this study further used capital formation, trade openness, inflation and the labour force as the control variables.

1. Normality test: is used to determine whether or not the normal distribution of data (36). Good research data is data that has a normal distribution (bell shaped), it means the data has spread evenly so that it can represent the population.

$$T_3 = \frac{1}{D} \left[\sum_{i=1}^k a_i (X_{(n-i+1)} - X_i)^2 \right] \quad (1)$$

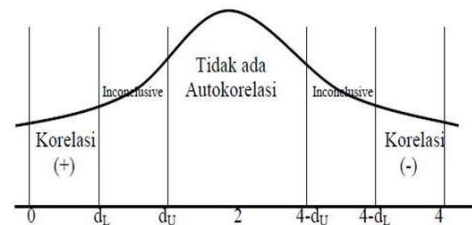
2. Multicollinearity test: is used to determine existence of high correlation between variables in a multiple regression model. A high correlation between the independent variables, then relation between them of the dependent variable will be disrupted. As such, a good regression model should not be a correlation between independent variables, or may be mutually collinear but not only highly correlated (37).

$$VIF = \frac{1}{(1 - R_n^2)} \quad (2)$$

3. Heteroscedasticity test: regression formula obtained by assuming confounding variables (error) has a constant residual variance. It will occur if there is residual variance is not constant. The good regression model if there is not heteroscedasticity (38)

$$|Un| = a + b_n X_n + V_n \quad (3)$$

4. Autocorrelation test: this test can be done by using Durbin Watson (DW). It is used to see that there is a linear relation between the errors on a series of observation, sorted by time (time series data). And it must be met is not autocorrelation (39).



Result & Discussion

The data analysis procedures implicate a total of following four steps: checking the normality of the data variables, testing the multicollinearity, heteroscedasticity, and autocorrelation for each dependent variables and independent variable. The data collected was processed through SPSS, and MS Office software for tabulation and further analysis. Despite descriptive statistics, inferential statistics were used to see if there was any significance for between dependent and independent variables.

Hypothesis 1. Impact of Zakat On Poverty

a. Normality test

Is the correlation relationship always measures the strength, significance, and the direction of relationship of the variables used in the studies.

In this hypothesis, we test about:

H0: Normal distribution, if probability > 0.05 , then H0 accepted

H1: Un normal distribution, if probability ≤ 0.05 , then H0 rejected

One-Sample Kolmogorov-Smirnov Test

		Zakat	Kemiskinan
N		8	8
Normal Parameters ^{a,b}	Mean	3,2839	28,6150
	Std. Deviation	1,64521	1,38388

- a) Test distribution is Normal.
- b) Calculated from data.
- c) Lilliefors Significance Correction.
- d) This is a lower bound of the true significance.

Based on the calculation, it can be seen that the number of probability (p-value) is about 0.200. Due to the higher probability than test coefficient that used I this research. On the other hand, if $p\text{-value} > \alpha$ or $0.2000 > 0.05$

b. Multicollinearity test between zakat and poverty

Multicollinearity test shows tolerance results greater than 0.10 and VIF independent variable less than 10.00. it can be concluded that each independent variable in the regression model is not in case of multicollinearity

c. Heteroscedasticity test

Heteroscedasticity test depends on scatterplot, plots are distributed

randomly above and below of zero (0). It means that there is no heteroscedasticity in this model.

d. Autocorrelation Test

According to the output that $t = -4.603$ with the significant $0.004 < 0.05$, then H_0 rejected and H_1 accepted. It means that there is absolutely significant between zakat (x) and poverty (y). Based on table model for summary R square, we can see that the impact of zakat on poverty is about 0.779. It means that the impact of x (zakat) to y (poverty) at 77.9%, and the other 22.1% affected by another variable.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,883 ^a	,779	,743	,70223	1,017

- a) Predictors: (Constant), Zakat
- b) Dependent Variable: Kemiskinan

Hypothesis 2. The impact of inflation to poverty in Indonesia

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,236 ^a	,056	-,102	1,45263	,613

- a. Predictors: (Constant), Transform_X
- b. Dependent Variable: Kemiskinan

The table above using Durbin Watson, the result is: for T is 8, k is 2, and dL is 0.76290 and dU is 1.33238. The number for d is around 0.613, therefore, the

result for (4-d) is equal to 3.387. It can be concluded that the regression result for 4 Durbin Watson is 0.613, $3.387 >$

DU: 1.33238. It means that there is no autocorrelation for both variables.

Regression model for this equation:

$$Y = a + bx \text{ or } 27.114 + 0,671x$$

We can summarize from the equation, if the poverty (y) in Indonesia is about 27.114, then, there is no inflation happen. On the other hand, the coefficient regression around 0.671 means that there an inflation (x) increase about 1, then, the increase of poverty around 0.671.

Hypothesis 3. Economic growth significant impact to Indonesian poverty

According to one-sample kolmogorov-smirnov test, the probability of p-value between 0.116 and 0.200 due to the probability higher than the number of test. On the other hand, p-value > α or 0.116 > 0.05 and 0.200 > 0.05 then H0

accepted. Therefore, the data are normal distribution. In term of multicollinearity, there VIF number less than 10.00. In addition, based on the regression, there is no autocorrelation between economic growth and the poverty condition of Indonesia society, with the equation $Y = a + bx$ or $19.483 + 1.642x$. We can conclude that, the correlation between economic growth and poverty is about 19.483. In summary, the economic growth affect the poverty for about 59.9%.

Hypothesis 4. Zakat disbursement, inflation, economic growth and poverty

a. Normality test

The result of the test that p-value > α or $0.200 > 0.05$, $0.116 > 0.05$, $0.200 > 0.05$ and $0.126 > 0.05$, then, accepted H0. We can say that the data in a normal distribution.

One-Sample Kolmogorov-Smirnov Test

	Zakat	Pertumbuhan Ekonomi	Kemiskinan	Transform_X2
N	8	8	8	8
Normal Parameters ^{a,b}	Mean	3,2839	5,5625	28,6150
	Std. Deviation	1,64521	,65233	1,38388
Most Extreme Differences	Absolute	,162	,261	,223
	Positive	,162	,261	,223
	Negative	-,139	-,211	-,136
Test Statistic	,162	,261	,223	,258
Asymp. Sig. (2-tailed)	,200 ^{c,d}	,116 ^c	,200 ^{c,d}	,126 ^c

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	30,803	6,557		4,698	,009		
	Zakat	-,734	,360	-,872	-2,038	,111	,253	3,951
	Pertumbuhan Ekonomi	,230	,817	,108	,282	,792	,313	3,199
	Transform_X2	-,473	,761	-,166	-,621	,568	,649	1,542

a. Dependent Variable: Kemiskinan

b. Multicollinearity test

We can see from the table, that VIF for the independent variable is less than 10.00. So, the data are not multicollinear.

c. Heteroscedasticitas test

The table shows, that H0 rejected with some condition, such as significant number 0.111, 0.792 and 0.568, and it is because $0.111 > 0.05$, $0.792 > 0.05$ and

significant $0.568 > 0.05$. Therefore, there is no heteroscedasticities in regression.

d. Autocorrelation Test

‘According to the table, the regression equation is:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 \text{ atau } 30,803 - 0,734x_1 + 0,230x_2 - 0,473x_3$$

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,903 ^a	,815	,676	,78824	1,285

a. Predictors: (Constant), Transform_X2, Pertumbuhan Ekonomi, Zakat

b. Dependent Variable: Kemiskinan

From the equation above, we can concluded that:

1. Constanta 30.803 it means that if there is zakat (x1), economic growth (x2), inflation (x3), then the poverty will be around 30.803.
2. Regression coefficient x1 with the number of -0.734 mention that in every increasing 1 number of zakat (x1), then poverty declined about 0.734.
3. Regression coefficient x2 at -0.473 means in every increase of 1 number of economic growth (x2), then the poverty (y) will rise about 0.230.
4. Regression coefficient x3 about -0.473 means in every 1 number of increase of inflation (x3), so, the number of poverty declined 0.473.

From the above data, we can see that if t equal to -2.038 with the significant number of $1.111 > 0.05$, then accept H0 and reject H1, with the meaning that there is no significant effect between zakat (x1) and poverty (y). In addition, if the t is 0.282 with the significant number $0.792 > 0.05$, then

accept H0 and reject H1. We can say that there is no significant relationship between economic growth and poverty. Moreover, if there is $t = -0.621$ with significant number $0.568 > 0.05$, Ho accepted and H1 rejected, then, there is no significant impact between inflation and poverty.

Between zakat, economic growth, inflation and poverty are shown in table R square is 0.815. It means that the impact of zakat on the economic growth, inflation and poverty is huge, for around 81.5%. But for the 18.5% less affected by another variable.

CONCLUSION

In summary, it appears that zakat has significant correlation with poverty in Indonesia, with the number of R square is about 0.779 (77.9%), this number of relationship is higher rather than another variables. In addition, it also between inflation and poverty there is a correlation relationship, but only a few of percentage, is only 5.6%. Moreover, poverty in Indonesia can be influenced by the growth of economy in the country. It can be seen

from the data, that 59.9% of economic growth has positive correlation to poverty.

As blended together, between zakat, inflation and economic growth, there was a significant relationship towards poverty. The number of significance is high at reached around 81.5% for between three variables, and only 18.5% from the other variable that not concluded in this research.

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