The Impact of Zakat on Socio-Economic Welfare before COVID-19 Pandemic in Indonesia: A Quantitative Study

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ABSTRACT

The purpose of this paper is to examine the impact of zakat on socio-economic welfare empirically to enhance the Indonesian economic growth and purchasing power as well as to reduce the level of poverty along with the period 2002-2019 in Indonesia. Through multiple regression methods, the study found that zakat has a positive and significant effect on boosting economic growth and purchasing power. zakat also is found to contribute to reducing the level of poverty before the Covid-19 pandemics in Indonesia. The results of this study will support that the zakat is not merely beneficial to social sectors but also have a positive impact on the economic development of the society. This study will also give an alternative of public policy for the Indonesian government to continuously promote zakat to achieve national economic recovery during and post-Covid-19 in Indonesia.

Keywords: Zakat; Socio-Economic; Welfare; Public policy; Indonesia

INTRODUCTION

Background of Study

From the macro perspective, zakat is an important cornerstone of finance in an Islamic economy (Metwally, 1997). As one of the pillars in Islam that is often coupled with *salah* (prayer) in the Qur'an, zakat has a multidimensional influence, not only as a religious obligation for *Muzakki*, but also full of meaning and significant implications of efforts to reduce poverty in achieving socio-economic welfare. Furthermore, zakat has important implications for achieving allocation efficiency, social security, income distribution, economic growth, and macroeconomic stability (Saputro & Sidiq, 2020).

In the economy, zakat can be a source of supporting funds because philosophically, the goal of zakat is to reduce poverty and ensure the fulfilment of social welfare as well as equitable society (Asmalia, Kasri, & Ahsan, 2018; Center of Strategic Studies the National Zakat Board, 2021; Rasool, Harun, Salleh, & Idris, 2011). Zakat also has a significant social role in society. The implication of zakat for social interaction of the community is the impact on the creation of tranquillity, security, and harmony for all Muslim community (Al-Faizin, Insani, & Widiastuti, 2017).

Zakat can act as a catalyst for achieving economic growth through many channels. The distribution of zakat can affect the components of aggregate demand (consumption, investment, and public spending), which will affect economic growth, namely: (1) Zakat will increase the consumption of the poor and deprived, especially towards meeting their basic needs. According to Ascarya's (2020) illustration in Figure 1, the *Mustahiq* has purchasing power and makes the demand curve shift to the right from D0 to D_1, D_2, and so on; (2) Zakat

fund can be used for investments based on micro-projects carried out by *Mustahiqs* (Choudhury & Harahap, 2008). Besides; (3) When *muzakki* (Zakat payer) already has a lot of assets, the *muzakki* will be motivated to invest his wealth into the real sector, which will increase the supply of goods and services, which conditions (2) and (3) will shift the supply curve from S_0 to S_1, then to S_2, etc. (Ascarya, 2020). At the macro level, this has implications for the fulfilment of basic needs and production, which will gradually increase demand as well as supply of raw materials, production tools and machines, production materials, and equipment, which in turn will continuously increase Q or GDP or GDP per capita as the sign of people's welfare are increase.

In addition, an increase in demand and supply in a sustainable manner will also have consequences for increased production in the goods market. This means that after expanding the supply side through increased production of goods and services, Zakat

funds also increase the aggregate demand. Simultaneously, this condition will affect the value of consumption at a macro level, which can be seen from consumer household and business sector consumption as indicated by variable C in measuring national income using the income approach. This increase in expenditure will be increasing the aggregate demand (AD), which is seen from the shift in the curve AD0 to AD1, AD2, and so forth (shown in Figure 1). This means that the intervention of Zakat funds will positively increase the value of the National Gross Domestic Product (GDP). In the end, zakat has enormous potential implications for economic recovery, especially in the middle and after the Covid-19 pandemic. This is also proven by the results of an empirical study conducted by the Center of Strategic Studies the National Zakat Board, which shows that Zakat has a significant impact on macroeconomic indicators such as the level of Gross Regional Domestic Product (GRDP) and aggregate consumption in the period 2015-2018 (PUSKAS BAZNAS, 2019).
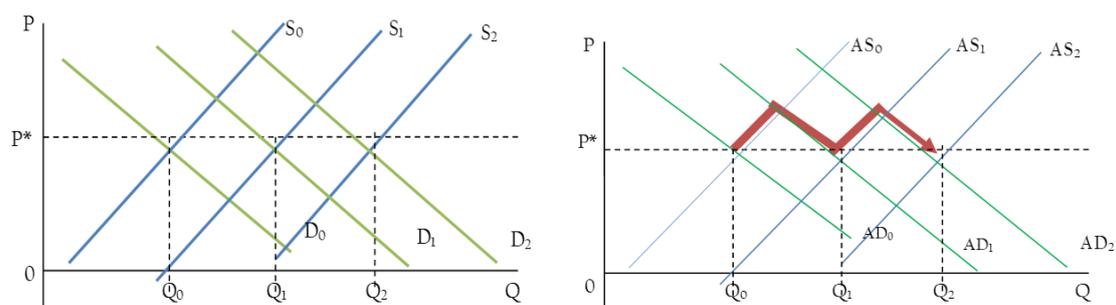
Figure 1. The Effect of ZISWAF Funds on the Economy

Source: Ascarya (2020)

Furthermore, the number of researchers have also identified the role of zakat to contribute economic and social issues, such as Anggraini (2016); Ardhiastuti (2018); Bayinah (2017); Munandar, Amirullah, & Nurochani (2020), who already examined the

relationship between zakat and socio-economic welfare variables and included macroeconomic variables. Moreover, according to Sulaeman & Ninglasari (2020b, 2020a), Muslims in Indonesia intend to pay Zakat during and after Covid-19 especially using the online

platform. Fajarudin (2019), in his research, mentioned that the Zakat fund has great potential as a source of financing for the Indonesian government. Al Arif (2013) stated that Zakat would support the government poverty alleviation program in Indonesia. This is because the zakat as an Islamic fiscal system has a significant role in reducing poverty. However, there is limited literature investigating the nexus between socio-economic variables such as economic growth, purchasing power, and poverty level in Indonesia. Therefore, this study aims to empirically test the relationship between zakat and socio-economic variables in Indonesia. The focused objective of this study plan is:

(1) to examine the impacts of the main primer, e.g. zakat, which are the total collection and distribution of zakat on socio-economic variables in terms of economic growth, purchasing power, and poverty level in Indonesia; and

(2) to recommend ways and policies to enhance optimization of the potential of zakat during or after Covid-19 in Indonesia.

The rest of the paper is divided into four sections. Section 2 presents the literature review. Section 3 presents the research methodology. Section 4 provides the main empirical results. Finally, section 5 offers the conclusion and implication.

LITERATURE REVIEW

The Concept of Zakat

Zakat is one of the five pillars of Islam that has dimensions of religiosity and economic and socio-humanity. The word zakat has three different connotations.

First, linguistically, zakat means cleansing or purification of filth or dirt; second, theologically, zakat means the purification of spirituality resulting from the distribution of zakat on those who are entitled; third, legally, zakat implies the transfer of ownership of the specific property to certain individuals under particular conditions (Wahab, Rahim, & Rahman, 2012). Finally, brought to a more micro context, namely individuals, zakat can be interpreted as 'to improve' or 'to make better' or 'to develop' (Kasri & Putri, 2018).

Zakat is part of sadaqah, which is different from infaq and waqf as voluntary instruments. At the same time, zakat is compulsory for *muzakki* whose assets have reached *nishab,* and its assets have passed a year of Hijri (*haul*). The command to pay zakat as an obligation for *muzakki* has been reported by Allah clearly in QS. At-Taubah verse 103 and many other verses and hadiths explain the obligations and threats of Allah to those who are able but are reluctant to fulfil them.

Besides, there is zakat on wealth (zakat *al-maal*), consists of zakat for good and merchandises, agricultural products, livestock animals, *rikaz*, gold, and silver, as well as commercial and investment assets (Abduh, 2019), there is also zakat *al-fitr* which is paid before the Eid prayer on 1 *Shawwal* which is the purification of every soul born before that (Razak, 2020). The parties who are entitled to receive zakat have been described in detail in QS At-Taubah verse 60 about the eight parties (8 *Ashnaf*) who are entitled to receive Zakat, namely (i) the poor (*al-fuqarā'*) or the low income, (ii) the needy (*al-masākīn*) or someone in difficulty, (iii) zakat administrators, (iv) those whose hearts are to be reconciled or new Muslims and friends of the Muslim

community, (v) slaves and captives, (vi) the debt-ridden, (vii) in the cause of God, and (viii) the wayfarer.

Furthermore, assets subject to zakat on it must meet several conditions (i) wealth obtained lawfully, (ii) property belonging to *muzakki* and not other people, (iii) including productive wealth, (iv) *muzakki* has no debt for personal consumption purposes, (v) has reached the *nishab* (at least zakat can be levied) and has passed one hijriyah year (*haul*) (Abduh, 2019; Rasool et al., 2011).

The Development of Zakat in Indonesia

The authority institutions in Indonesia have issued the principal regulations about the law of zakat to support and regulate the development of zakat in Indonesia, namely: (1) The Government Regulation of the Indonesia Republic on Number 14/2014 about the implementation of the law Number 23/2011 about the management of zakat; (2) The Law of the Indonesia Republic on Number 23/2011 about the Management of Zakat.

Furthermore, the development of zakat in Indonesia cannot be separated from the important role of BAZNAS as the authority under the government which collects, manages, and distributes zakat for economic, education, da'wah, health, and social humanitarian activities. Based on the 2019 National Zakat Statistics (BAZNAS, 2020b), 34 BAZNAS at the provincial level and 456 at the regency/City-level of BAZNASs. In addition, there are 26 zakat management organizations (OPZs) at the national level, 18 OPZs at the provincial level, and 37 OPZs at the regional/city-level levels.

The potential and realization of the collection and distribution of Indonesian zakat continue to increase every year. This can be seen in 2019 that the total national zakat collection reached IDR10.2 trillion with a percentage rate of distribution towards the collection of 84.95%, or an effective value following the category in the Zakat Core Principles (BAZNAS, 2020b). In 2020, the total of national zakat potential reached IDR327.6 trillion, which is dominated by corporate zakat (IDR 144.5 trillion), followed by zakat from goods and services of 139.07T, then zakat on cash (IDR 58.76 trillion), zakat from livestock (IDR 9.51 trillion) and agricultural zakat of IDR 19.79 trillion or equivalent to 6% of the total national zakat potential (Center of Strategic Studies the National Zakat Board, 2021). This great potential is followed by the growth rate of an average five-year zakat collection of 25.7%, which indicates the high level of generosity and awareness of the Indonesian people in fulfilling their obligation (BAZNAS, 2020b).

BAZNAS, as a national organization under the government, continues to improve professional organizational management patterns to achieve its vision as 'To Be the Best and the Most Trustworthy Zakat Management Organization in The World'. In 2020, BAZNAS implemented a national *mustahiq* database system, a well-documented and reliable mustahiq database in line with positive and sharia law. *mustahiq* data integration is carried out by issuing a *mustahiq* Identification Number (*Nomor Induk Mustahiq* or NIM) which uses the code of a sixteen-digit number. The first 10 digits are the code according to the Integrated Database (BDT) of the Republic of Indonesia's Ministry of Social Affairs, while the last 6 digits are the serial number of the *mustahiq* who has received zakat aid from OPZs. This policy refers to the BAZNAS Chairman's Decree No. 33 of 2019 on

BAZNAS *Mustahiq* Identification Number and the BAZNAS Director of Distribution and Utilization's Decree No. 14 of 2020 about the Implementation of BAZNAS Mustahiq Identification Number (Center of Strategic Studies the National Zakat Board, 2021).

In the social and economic fields, BAZNAS has also made innovations in empowering local communities through the collaborative implementation of clean water and sanitation projects with the local government in Boyolali, Central Java, Indonesia. Through its assistance, BAZNAS succeeded in executing the construction of a water tank and providing a water pump from a nearby river. As a result, local communities are helped in getting access to clean water, especially during the rainy season. In addition, a diarrheal disease that is often suffered by the habit of open defecation is slowly being solved. This is clear and tangible evidence of how the contribution of zakat in the socio-economic field is in line with the achievement of SDG no. 6, namely promoting sustainability of clean water and sanitation (Hudaefi et al., 2020).

In addition, BAZNAS also took part in dealing with the impact of the Covid-19 pandemic on the socio-economic community, especially in the micro sector. In this situation, BAZNAS has pioneered several programs in innovating zakat distribution which is categorized into two, namely health

emergency and socio-economic emergency programs. As a result, the zakat funds distributed by BAZNAS amounted to IDR 636,895,452,954 (approximately more than USD 43 million) with more than 5 million recipients. (Hudaefi et al., 2020). This confirms the research findings by Hudaefi & Beik (2020) that the distribution of zakat during the pandemic indicates the importance of the presence of formal zakat institutions in the context of handling socio-economic problems. Likewise, there was an increase in the collection of zakat funds by BAZNAS in 2005 and 2007 due to the national disasters, namely the Aceh Tsunami in 2014 and the Yogyakarta earthquake in 2007. (Choiriyah, Kafi, Hikmah, & Indrawan, 2020). Therefore, zakat payments through formal zakat institutions also increase social contributions and *maslahah* compared to informal zakat payments without precise and effective measurement and reporting of the distribution of funds. (Hudaefi & Beik, 2020).

Furthermore, in terms of zakat collection and distribution, BAZNAS has also made innovations through collaboration to expand the zakat payment channel with some channels such as e-commerce, Apps, and social media, as listed in Table 1. Through this, some online applications, including online shopping platforms, have started to provide zakat payment features for their customers (BAZNAS, 2020a).

Table 1. The List of Zakat Payment Channel in Indonesia

Apps	Kitabisa.com, Gopay, Gopoints, Gotix, OVO, T-Cash, Kaskus, Invisee, Lenna, M-Cash, Wisata Muslim, Oorth, Asuransi Jasindo Syariah.
E-Commerce	Elevania.co.id, blibli.com, shopee.co.id, tokopedia.com, lazada.com, mataharimall.com, JD.id, bukalapak.com
Social Media	Oy Indonesia, Line (Zaki)

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Online payment channel	Internet Banking, SMS Banking, EDC, E-Cash Mandiri, Doku Wallet, E-Pay BRI, Virtual Account, T-Cash

Source: Hudaefi et al., (2019)

Some Previous Empirical Study

This section presents a review of several empirical studies on determinants of Zakat. First, Bayinah (2017) examines the contribution of zakat to enhance purchasing power and economic growth from 2011 to 2015 in Aceh province. Then, using the Panel Vector Error Correction Model (VECM), the author finds a positive relationship between society's zakat and purchasing power and regional economic growth in the long run and the short run. Therefore, the author suggests that zakat has social benefits and has a positive impact on the economy and the development of the *mustahiq* in Aceh province.

Anggraini (2016) examines the influence of zakat, infaq, and sadaqah (ZIS) and inflation on Indonesia's economic growth in 2011-2015. Using a multiple linear regression model, the results indicate that the ZIS funds positively and significantly impact Indonesia's economic growth.

However, the author finds ZIS fund and inflation have a considerable impact simultaneously on Indonesia's economic growth. In line with the study from Ardhiastuti (2018). The author explores the relationship between zakat fund distribution and *Mustahiq's* income in Rumah Zakat Solo Branch Office. Using descriptive quantitative research, the results show that zakat affects positively contribute *Mustahiq's* income in Rumah Zakat Solo Branch Office.

Munandar, Amirullah, & Nurochani (2020) examine the relationship between the ZIS fund and economic growth and the level of poverty in Indonesia for 2006-2017.

Using a multiple regression method, the study's finding indicates the ZIS funds have a positive and significant impact on the poverty level in Indonesia. Meanwhile, Indonesia's economic growth insignificant effects on the level of poverty in Indonesia. However, for the simultaneously empirical results, the ZIS funds and economic growth have a significant impact on the poverty level in Indonesia.

Lubis (2014) empirically test the relationship between inflation and economic growth in Indonesia during 1968-2012. Where Consumer Price Index (CPI) is proxied by inflation variable and Gross Domestic Product (GDP) is proxied by economic growth. Using Error Correction Model (ECM) model to find correlation and short-run relationship and the long-run relationship, the findings of this study indicate that both inflation and economic growth correlate. Additionally, the author considers that inflation has a short-run and significant long-run relationship via the probability value of inflation and economic growth.

Zuhdiyaty & Kaluge (2018) examine the determinants of poverty in Indonesia over five years from 2011-2015. Using panel data analysis (*Fixed Effect Model*), which Indonesia's economic growth, Human Development Index (HDI), the level of open unemployment are macroeconomic variables in their study, the study's findings indicate that the HDI significantly and negatively affects the poverty level. But, both economic growth and open unemployment insignificantly impact poverty in 33

provinces in Indonesia. Syahputra (2017) empirically explores the factors of Indonesia's economic growth: export, tax revenue, and exchange rate. Using a multiple regression model, the empirical study finds that all variables have a significant contribution positively to economic growth in Indonesia.
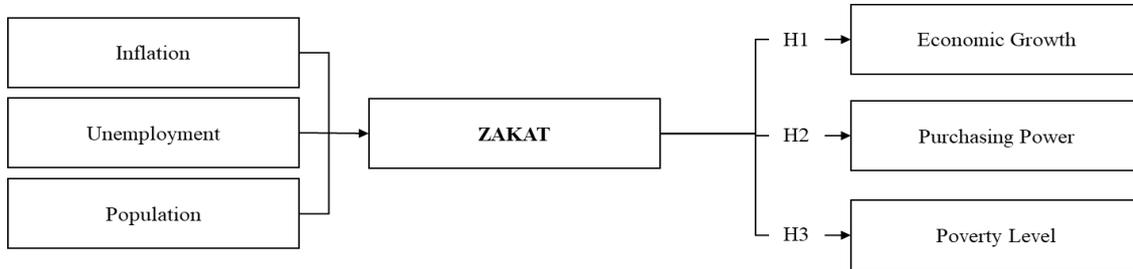
Figure 2. Research framework

Research Framework and Hypothesis Development

Based on the relevant theoretical and empirical literature, the research framework is illustrated in Figure 2**.** In general, concerning the hypotheses, it is hypothesized that zakat will impact the socio-economic welfare variables in Indonesia. Therefore, the following three main hypotheses are developed and tested in this study:

H1 The zakat positively affects the economic growth before pandemic covid-19 in Indonesia.

H2. The zakat positively affects the purchasing power before pandemic covid-19 in Indonesia.

H3. The zakat negatively affects the level of poverty before pandemic covid-19 in Indonesia.

RESEARCH METHODOLOGY

Data and Variables

The data used in this study is secondary data from the annual report of Badan Amil Zakat Nasional (www.baznas.go.id) and the World Development Indicators (https://databank.worldbank.org) from the period 2002 to 2019. The explanations of the individual variables are summarized in Table 2.

Table 2. Variable Description

Variable	Definition	Sources
Dependent Variables		
Economic Growth	GDP per capita (constant 2010)	WDI
Purchasing power	Final consumption expenditure per capita growth (annual %)	WDI
Poverty level	Poverty headcount ratio at national poverty lines (% of the population)	WDI
Independent Variables		
Zakat	The total collection of Zakat (Rupiahs)	BAZNAS
	The total distribution of Zakat (Rupiahs)	
Inflation	Consumer prices (annual %)	WDI
Unemployment	Unemployment rate (annual %)	WDI
Population	Population growth (annual %)	WDI

Note: WDI is World Development Indicators and BAZNAS is Badan Amil Zakat Nasional

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Empirical Model

In this study, the empirical models are followed based on previous research, using the total collection and distribution of zakat and macroeconomic as control variables, e.g. inflation, unemployment, and population. All the variables are independent. Whereas economic growth, purchasing power, and poverty level are dependent variables (see Table 2). The data are analyzed using a multiple regression model (Gujarati & Porter, 2012a). For the empirical test, the following regression model (1), (2), and (3) are as follows:

Model (1) economic growth (EG)

$$logEG_t = \beta_0 + \beta_1 logZakah_t \\ + \beta_2 Inflation_t \\ + \beta_3 Unemployment_t \\ + \beta_4 Population_t \\ + \varepsilon_t \ (1)$$

Model (2) Purchasing power (PP)

$$PP_t = \beta_0 + \beta_1 logZakah_t \\ + \beta_2 Inflation_t \\ + \beta_3 Unemployment_t \\ + \beta_4 Population_t \\ + \varepsilon_t \ (2)$$

Model (3) poverty level (PL)

$$PL_t = \beta_0 + \beta_1 logZakah_t \\ + \beta_2 Inflation_t \\ + \beta_3 Unemployment_t \\ + \beta_4 Population_t \\ + \varepsilon_t \ (3)$$

Where t = periods, β_0 = constant term; $\beta_1, \beta_2, \beta_3, \beta_4$ = the regression model when the slope of the dependent variable change that will change the unit change in the independent variable; and ε = error term.

Table 3. Descriptive Statistics.

Variable	Obs.	Mean	Median	Max.	Min.	Std. Dev.
*Economic growth	18	8.0644	8.0695	8.4010	7.7230	0.2175
Purchasing power	18	3.4463	3.6396	4.0992	1.8106	0.6652
Poverty level	18	13.5889	12.9000	18.2000	9.4000	2.9627
*Zakat collection	18	23.6777	24.0530	26.2380	19.5060	1.8626
*Zakat distribution	18	23.3614	24.0030	26.1420	18.4200	2.1377
Inflation	18	6.4893	6.2135	13.1090	3.0310	3.0123
Unemployment	18	7.5236	7.2475	10.7500	5.1050	1.9466
Population	18	1.2931	1.3294	1.3574	1.1006	0.0802

Note:*the variables are transformed into a natural logarithm

RESULTS AND DISCUSSION

Descriptive Statistics

The summary descriptive statistics are provided in Table 3. The table shows the mean, minimum, and maximum for variables. Based on 18 annual data observations. The mean of the natural log of economic growth is 8.06, ranging from 7.72 to 8.401; Purchasing power's mean is 3.44 and ranges from 1.81 to 4.09. The level of poverty ranges from 9.40 to 18.20, with a mean of 13.58. Meanwhile, the independent variable, the mean of the collection and distribution of Zakat are 23.67 and 23.36, and ranges from 19.51 to 26.24 and 18.42 to 26.14, respectively. The range of macroeconomic variables is 3.03-13.11 for inflation, 5.11-10.75 for unemployment, and 1.1-1.36 for population, with a mean value of 6.49, 7.52, and 1.29.

Classical Assumption Test

Before the regression analysis starts, we analyze the model by estimating classical assumption tests consisting of multicollinearity, autocorrelation, linearity, normality, and heteroscedasticity, followed by Gujarati & Porter (2012b, 2012a). The results in Table 4. Indicate that multicollinearity, linearity, autocorrelation, and heteroscedasticity no exist in these models, and the data is a normal distribution except model PP and PL. However, based on these results, it confirms that the model has an adequate regression model assumption test and can be used to analyze a multiple regression model.

Table 4. The Result of Classical Assumption Testing

Classical Assumption Testing		Indicators	Model EG (1)	Model PP (2)	Model PL (3)
Multicollinearity	Variance Inflation Factors (VIF)	Centered VIF < 10	No	No	No
Autocorrellation	B-G Serial Correlation LM Test	P-value > 0.05	No	Yes	No
Linearity	Ramsey RESET Test	P-value > 0.05	No	No	Yes
Normality	Jarque-Berra	P-value > 0.05	No	No	Yes
Heteroscedasticity	Breusch-Pagan-Godfrey Test	P-value > 0.05	No	No	No

Effect of Zakat on Economic Growth

Table 5. shows the results of the regression of the total collection and distribution of zakat on economic growth, where both zakat variables are the independent variable and the rest are dependent variables, with inflation, unemployment, and population as the macroeconomic as control variables. The total collection and distribution of zakat show an enormously significant relationship between zakat collection and economic growth at the 1% level. When one percentage increase in the total collection and distribution of zakat would increase Indonesian economic growth, which is proxied by national income per capita at 2010 constant prices (GDP), by 0.1136% and 0.0981%, *ceteris paribus*. In other words, the findings mean that zakat influences positively to increase *mustahiq* income and also to gain greater national economic development in Indonesia, in line with the finding of Bayinah (2017), Anggraini (2016), Ardhiastuti (2018), and Murniati & Beik (n.d.). Furthermore, zakat can be used as a source of financing for economic development (Fajarudin, 2019). Like tax revenue, which has significant effects on Indonesia's economic growth, such as a study from Syahputra (2017). Unemployment and population have a significantly negative relationship with economic growth at the 1% levels, which means that a high unemployment rate will decrease productive sectors and implicate national economic performance. However, in this study, inflation has a significant but positive relationship with economic growth at the 1% level. It means that a 1% increase in consumer prices would increase economic growth by 0.0054%. This finding contradicts Anggraini (2016) and Lubis (2014) who found that inflation simultaneously affected the economic growth in Indonesia. All the results indicate that zakat positively effects the economic growth (see in Table 8), supporting H1, that there is a significant relationship between the total collection and distribution of Zakat and economic growth before pandemic Covid-19 in Indonesia.

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Table 5. Effect of Zakat on Economic Growth

Dependent Variables	Model Economic Growth (EG)							
Independent Variables	Coefficient				Coefficient			
Zakat Collection	0.0669***	0.0768***	0.1124***	0.1136***				
Zakat Distribution					0.0557***	0.0632***	0.0972***	0.0981***
Inflation	0.0054***	0.0044	-0.0011		0.0069***	0.0060	-0.0008	
Unemployment	-0.0417***	-0.0451***			-0.0462***	-0.0518***		
Population	-0.4734***				0.5117***			
Constant	7.3709***	6.5556***	5.4111***	5.3752***	7.7259***	6.9389***	5.7993***	5.7722***
R-Squared	0.9930	0.9774	0.9462	0.9461	0.9960	0.9772	0.9301	0.9300
Adj. R-Squared	0.9908	0.9725	0.9391	0.9427	0.9948	0.9724	0.9208	0.9257
Prop. > F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Notes: ***,**,* denote significance of coefficients at 1 %, 5 %, 10 % levels, respectively.

Effect of Zakat on Purchasing Power

Table 6 shows the regression of zakat on purchasing power, where zakat collection and distribution are the independent variables and purchasing power is a dependent variable, with inflation, unemployment, and population as the independent and control variables. The empirical results show a significant positive relationship between the total collection and distribution of zakat and purchasing power at 10% and 1%. When one percentage increase in collection and distribution of zakat would raise the purchasing power of society by 0.2674% and 0.2315%, respectively. The results indicate that zakat has a strong impact on increasing the consumption expenditure

per capita, especially for *mustahiq* in Indonesia. This result is consistent with Bayinah (2017), who stated that zakat positively impacts society's economy, particularly for *mustahiq*.

Table 6 shows another finding from this study. Inflation harms purchasing power at the 10% level. It means that inflation decreases the *mustahiq's* consumption expenditure when the price is high. However, unemployment and population do not impact on consumption expenditure of society in Indonesia. As seen in Table 8, the results indicate that zakat a significant positive impact on purchasing power. Thus, H2 is supported.

Table 6. Effect of Zakat on Purchasing Power

Dependent Variables	Model Purchasing Power (PP)							
Independent Variables	Coefficient				Coefficient			
Zakat Collection	0.1473	0.0951	**0.1586***	**0.2674***				
Zakat Distribution					0.1079	0.0737	**0.1345***	**0.2315***
Inflation	-0.0880	-0.0832	**-0.0929***		-0.0863	-0.0818	**-0.0942***	
Unemployment	-0.0982	-0.0806			-0.1183	-0.0925		
Population	2.4982				2.3542			
Constant	-1.9614	2.3416	0.2952	**-2.8851***	-0.6706	2.9505	0.9157	-1.9619
R-Squared	0.7023	0.6557	0.6451	0.5606	0.6966	0.6542	0.6381	0.5535
Adj. R-Squared	0.6107	0.0582	0.5977	0.5332	0.6032	0.5800	0.5898	0.5256
Prop. > F	0.0021	0.0015	0.0004	0.0004	0.0024	0.0016	0.0005	0.0004

Notes: ***,**,* denote significance of coefficients at 1 %, 5 %, 10 % levels, respectively.

Effect of Zakat on Poverty Level

Table **7** shows the regression of zakat on the poverty level, where the total collection and distribution of zakat are the independent variables and poverty level is dependent variables, with inflation, unemployment, and population as macroeconomics and control variables. The total collection and distribution of zakat have a significant negative impact on the poverty level at the 1% level. The empirical finding indicates that a one per cent increase in the level of zakat would decrease the level of poverty in Indonesia by 1.51% and 1.32%, respectively. The plausible explanation is that growing zakat collection and distribution reduce the level of poverty in Indonesia. This is because zakat increases the income per capita and directly impacts increasing the standard of living for *mustahiq*. In line with Ardhiastuti (2015) finding,

zakat influences positively to increase *mustahiq* income. Munandar, Amirullah, & Nurochani (2020) also explained that Islamic social finance from zakat, infaq, and sadaqah have a positive impact on the poverty level of *mustahiq* in Indonesia. Table 7 also shows the results of macroeconomic variables as the control variable. However, the result indicates that only unemployment is a positive and significant relationship with the poverty level at 1% level. The finding is not similar to Zuhdiyaty & Kaluge (2018), who found that unemployment has an insignificant impact on the poverty level in Indonesia.

In contrast, inflation and population are insignificant impacts on the poverty level in this study. Finally, zakat positively affects the poverty level before the pandemic Covid-19 in Indonesia, as explained in Table 8. Thus, H3 is supported in this study.

Table 7. Effect of Zakat on Poverty Level

Dependent Variables	Model Poverty Level (PL)							
Independent Variables	Coefficient				Coefficient			
Zakat Collection	**-0.6953*****	**-0.7131*****	**-1.3162*****	**-1.5091*****				
Zakat Distribution					**-0.6258*****	**-0.6412*****	**-1.1564*****	**-1.3148*****
Inflation	0.0698	0.0715	0.1648		0.0471	0.0491	0.0154	
Unemployment	**0.7599*****	**0.7659*****			**0.7728*****	**0.7844*****		
Population	0.8513				1.0574			
Constant	**22.779*****	**24.246*****	**43.684*****	**49.321*****	**20.722*****	**22.348*****	**39.606*****	44.305***
R-Squared	0.9622	0.9619	0.9135	0.9002	0.9701	0.9697	0.9114	0.9000
Adj. R-Squared	0.9506	0.9538	0.9020	0.8939	0.9609	0.9632	0.8996	0.8937
Prop. > F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Notes: ***,**,* denote significance of coefficients at 1 %, 5 %, 10 % levels, respectively.

Table 8. Summary of Results and Compatibility with Main Hypotheses

No.	Hypothesis	Relationship Tested	Regression Result	Decision
1	H1	Zakat → Economic Growth	(+) Significant	Supported
2	H2	Zakat → Purchasing Power	(+) Significant	Supported
3	H3	Zakat → Poverty Level	(-) Significant	Supported

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CONCLUSION DAN IMPLICATIONS

Conclusion

There is limited literature investigating the interrelationship between socio-economic variables such as economic growth, purchasing power, and poverty level in Indonesia. This study has econometrically examined the impact of zakat and three important socio-economic welfare variables in Indonesia over 18 years.

Using a multiple regression approach, the paper's empirical findings indicate zakat positively impacts economic growth, which suggests that the fund from zakat leads to the national income per capita, especially for *mustahiq*. This is evidenced by the result showing that zakat is a strong relation with economic growth variables. Furthermore, the results also suggest a positive link between zakat and purchasing power in Indonesia, implying that, as Islamic social finance, zakat contributes positively to raise the household consumption expenditure of society, particularly for poor people.

Moreover, the results suggest an increased collection and distribution of zakat's fund to reduce Indonesia's poverty level effectively. Therefore, the zakat supports the government poverty alleviation program, especially economic recovery after Covid-19 in Indonesia. This is because the empirical results showing that zakat is a substantial impact on the poverty level in Indonesia.

Implications

The collection and distribution of zakat funds will impact the recovery of the National economic condition due to the Covid-19 pandemic. The person who initially finds it difficult to fulfil their basic needs after receiving zakat funds can use it for consumption to meet their basic needs. Likewise, micro and small entrepreneurs who were affected by Covid-19 then went bankrupt and were categorized as *Mustahiq* and were unable to continue their production can gradually continue their business through the zakat funds received. In addition, an increase in demand and supply in a sustainable manner will also have consequences for increased production in the goods market. This means that after expanding the supply side through increased production of goods and services, zakat funds also increase aggregate demand. Simultaneously, this condition will affect the value of consumption at a macro level, which can be seen from consumer household and business sector consumption as one of the variables to calculate national income using the income approach.

Based on the results of this study, the authors have several recommendations to relevant stakeholders as follows.

1) BAZNAS and LAZ can optimize the zakat digitization program, namely through expanding cooperation and synergies with FinTech, Marketplace, E-Commerce, etc., to increase the collection of zakat funds.

2) The National Mustahiq Database System program conducted by BAZNAS needs to be heavily socialized so that the distribution of zakat funds can be efficient and on target; consequently, it has direct implications for meeting Mustahiq's basic needs and purchasing power, especially during and post the Covid-19 pandemic.

3) BAZNAS and LAZ can cooperate with the Ministry of Social

Affairs, the Ministry of Cooperatives and SMEs, and the Ministry of Trade in the context of implementing a subsidized low-cost market apart from national economic recovery funds as well as zakat funds (restricted for *Mustahiq*) to increase the purchasing power of household consumers in the future and after the Covid-19 pandemic.

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