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## The Nexus of Zakat, Infaq and Sadaqah (ZIS) And Economic Growth in Indonesia: ARDL Method

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### Abstract

Zakat, Infaq and Sadaqah is an instrument of Islamic philanthropy that has an important role in society and can encourage economic growth through income redistribution and reduction of social inequality in Indonesia. For a Muslim, it is obligatory to pay zakat, while spending money on infaq and sadaqah is sunnah. Zakat, Infaq and Sadaqah funds are expected to be channeled to the poor who need (mustahik) to improve their welfare in order to achieve economic growth of the Indonesian people. The period in this study is Zakat, Infaq and Sadaqah and Economic Growth in Indonesia 2002-2019. This research uses the Autoregressive Distributed Lag (ARDL) method. This type of research is quantitative research with data analysis techniques using the Autoregressive Distributed Lag (ARDL) method and data processing using the Eviews 10 application. The results showed that Zakat, Infaq, and Sadaqah (ZIS) in the long run had an effect on Economic Growth in Indonesia that expected to be a policy for the government in managing ZIS funds.

**Keywords:** Economic Growth, ZIS, and ARDL Method.

## INTRODUCTION

Zakat, infaq, and sadaqah are Islamic ideas that have a substantial impact on economic growth in general. (Abdul Razak and Ali 2018). Zakat is an obligation to give some of the wealth owned by Muslims to those entitled to receive it, such as the poor, widows, orphans, and so on (Haneef and Hassan 2019). Zakat is a tool that Islamic economics has to solve the problem of equity or distribution. Zakat is recommended and has great potential to be used to increase economic growth through wealth distribution (Supratman and Asih 2022). Infaq and sadaqah, although not compulsory like zakat, are forms of voluntary donations given by individuals for charitable or humanitarian purposes (Alam N & Islam, 2021).

Several studies have shown that zakat, Sadaqah and infaq have a favorable impact on economic growth in several ways. First, zakat serves as an effective wealth redistribution instrument, which can reduce social inequality (Muhammad and Ismail 2017).

Several studies have been conducted on the effect of zakat, infaq and alms funds on poverty. The results of research conducted by Eris Munandar et al. show that the distribution of ZIS funds significantly affects poverty in Indonesia (Munandar, Amirullah, and Nurochani 2020). By channeling funds from wealthy individuals to the needy, zakat can help create greater social and economic stability (El-Alfy 2006).

In addition, zakat can also increase purchasing power and demand in society. Zakat handout to the impoverished and the needy can increase their purchasing power, which in turn can boost economic growth due to increased consumption and investment demand (Zulfiqar and Bilal 2018).

Furthermore, zakat can encourage entrepreneurship and innovation. Zakat funds given to individuals who want to start a small or medium-sized business can provide the necessary start-up capital, thus encouraging entrepreneurship and resulting in more dynamic economic growth (Abdul Razak and Ali 2018).

Sadaqah and infaq also have a positive impact on economic development. These voluntary contributions can channel funds directly to needy sectors of the economy, such as education, health, and micro-enterprises (Mallik & Chowdhury, 2017). This can provide a boost to economic growth due to increased investment and consumption in these sectors (Mohd Zin and Hassan 2019).

Overall, zakat, infaq, and sadaqah have the potential to contribute significantly to economic growth through wealth redistribution, capital support, increased consumption, and community empowerment (Haneef and Hassan 2019).

**Table 1. ZIS and Economic Growth Data**

Tahun	ZIS	Pertumbuhan Ekonomi
2002	65.8	4.68
2003	85.28	4.63
2004	150.09	7.16
2005	295.52	5.11
2006	373.17	6.06
2007	740	5.84
2008	920	5.28
2009	1,200	5.6
2010	1,500	6.81
2011	1,729	6.44
2012	2,212	6.19
2013	2,639	5.65
2014	3,300	5.03
2015	3,650	4.88
2016	5,017	5.03
2017	6,224	5.07
2018	8,117	5.17
2019	10,227.94	5.02

The rate of economic growth in Indonesia as a developing country in Asia continues to change from year to year. Fluctuating economic growth certainly illustrates the economic conditions that occur in the country. As shown in Table 1.1 in 2014 economic growth in Indonesia was at 5.65 percent with ZIS funds amounting to 3,300 billion rupiah. The following year, 2015, economic growth decreased to 4.88 percent with the number of ZIS funds which continued to increase to 3,650 billion rupiah. Then in 2016 the state of Indonesia's economic growth improved and was around 5.03 percent with zis funds amounting to 5,017 billion rupiah, the same as the previous year, in 2017 and 2018 Indonesia's economic growth also increased, namely by 5.07 percent with zis funds of 6,224 billion rupiah in 2017 and in 2018 economic growth of 5.17 percent with zis funds of 8,117 billion rupiah.

However, in 2019 economic growth decreased to 5.02 percent with an increase in zakat infaq and alms funds to 10,227.94 billion rupiah. This is not in line with the theory (Sarea 2012) which states that if zakat funds increase, it will be followed by economic growth which also increases. In fact, in 2015 and 2019, although zakat infaq and sadaqah (zis) funds often

increased, economic growth went the other way. The collection finances for zakat, infaq, and sadaqah from 2002 to 2019 has fluctuated, as well as economic expansion data.

The goal of this research is to determine the impact of zakat, infaq and sadaqah collected on economic growth in Indonesia. The hypothesis in this study is that zakat, infaq and sadaqah are thought to have a positive effect on economic growth in Indonesia.

## **METHODS**

This research is a quantitative study that uses secondary data derived from the official website <https://baznas.go.id/> and <https://www.bps.go.id/>. The form of data used is the time series period 2002-2019. The data collection technique is documentation through publication reports on the official website of the National Amil Zakat Organization and the Central Bureau of Statistics. The data analysis technique uses the Autoregressive Distributed Lag (ARDL) method with data processing used through the Eviews 10 program.

## **RESULT AND DISCUSSION**

Poverty is a complex problem that exists in many countries around the world, including Indonesia. Poverty is a complex obstacle that must be considered in countries that are carrying out their economic development process. It occurs when a person is unable to fulfill the needs of their life and family with the materials of clothing, shelter, and food. Poverty does not allow a person to fulfill their daily needs. This can be caused by a number of factors, including population growth that is not balanced with economic growth, high unemployment, uneven distribution and development of society, education levels that tend to be low, and natural disasters that stop economic operations in the region (Supratman and Asih 2022).

To assess the success of a country's development, economic growth and poverty are important indicators. All countries will strive to achieve optimal economic growth and reduce poverty. Economic growth is the key to poverty reduction in many countries around the world. However, economic growth in developing countries, including Indonesia, is accompanied by the problem of increasing numbers of people living below the poverty line (Jonaidi 2012).

Economic development is synonymous with phrases like economic growth, economic wellbeing, economic advancement, and long-term change. Adam Smith's theory of development, also known as Classical Economic Theory, stems from the division of labor with the aim of increasing labor productivity (Smith 1981). Adam Smith attributed the increase to improving workers' skills, time efficiency in producing goods and the invention of machines that could save workers' labor. Furthermore, according to Adam Smith, the process of capital accumulation must also be done first and is an absolute requirement for economic development (Smith 1981).

Economic growth encompasses more than just the activity of producing goods. Rather, economic growth is a comprehensive in the production industry that is closely related to the fairness of distribution. Economic growth is not only measured by the elements of economic elements, rather than human activities that aim to grow and develop simultaneously the material and spiritual sides of human beings (At-Tariqy, n.d.).

The goal of economic growth is to achieve the economic welfare of the people in the country. In Islam itself, the ultimate goal of all activities, especially economic activity, is to achieve welfare (falah) both both in this world and the next. (Tambunan, et. al. 2019). Falah is the ultimate welfare, true welfare, where spiritual components are included in this understanding of falah. In the notion of an economic system (nidhom al-iqtishad), Islamic economics is a system that can guide mankind to true welfare (falah). (Huda et al. 2008).

In actual economic activities, economic growth means fiscal economic developments that occur Increases in the number and output of industrial items, infrastructure, the number of schools, the production of current economic activities, and various other developments have occurred in a country. In macroeconomic analysis, a country's level of economic growth is assessed by the development of real national income, specifically Gross National Product (GNP) or Gross Domestic Product (GDP).

Zakat as One of Islam's pillars is significant role in the real world. The role of zakat, both property zakat and zakat fitrah, is the main means of communication between the people who are able and the people who are not able. With this means of zakat, there will be more visible income distribution if it is connected and implemented together properly and correctly. The important thing is that the zakat does not eliminate the circulation of wealth and eliminate the balance in the distribution of wealth among human activities (Maududi 2005).

According to Islamic fiqh, zakat is a fixed amount of property that must be issued from the riches of the rich (the haves) and given to those who are entitled to it according to Allah SWT's rules or sharia. (Ghofur Abdul 2006). Zakat, according to Law No. 23 of 2011, is an asset that must be issued by a Muslim or corporate entity and distributed to individuals who are entitled to it under Islamic law. According to the legislation, the objective of zakat is to achieve the welfare of the community, improve social justice, and reduce poverty so that there is no or a large gap between the rich and the poor in society.

According to PSAK No. 109, the noble purpose of zakat will be realized if zakat is managed properly and professionally (good zakat governance), which means that zakat should be managed institutionally in accordance with Islamic law, trustworthiness, benefits, justice, legal certainty, integration, and accountability. (Taufikurrahman 2015).

The distribution of zakat given to mustahik can be done in two ways, namely by giving zakat funds for consumptive purposes and productive zakat. Zakat that is distributed as consumption assistance for its recipients will bring various benefits to them even more so if

zakat is given as a form of assistance with the aim of productivity which will certainly bring more good impacts and benefits. Arif argues that consumptive zakat will increase the income of mustahik zakat and this causes demand for goods needed by the community and results in increased production of goods that absorb more labor. The impact is that taxes paid to the state will increase and will reduce unemployment and poverty in a country (Supratman and Asih 2022).

While Sadaqa are assets or non-assets distributed by a person or corporate entity for the benefit of others other than zakat.. PSAK No. 109 of the Statement of Financial Accounting Standards (PSAK) Infak / sadaqa are assets provided willingly by the owner, with either a limited (specified) or unrestricted designation. The nature of zakat is obligatory for a Muslim person or legal entity (thing) who has accumulated to meet the nisab and haul. While the nature of infaq and shadaqah is sunnah, the expenditure is more voluntary, which is a manifestation of piety and love of a servant for Allah SWT's gifts bestowed upon him.

Based on the results of ARDL data processing, the following equation is obtained

$$Y = C(1)*Y(-1) + C(2)*Y(-2) + C(3)*Y(-3) + C(4)*Y(-4) + C(5)*ZIS + C(6) \dots\dots\dots(1)$$

$$Y = 0.484653437649*Y(-1) - 0.201789117733*Y(-2) - 0.265588071419*Y(-3) - 0.26774762086*Y(-4) - 0.000138572506443*ZIS + 7.52942375484\dots\dots\dots(2)$$

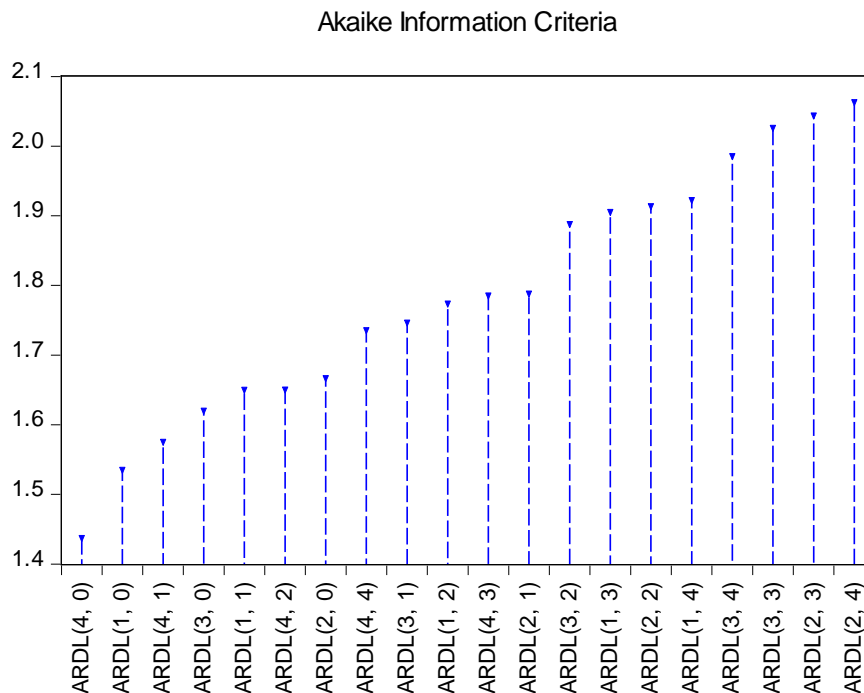
**Table 2. Selected Model ARDL(4, 0)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Y(-1)	0.484653	0.230557	2.102095	0.0687
Y(-2)	-0.201789	0.209795	-0.961837	0.3643
Y(-3)	-0.265588	0.176889	-1.501438	0.1716
Y(-4)	-0.267748	0.152653	-1.753967	0.1175
ZIS	-0.000139	5.68E-05	-2.437938	0.0407
C	7.529424	2.333525	3.226631	0.0121

Based on the results of data processing using the Autoregressive Distributed Lag (ARDL) method, it can be seen that the length of inaction with the Akaike Info Creation (AIC) method produces ARDL (4, 0).

Creation (AIC) method produces ARDL (4, 0). This number indicates inaction, where: The Economic Growth Variable (Y) in the first order at number 4 indicates a lag length of 4. Zakat, Infaq and Sadaqah (ZIS) variable in the second order at 0 indicates the length of inaction of 0.

Simultaneously, it can be seen that the probability of  $0.04 < 0.05$ , it can be concluded that ZIS has an effect on economic growth.



**Picture 1. Akaike Information Criteria**

Based on the figure above, there are 20 top models. When viewed carefully, the right model for the ARDL method in this study is ARDL (4,0) because it has a very small error when compared to other ARDL models.

**Table 3. ARDL Long Run Form and Bounds Test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.529424	2.333525	3.226631	0.0121
Y(-1)*	-1.250471	0.386733	-3.233423	0.0120
ZIS**	-0.000139	5.68E-05	-2.437938	0.0407

Based on the data above, in the long run it shows that ZIS has an effect on Economic Growth seen from the probability of  $0.04 < 0.05$ .

The results of this study are supported by research conducted by (Aziz et al. 2020) that the novel aspect of the zakat negatively affects the multidimensional poverty and portray significant contribution in targeting several Sustainable Development Goals (SDGs). In line with that, research conducted by Dewi Purwanti which shows the results that the results of the analysis using panel regression with Driscoll and Kraay standard errors, Zakat Infaq and Sadaqah (ZIS) collected proved to have a positive effect on Indonesia's economic growth.

Every increase of 1 billion rupiah of zakat collected will increase economic growth by 0.12 percent with the assumption that other variables are constant. With the positive influence of zakat, infaq, and sadaqah on the Indonesian economy, it is necessary to support from all parties in increasing the collection of zakat, infaq, and sadaqah both by individuals and institutions/groups (Purwanti 2020).

## CONCLUSION

Based on the results of the research mentioned above, the researchers draw the following conclusions that Zakat, Infaq, and Sadaqah (ZIS) in the long run affects Economic Growth seen from the probability of  $0.04 < 0.05$ , that simultaneously it can be seen that the probability of  $0.04 < 0.05$ , it can be concluded that ZIS has an effect on economic growth.

This research is not perfect and needs to be improved for the effectiveness and utilization of zakat, infaq and sadaqah after seeing its influence on economic growth. Hopefully the findings of this study can be utilized by government and private agencies to make policies and other purposes.

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