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The Influence of Zakat on Economic Growth and Welfare Society in Indonesia

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Abstract

Indonesia as a one of the most significant Muslim population in the world has developed zakat rapidly; it is shown by the development of the zakat regulation and establishes of Badan Amil Zakat Nasional (BAZNAS). Zakat has many benefit for economic both of macro and micro aspect, such as foster inclusive economic growth. The objective of this study are 1) to examine the influence of zakat on economic growth and welfare society which uses 3 (three) indicators i.e.HDI, Percentage of Poor People, and GINI Index and 2) to investigate whether items of Theory Planned Behavior influence of zakat payment. The researcher used Structural Equation Model (SEM) with PLS software. The result showed that zakat in Indonesia does not influence economic growth and welfare society. Besides that, welfare society Indonesia as a developing country has a negative value to HDI and GINI index but has a positive value to Percentage of Poor People.

Keywords : *zakat, growth, welfare, planned behavior*

1. Introduction

Poverty is a classic problem that has not been resolved in Indonesia until now. Based on data from the Central Statistics Agency (BPS), there was an increase in the number of poor people by 3%, from 27.73 million as of September 2014 to 28.51 million as of September 2015. One effort to reduce poverty in Indonesia was zakat. Zakat is a sum of money or goods taken from assets that have fulfilled the requirements of haul and nisab and allocate it to muzakki. Zakat is one of the pillars in the pillars of Islam as a form of social action that must be carried out by every Muslim. Zakat sanctifies the soul from stinginess, greed, and selfishness; purify property from the rights of others; and have a positive impact on the economy of the community by reducing poverty, increasing economic growth, and increasing purchasing power parity (Rahim & Fanani, 2014; Syahrullah & Ulfah, 2016). Zakat is a form of social and economic value worship that can reduce economic inequality in society. With proper management of zakat, it is expected that evenly distributed income can be realized.

Indonesia is the country with the largest Muslim population in the world. In 2017 the population of Indonesian Muslims reached 87.21%. With the largest Muslim population, Indonesia also has a large potential for national zakat, which amounts to Rp217 trillion. This figure should have a tremendous impact on efforts to alleviate poverty in Indonesia. However, the potential of the national zakat which can be absorbed and managed by the BAZNAS institution has only reached Rp2.73 trillion or only around 1%.

So far research on the potential of zakat, the effect of zakat on people's welfare and other social problems, or the study of the realization of zakat funds separately. Kahf (1987) estimated the potential of zakat in eight Islamic countries namely Egypt, Indonesia, Pakistan, Qatar, Saudi Arabia, Sudan, Syria and Turkey. The study estimated zakat in three ways, i.e. based on i) traditional fiqh ii) Qardawi's calculation of income zakat is calculated at 2.5% while the net profit on fixed assets is calculated at 10%; and iii) modification of the Qardawi version, namely all zakat from both fixed assets and income equal to 2.5%. The results obtained are that the potential of zakat in Indonesia ranges from 1 to 2 percent of GDP.

Kurniawati (2004) estimated the potential of zakat in Indonesia to reach IDR 6,132 trillion. While Firmansyah (2009) estimates the potential of zakat by using an assumption of zakat levels of at least 2.5% from each regional economic sector (GRDP) as follows i) the level of agricultural zakat 2.5% of the value of agricultural sector GRDP; ii) mining zakat levels 2.5% of the value of the mining sector GRDP; iii) the zakat rate of other sectors is 2.5% each. Firdaus (2012) shows the total potential of zakat in Indonesia from various sources, namely household, corporate and savings income, estimated at Rp217 trillion, equivalent to 3.4% of Indonesia's GDP. Mukhlis & Beik (2013) shows that zakat funds received by BAZ in Bogor Regency always increase with a considerable value in the period 2006-2010. The zakat fund obtained by the Bogor Regency BAZ in 2010 reached Rp1.5 billion, an increase of 119% compared to 2006. Meanwhile, the BAZNAS data, in 2014 showed the results of zakat receipts in Indonesia amounting to Rp3.2 trillion (Sitorus, 2015).

Although there has been a lot of research on zakat in Indonesia, however, so far the authors feel that they have not found a study of the potential and realization of zakat funding and its effect on economic growth and the welfare of society. Therefore, this study aims to estimate the magnitude of the potential for zakat funding, especially zakat maal in Indonesia and analyze its influence on economic growth and the welfare of the people of Indonesia.

2. Literature Reviews

Islam is an ideal religion as it comprises rules which regulate all of the aspects of life. Such rules are not only focusing on the afterlife, but also on the worldly wealth. One of those rules is zakat or alms-tax, which is one of the five pillars of Islam. Other than its religion value, zakat also encompasses social values in reducing poverty and improving prosperity in the society. As one of the existing religions in the world, the presence of the religion brought by the Prophet Muhammad (PBUH) is believed to be a religion that brings goodness to the world.

There is a principle in Islam, "fiqh" which is sourced from the Qur'an as the supreme source of law in Islam and the Hadith of Prophet Muhammad (PBUH). Fiqh is divided into 2 (two) categories namely fiqh ibadah and fiqh muamalah. Fiqh ibadah deals with all matters related to the worship of Allah or the relationship between human as servant and Allah. Meanwhile, fiqh muamalah refers to all of the things related to the interpersonal relationship between human as the person to others. Fiqh muamalah deals with sharia rulings related to business and financial activities that rapidly change from time to time in order to meet the changing needs of people and rapid developments throughout the worlds (Jalil et al., 2014). The principle of muamalah is that everything can be done unless there is proof or dalil which says otherwise (haram).

Zakat is a thing that includes both fiqh ibadah and fiqh muamalah. Giving zakat to the rightful recipients can increase the prosperity in this world as well as the religious merit of the zakat payer. Furthermore, paying zakat can purify and clean the payer from greediness, selfishness, and arrogance and get a blessing from Allah. There are 2 (two) types of the zakat namely zakat maal and zakat fitrah. In the Islamic law, zakat fitrah should be paid in the month of holy Ramadhan while zakat maal could be paid every year, month or anytime because there is no particular time to make the zakat payment. The amount of zakat that must be paid by an individual depends on the amount of money or assets possessed by the individual, but the percentage is 2.5%. The obligation of zakat payment for Moslems is mentioned in the five pillars of Islam, and in some verses of the Qur'an, i.e.:

"The alms are only for the Fuqara' (the poor), and Al-Masakin (the needy) and those employed to collect (the funds); and to attract the hearts of those who have been inclined (towards Islam); and to free the captives; and for those in debt; and for Allah's Cause, and for the wayfarer (a traveler who is cut off from everything); a duty imposed by Allah. Moreover, Allah is All-Knowing, All-Wise." [Al-Quran 9:60]

"They ask you as to what they should spend. Say: whatever wealth you spend, it is for the parents and the near of kin and the orphans and the needy and the wayfarer, and whatever good you do, Allah surely knows it." (Al-Quran 2:215)

The Quran specifies the obligation of zakat payment is divided towards 3 (three) things, i.e.: (i) gold and silver, (ii) plants, fruits, and cattle, and (iii) treasure. Zakat must be paid when the requirements are fulfilled namely the source is wholly owned, the value is potentially increasing, no debt, and had been owned for more than one year. Moreover, the Quran also specifies how zakat is to be distributed precisely but grants Moslems the flexibility in its payment.

The eight groups who are entitled to receive zakat (asnaf/ mustahiq) are The Fuqara' or the poor namely people who live below the poverty line and do not have enough means to live a normal life like others, The masakin or the needy namely people who are extremely poor and in need, the Aamileen or zakat collector, Mu'alaf or the poor and needy who recently converted to Islam, Ar-Riqaab or slave or freeing captives, Ibnu Sabil or stranded traveler in need of financial assistance, Gharim or debtor who cannot repay on his own, and Fisabilillah namely those who are away from home in the path of Allah.

Shaikh & Ismail (2017) state that zakat to GDP ratio exceeds Poverty Gap Index to GDP (PGI-GDP) ration except in 3 countries with poverty line defined at \$1.25 a day. It means that aggregate resources pooled together from the potential zakat collection in 17 Organization of Islamic Cooperation (OIC) countries will be enough to fund resources for poverty alleviation in all 17 OIC countries combined. Based on all above statement, why the phenomenon of zakat is interesting and indeed important to study.

There is no doubt that zakat is a critical matter regarding Prayer and social obligation to the poor and deprived people of the society and country as well. It is also a fundamental base of Islamic economy to bring equilibrium between rich and poor of the society and also for strengthening the

total economy of the nation and large world point of view (Al-Mamun & Haque, 2015). However, like poverty alleviation strategy, the capacity of the poor should be developed through health, education, vocational training facilities, etc. so that the poor can get out of the poverty trap. Moreover, also business entrepreneurship should be developed on a priority basis. Because through entrepreneurship development programs it would be possible not only to remove poverty but also to create employment opportunity for many other poor. The payment of zakah in proper amount with proper method for removing the poverty from Muslim society will ultimately help in bringing peace, harmony, and prosperity of the Muslim world. (Hoque, *et al.*, 2015).

There are many Muslim majority countries which make provisions, in the law, making it obligatory to pay zakah on some specific items, defined in the law, to bodies created by the government while the zakah on other items, not specified in the law, is left to be voluntarily paid either to government body or elsewhere. On the other hand, there are also Muslim majority countries which having enacted laws for government bodies to formally collect and distribute zakah, i.e. Saudi Arabia, Malaysia, Libya, Pakistan, and Sudan, i.e., Bahrain, Bangladesh, Egypt, Jordan, Kuwait, Oman, Qatar, and Indonesia.

Management of zakat in Indonesia has developed rapidly. It is reflected from the establishment of BAZNAS, the national alms agency and LAZ or *Lembaga Amil Zakat*, the amil zakat institution as the zakat institutions. BAZNAS is the official and the only governmental zakat institution which was established according to the Indonesia Presidential Decree No. 8 the Year 2001. The enactment of Law Number 23 the Year 2011 concerning the Management of Zakat strengthened the role of BAZNAS as an authorized institution, which must coordinate with all the zakat organizations in Indonesia to collect and distribute zakat, *infaq*, and *sadaqah* at the national level. Upon all zakat payment that has been received by BAZNAS and all of the zakat organizations in Indonesia, BAZNAS has to manage the zakat system namely to plan, execute, control the process of the collecting of zakat, then distribute it to the right *mustahiq*. After the delivery of the zakat, BAZNAS also has to make a report for *muzakki* or the zakat payers as accountability.

From a sharia point of view, zakat payment is expected as the assignment of income and asset to the group of *mustahiq* which, in general, earn low income (Bank Indonesia, 2016). Also, zakat promotes the investment in the society due to the zakat payment on saved wealth. Zakat on the saved wealth will encourage the society to prefer to invest their money or to contribute in giving aids in the form of capital for small enterprises. The investment will lead to the growth of small enterprises then also increase job vacancies which may reduce the level of unemployment. Given such condition, zakat payment will foster an inclusive economic growth which does not only cause the economy to grow but also reduce the unemployment, poverty, gap and does not harm the environment. Mahat & Warokka (2013) states that Muslim countries' governments 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 distribution of wealth. Accordance to Yusoff (2011), zakat has a positive effect on the economic growth in Malaysia while accordance to Azam *et al.* (2014) zakat can increase prosperity a household and contribute to economic growth in Pakistan.

Following that statement, from a microeconomic perspective, the impacts of Zakat can lead to

the preservation of *maqasid al-Shari'ah* at three different levels. At the first level, zakat can fulfil 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.

Further, Zakat can be beneficial for *fisabilillah* recipients who promote *da'wah* and have good intention to acquire more knowledge. In this regard, criminality and moral destabilization due to lack of education can gradually be resolved. At the third level, Zakat can realize social justice in society by fulfilling necessities and educating people, so that good stability and human dignity can be preserved (BAZNAS and Bank Indonesia, 2014). On the other hand, zakat is one of the proper indicators to measure economic growth, when people pay Zakat the level of economic growth will be higher and vice versa. In other words, Zakat as the financial system will integrate to bridge this gap and the reduction of social problems in Moslems world as well as may contribute in economic activities in order to achieve sustainable development (Sarea, 2012).

Many developing nations, including all the Muslim countries, have been pushing and formulating development strategies to achieve sustainable economic development and improve their standard of living. In the Islamic perspective, development has a significant role in poverty. Poverty alleviation is a moral and social responsibility of each person which mentioned in *fikih muamalah*. One of the challenging tasks is how to plan an effective education strategy to establish and provide human capital according to the need of the nation. Muslim developing nations should focus on education in the primary, secondary, and tertiary education in science and technology to improve their capacity in research and development such that they could introduce innovations and appropriate technologies needed in the process of industrialization of their economies. Education and training are one of the most important social investment as it will bring benefits to a country in the long run (Yusoff, 2011). Under Yusoff (2011), Suprayitno *et al.* (2017) state that zakat could be employed as an essential tool to stimulate human development. The distribution of zakat for education and human resources empowerment is stimulated better social life of the recipients. Thus the increase of zakat in the short run can increase the social life, quality of education and quality of recipients. In the long run can increase consumption, investment, demand for labor, and stimulate *zakat* recipient became zakat payers. The increasing social life which can be defined as an expectancy and education are part of indicators which use to measure the Human Development Index (HDI) (Badrudin, 2015; Kusuma & Badrudin, 2016; Haron & Rahman, 2016; and Stevan & Sessions (2008)). Human Resource Development Index as one of the important indicators of economic development for each country and is considered an active role in economic development (Khodabakhshi, 2011).

Shirazi (2014) highlights the critical role of zakat in poverty alleviation. They have shown that zakat funds can replace government budgetary expenditures in the range of 21 percent of Annual Development Plan (ADP), which can be utilized for other social and development expenditures of Bangladesh. Furthermore, zakat can increase the productivity, employment, and output which will consequently increase the taxation potential of the government. However, unfortunately, neither the government nor the IMF /World Bank sees the need to include zakat as poverty alleviation instrument. This is a known the fact that Moslems are paying their zakat on their own to the poor and different charitable institutions. However, all these transactions are not passing through proper channels, are un-recorded, without any planning and not a part of any strategy.

Therefore, one cannot assess the effectiveness of zakat in poverty alleviation (Shirazi, 2014).

Zakat is an obligatory transfer which distributed to decrease poverty in the world. There is an eight group zakat recipient which all the members are in poor condition. That condition makes them cannot afford to do muamalah by their self. In another side, the distribution process of zakat synonymous with the process of income transfer which somehow the condition is not sufficient. The condition is influenced by the lifestyle of society and the proportion of the zakat recipient, such as when the poor people are very, and an only a few of people control the chain of production, zakat distribution will not have a significant impact in income redistribution.

Poverty has been a severe problem and a great challenge especially for Developing Countries (Shirazi, 2014 and Badrudin & Siregar, 2015). Indonesia as a developing country has the same challenge. However, as the Muslim majority country, Indonesia has a significant potential to develop zakat system which can reduce poverty and improve prosperity. From 2017, Outlook Zakat Indonesia published by BAZNAS (Table 1), it shows increasing zakat collecting that exceeds the Gross Domestic Product (GDP) growth. That statement means that the global economy does not influence zakat collection. The increasing zakat collecting in values reflects an increase of awareness of zakat payers. The GDP's growth decrease on 2015 because due to the impact of the European crisis in 2014 which made the value of Indonesian exports decline.

Nevertheless, it cannot reduce the inequality which occurred in Indonesia. Central Agency on Statistics' data showed in March 2017 the poverty rate continued to grow and the rate of inequality measured by GINI index was still at the same point since the last six years. GINI index is the average difference in income between all pairs of people divided by the average income (Naguib, 2015).

Table 1. Time Series of ZIS Collected and GDP's Growth in Indonesia

Year	Zakat in IDR (in billion)	Zakat in USD		GDP's Growth (%)
		(in a million)	Growth (%)	
2011	1.729	125,84	15.30	6.50
2012	2.200	160,12	27.24	6.23
2013	2.700	196,51	22.73	5.78
2014	3.300	240,17	22.22	5.02
2015	3.700	269,29	21.21	4.79

Note: 1 USD = IDR 13.740

Source: National Board of Zakat (BAZNAS)

In 2010, Powell had a study about the relationship between the institutionalization of zakat and economic equality. He made the sample set of 40 nations, including nearly all predominantly Muslim Countries. He created two crosstab studies which divide countries into three categories: (1) those countries that do not legally institutionalize zakat, (2) those countries that use the law to establish a voluntary system for collecting and distributing zakat, and (3) those countries that enforce mandatory zakat. As a result of his research, the countries that establish voluntary zakat institutions, 50% are in the high wealth group. As same as with the countries that establish voluntary zakat institutions, those countries that mandate zakat 50% are in the high wealth group, and 50% are in the high equality group. This is in stark contrast to the countries that do not

legalize zakat, the most significant percentage are in the low-income group, which is 45.8% and the high equality group, 41.7% are in the middle equality group, and 41.7% are in the low equality group. Although zakat might affect economic equality, it is also possible that countries institutionalizing income redistribution system such as zakat do so to some extent because they are a priori more concerned with economic inequality. Following the Wealth Study, Powell indicates some positive relationship between institutionalization of zakat and economic equality, because countries with voluntary zakat institutions 60% are in the high equality group.

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 reason caused this discrepancy, i.e., 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.

In order to increase the confidence of society with the government or zakat institution, the selection of the poor may be made by the local representative such as the local zakat committee members, who know the local people personally especially in the rural areas. For transparency, government lists of beneficiaries should be made available for third-party observation/screening (Shirazi, 2014). This is in accordance with Eavani *et al.* (2012) that states accountability and transparency are the buzzwords of development today. One crucial development in this context has been the use of social audits. A social audit is a process in which details of the resources, both financial and non-financial, used by public agencies for development initiatives are shared with the people, often through a public platform. Social audits allow people to enforce accountability and transparency, providing the ultimate users of services and projects with an opportunity to scrutinize development initiatives. It is a form of citizen advocacy based on the power of knowledge and is grounded in the right to information. Social auditing is a process that enables an organization to assess and demonstrate its social, economic and environmental benefits and limitations which requires the involvement of stakeholders (Eavani *et al.*, 2012).

In 2010, in order to increase the public's interest, the Ministry of Finance of the Republic of Indonesia provided an incentive by issuing the Government Regulation Number 60 the Year 2010 concerning the Obligatory Religious Donations deducted from gross income. It provides the following: "In the event, the expense for alms or obligatory religious donations is not paid to the alms agency or institution or other religious institutions as referred to in Article 1 clause (1), such expense cannot be deducted from the gross income". In its elucidation, it is explained that such provision is intended to assert that in case the taxpayer pays zakat or mandatory religious donations other than those referred in Article 1 clause (1), it cannot be deducted from the gross income. As such, if a Muslim taxpayer does not make a zakat payment to zakat agency or *'amil* institutions established or authorized by the Government, then such payment cannot be deducted from the taxpayer's gross income. The same goes with a non-Moslem taxpayer who pays the religious donations which are obligatory for the religions recognized by the Government but not

to religious institutions established or authorized by the Government; such payment cannot be deducted from the gross income although interesting such provision has not caused all Moslems in Indonesia to collect zakat through BAZNAS.

There is no doubt that zakat is a vital matter regarding prayer and social obligation to the poor and deprived people of the society and country as well. It is also a fundamental base of Islamic economy to bring equilibrium between rich and poor of the society and also for strengthening the total economy of the nation and world high point of view. The attitude towards zakat evasion and the attitude towards moral reasoning are expected to guide individuals toward the acceptance of the command of Allah SWT to pay zakat in order to fulfil one of the five pillars of Islam (Muhammad & Saad, 2016). However, the motivation for paying zakat is essential because it is a religious obligation rather than a statutory duty. In other words, zakat is not a tax but is instead a voluntary contribution to wealth redistribution.

As a voluntary contribution, Huda *et al.* (2011) state that muzakki's behaviour when paying zakat is a part of overt behaviour. The determining factor for this behaviour is the amount of intention of an individual whether or not to exert that particular behaviour. Intention also used to predict the strength of an individual willingness to perform the behaviour, which known as theory planned behaviour. This is in accordance with Bin-Nashwan *et al.* (2016) who state that intention is the key point of Theory Planned Behaviour (TPB), which developed by Ajzen and Fishbein (1991). This TPB has three independent variables, namely attitudes, subjective norms, and perceived behavioural control. Ajzen (1991) defined attitude toward the behaviour as a degree to which a person has a favourable or unfavourable evaluation or appraisal of the behaviour in question. Then, subjective norms is a perceived social pressure to perform or not to perform the behaviour. The last is perceived behavioural control refers to the perceived ease or difficulty of performing the behavior, and it is assumed to reflect past experience as well as anticipated impediments and obstacles. To conclude that, TPB theory is an intention based model which has been established to justify the intention of a particular individual behaviour (Bin-Nashwan *et al.*, 2016).

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

H1: Zakat has a significant positive effect on economic growth in Indonesia.

H2: Economic growth has a significant positive effect on the Human Development Index in Indonesia.

H3: Economic growth has a significant negative effect on Percentage of Poor People in Indonesia.

H4: Economic growth has a significant negative effect on GINI Index in Indonesia.

3. Research Methods

As we mentioned before Zakat is one of the proper indicators to measure economic growth, when people pay Zakat the level of economic growth will be higher and vice versa (Sarea, 2012), this study will explore the influence of zakat on economic growth and welfare society that measured by Human Development Index, Percentage of Poor People, and GINI Index. This research uses two types of research design including (i) descriptive and (ii) correlation research.

The first method that the researcher used is survey method, which used to measure the factors that influence someone paying zakat through BAZNAS or paying directly to mustahiq. It can be done by collecting the data by distributing the questionnaire through google sheet. For this research, the data collection process had been done by structuring the questionnaires and distributing them to all 250 people by google sheet and analyze it into the descriptive analysis. Inductive analysis using Partial Least Square (PLS) includes research *goodness of fit model (inner model)*, which serves to determine the suitability of a model used in the study using variables Zakat, Economic Growth, and Welfare Society that measured by Human Development Index, Percentage of Poor People, and GINI index.

4. Results

Descriptive analysis was performed to develop the respondents' profile and the questionnaires' answer. From the two hundred fifty (250) questionnaires were distributed by google sheet, only 217 who were returned the questionnaires. Then from 217 people, only 39% who pay zakat into BAZNAS, and the remaining people (61%) paying zakat directly to mustahiq. The respondent consists of 59,6% female and 40,4% male. Generally, they had a were bachelor qualification and in the range of 20-30 years' old (82,6%) and earned monthly below IDR 10.000.000 (73,9%).

Most of the respondent know that Zakat is compulsory and 92,7% respondent knows about zakat on income. From the two hundred and seventeen (217) people, most of them claim they might be eligible to pay zakat (98,6%). This statement indicates that Muslim people in Indonesia understand well about zakat, even only 77,9% who pay zakat regularly. It means that Moslem in Indonesia still doesn't have financial commitments to purify their income from the rights of the *asnaf/mustahiq*.

The questionnaire is divided into two (2) type, if the people are paying zakat through BAZNAS the question about the satisfaction using BAZNAS, and if they do not the question given about the trust and motivation paying zakat directly. The first type is people who paying zakat through BAZNAS has a good satisfaction with BAZNAS, it is showed from the respondent which mostly answer actively agree and agree, it means that even only a few people who are paying zakat through BAZNAS, they have excellent service and ethical credibility. Based on the answer, people who are paying zakat through BAZNAS thinks that zakat reception and disbursement procedure of zakat institution is quick, pleasant and on the right target. We can conclude that BAZNAS as zakat institutions manages the fund well. The respondent also satisfied with the zakat officer who easily to contact, and give zakat information responsively and comprehensively, and the usage of technology which helps *muzakki* paying and monitoring their zakat. This *muzakki* satisfaction builds trust with the zakat organization which makes *muzakki* wants to pay zakat through BAZNAS regularly because the zakat organization maintains the excellent relationship with the zakat payer by publishing the zakat fun-reception report and zakat fund-disbursement report. However, there is 60,7% respondent who is paying zakat directly.

Moreover, based on the questionnaire, 58,9% people suggest zakat organization have a social audit. This statement is following Eavani, Nazari, & Emami (2012) who states social audits allow people to enforce accountability and transparency which require the involvement of stakeholders. This treatment makes people engaged with zakat organization because muzakki can observe and propose a selection of the poor in their rural area. Besides that, 56,2% people who

pay zakat into BAZNAS does not know about the Government Regulation Number 60 the Year 2010 concerning the Obligatory Religious Donations deducted from gross income. It concludes that government should also intensively announce the zakat payment programs because if zakat is well informed and intensively announce to the community, the result can support economic growth. The socialization must be including the incentive of paying zakat through BAZNAS which cannot be deducted from the taxpayer's gross income.

Table 2. Descriptive Analysis

	Zakat (million)	Economic Growth	Human Development Index	Percentage of Poor People	GINI Index
Mean	3.108	5.70%	68.60	11.40	0.403
Minimum	1.728	5.36%	67.09	10.07	0.388
Maximum	5.120	6.07%	70.18	12.49	0.413
Standard Deviation	1.209	0.27	1.15	0.64	0.010

Source: Output (data processed, 2017)

The second method is employed the Structural Equation Model (SEM) assisted by the PLS software. SEM is a group of statistic techniques that enable simultaneous testing of relationship series. One or some independent variables established the relationship. Besides, SEM was also used to estimate some second regression equations simultaneously and contained several statistic techniques that could be used in theoretical models. The PLS uses minimum-squares based procedures, where there is no pressure on measurement scales, data distribution, or sample size so that it does not require standard assumption testing. To analyze the influence of zakat on economic growth and welfare society that measured by the Human Development Index, Percentage of Poor People, and GINI index, we use the data from 2011-2016. Results of testing the *goodness of fit model* can be seen in Table 2 below:

Table 3. Value Goodness of Fit Models

APC = 0.123, P = 0.005	Good if P < 0.05
ARS = 0.979, P = 0.006	Good if P < 0.05
AVIF = 1.061	Good if ≤ 5

Source: Output (data processed, 2017)

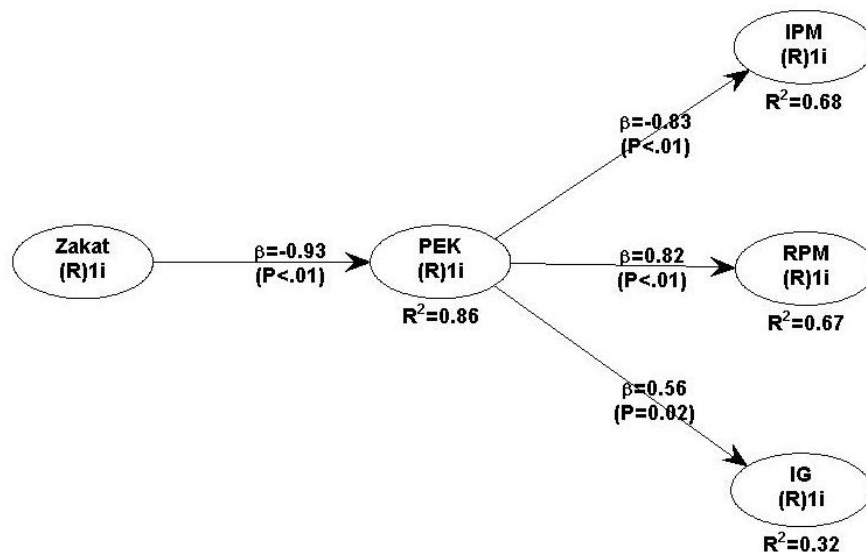
Based on the results of model testing, Average R-Squared value (ARS) obtained a value of 0.979 with a P-value = 0.006. Based on these results can be concluded that the value of the ARS is significant because the P-value < 0.05, while the value of 0.979 indicates that the variables in the study are only able to affect the dependent variable of 97.9% and the remaining 2.1% is influenced by other factors beyond the variables in research. Average value of Path Coefficient (APC) of 0.123 with a P value = 0.005, this means a significant APC value for the value of P < 0.05. Because APC generated significant value, it can be proved that the endogenous and exogenous variables have a cause and effect relationship either directly or indirectly. In this research multicollinearity model is not happen, it is proved from the Average Variance Inflation Factor (AVIF) of 1,061 whose value ≤ 5 .

Once the model meets the criteria Inner Model and testing the structural model. The following Table is a structural model test results:

Table 4. Results of Hypotheses Testing

No	Variable Relation	Path Coefficient	p-value	Prediction	Finding	Conclusion
1	Zakat → Economic Growth	-0,93	<0,01*	+	-	Rejected
2	Economic Growth → Human Development Index	-0,83	<0,01*	+	-	Rejected
3	Economic Growth → Percentage of Poor People	0,82	<0,01*	-	+	Rejected
4	Economic Growth → GINI Index	0,56	0,02 *)	-	+	Rejected

Source: Output (data processed, 2017)



Explanation:

- PEK: Economic Growth
- IPM: Human Development Index
- RPM: Percentage of Poor People
- IG: GINI index

Figure 1. Results of Hypotheses Testing by PLS

The study results show that supported by the coefficient of zakat variable that has a negative value (-0.93) and significant value in the level 5%. The small amount of zakat which collected by BAZNAS cannot make an exclusive economic growth. This result is not accordance with research conducted by Yusoff (2011), Sarea (2012), and Azam *et al.* (2014) who said that zakat is one of the proper indicators to measure economic growth when people pay Zakat the level of economic growth will be higher and vice versa. In other words, Zakat as the financial system will integrate to bridge this gap and the reduction of social problems in Moslems world as well as

may contribute to economic activities in order to achieve sustainable development. This result following the questionnaire's result, which showed that 39% respondent is paying zakat through BAZNAS and the remaining 61% paying zakat directly to *mustahiq*. This situation could be a trigger to make a wealth life in a certain area, which makes economic can't growth nationally.

Then, economic growth which supported by the coefficient Human Development Index (HDI) variable that has a negative value (-0.83) and significant value in the level 5%. The economic growth in Indonesia as a developing country could not only measure by HDI; it should be synergy with solving the economic problem such as unemployment, poverty, and a gap in income. The economic growth which not supported by the coefficient Percentage of Poor People variable has a positive value (0.82) and significant value in the level 5%. The result is not accordance with Badrudin (2015), Kusuma & Badrudin (2016), Haron & Rahman (2016), and Stevan & Sessions (2008) who said that economic growth might reduce poverty by raising the incomes of everyone in society, including the poor. The argument for this statement is an increasing rate of economic growth has an even more significant influence on the reduction of poverty. The implication here is that some workers may not be hired under normal growth conditions, but may find increased employment opportunities during periods of high and sustained economic growth.

Moreover, the last, economic growth which supported by the coefficient GINI index variable which has a positive value (0.56) and significant value in the level 5%. This result is not according to the previous research because the Central Agency on Statistics' data showed in March 2017 the poverty rate continued to grow, and the rate of inequality measured by GINI index was still at the same point since the last five years. It means Indonesia's inequality has the same point for a year, but Indonesia's economy multiplies. The GINI index which has the same value since the last five years has a relationship with the result of the questionnaire, reducing inequality in Indonesia caused by the increasing awareness of zakat payer which distribute directly to *muzakki/asnaf*.

This result following the questionnaire's result too, which showed that 7% respondent who is paying zakat directly. The second type of respondent know well about BAZNAS, but they feel more satisfied with themselves to paying zakat directly because they are looking at the benefit of the zakat directly for the *mustahiq*. This second type is feeling insecure in the database of poor people which does not manage well, so their target does not get the zakat distribution. Even they do not pay zakat through BAZNAS; they trust the zakat organization.

5. Conclusion and Suggestion

Zakat system can play a vital role in supporting sustainable economic development and facilitating better financial inclusion. Conceptually, the development of the zakat system can be considered complementary to the government programs of poverty alleviation. A certain level of synchronization with the government program is desirable. However, the current regulatory framework for zakat sector must be improved so that the operation of the zakat system can be conducted in a more effective way. The government should design policies to strengthen the collection mechanism and develop a transparent and user-friendly method for distribution of Zakat to benefit the needy people, which can make a positive and significant impact on economic development both at the micro and macro level.

Zakat in Indonesia has not a positive value to economic growth and because of the small amount of zakat which collected by BAZNAS. As the Muslim developing country, Indonesia should collect a higher amount than now as expected by Indonesia Masterplan Sharia Finance Architecture. To increasing the higher amount than expected, the government should intensively announce the zakat payment programs because if zakat is well informed and intensively announce to the community, the result can be a power to prosper the people.

Besides that, zakat should manage well and structured to make a significant role in economic growth and the welfare of Indonesian society. Zakat management through BAZNAS should manage professionally and based on good governance. Management of zakat should involve the roles of *amil*, *muzakki*, *mustahiq*, and government by considering of condition and behavior of *muzakki* and *mustaqid*, the involvement of regulator, and the last supervision and socio-economic, social environment.

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