

Zakat vs. Islamic Banking: Examining the Differential Impact on Inclusive Growth in Indonesia

Nurrahma Prawatya¹ and Laila Masruro Pimada²

ABSTRACT

Inclusive growth is a must for every country. However, Indonesia has yet to achieve inclusive growth. As a country with the largest Muslim population, Indonesia has great potential to achieve inclusive growth through Islamic socio-finance instruments, namely zakat, and Islamic banking instruments, namely Islamic financing. Therefore, this study aims to measure the effect of zakat and Islamic banking financing on inclusive growth in Indonesia. The sample was taken from 33 provinces in Indonesia in the range of 2018-2021 with quantitative methods and secondary data sources. This study uses descriptive analysis and panel data regression using 5 control variables: economic growth, unemployment, poverty, education, and social assistance. The results show that zakat distribution has a significant and positive effect on inclusive growth, while Islamic banking financing has a significant and negative effect on inclusive growth. Thus the distribution of zakat in Indonesia is considered good because it can improve the economy of the recipients and must be increased. Islamic banking financing must still be the concern of all elements of society so that it can impact inclusive growth in Indonesia.

ملخص

يتوقع بالرغم من حقيقة أن النمو الشامل ضرورة لكل بلد، إلا أن إندونيسيا لم تحقق بعد هذا النمو. وبصفتها الدولة التي تضم أكبر عدد من المسلمين في العالم، تمتلك إندونيسيا إمكانات كبيرة لتحقيق النمو الشامل من خلال أدوات التمويل الاجتماعي الإسلامي كالزكاة مثلا، وأدوات المصرفية الإسلامية مثل التمويل الإسلامي. وفي هذا الصدد، تهدف هذه الدراسة إلى قياس تأثير الزكاة والتمويل المصرفي الإسلامي على النمو الشامل في إندونيسيا. وقد تم جمع العينة من 33 مقاطعة في إندونيسيا في الفترة ما بين 2018-2021 باستخدام أساليب كمية ومصادر ثانوية للبيانات. تستخدم الدراسة التحليل الوصفي وانحدار بيانات اللوحة باستخدام خمس متغيرات تحكم، وهي: النمو الاقتصادي والبطالة

¹ Economics Department, Brawijaya University, Malang, Indonesia.

E-mail: nurrahma.prawatya@gmail.com

² Economics Department, Brawijaya University, Malang, Indonesia.

E-mail: lailapimada@ub.ac.id

والفقر والتعليم والمساعدات الاجتماعية. وتبرز النتائج التأثير الإيجابي الكبير لتوزيع الزكاة على النمو الشامل، وفي ذات الوقت أظهرت التأثير السلبي الكبير للتمويل المصرفي الإسلامي عليه. لذلك، يعتبر من الجيد توزيع الزكاة في إندونيسيا لأنه يمكن أن يحسن اقتصاد المستفيدين. وبينما يوصى بتعزيز الزكاة، فتجدر الإشارة إلى أن التمويل المصرفي الإسلامي يجب أن يحظى باهتمام جميع عناصر المجتمع ليتمكن من التأثير إيجاباً على النمو الشامل في إندونيسيا.

RÉSUMÉ

Le croissiance inclusive est une nécessité pour tous les pays. Cependant, l'Indonésie n'est pas encore parvenue à une croissiance inclusive. En tant que pays comptant la plus grande population musulmane, l'Indonésie dispose d'un grand potentiel pour parvenir à une croissiance inclusive grâce aux instruments socio-financiers islamiques, à savoir la zakat, et aux instruments bancaires islamiques, à savoir le financement islamique. Cette étude vise donc à mesurer l'effet de la zakat et du financement bancaire islamique sur la croissiance inclusive en Indonésie. L'échantillon a été prélevé dans 33 provinces indonésiennes au cours de la période 2018-2021 à l'aide de méthodes quantitatives et de sources de données secondaires. Cette étude utilise l'analyse descriptive et la régression des données de panel en utilisant 5 variables de contrôle : la croissiance économique, le chômage, la pauvreté, l'éducation et l'assistance sociale. Les résultats montrent que la distribution de la zakat a un effet significatif et positif sur la croissiance inclusive, tandis que le financement bancaire islamique a un effet significatif et négatif sur la croissiance inclusive. Ainsi, la distribution de la zakat en Indonésie est considérée comme une bonne chose car elle peut améliorer l'économie des bénéficiaires et doit être augmentée. Le financement bancaire islamique doit encore miser sur la préoccupation de tous les éléments de la société afin qu'il puisse avoir un impact sur la croissiance inclusive en Indonésie.

Keywords: Zakat, Socio-finance, Inclusive Growth, Islamic Banking, Islamic Financing, Indonesia Economic Development.

JEL Classification: G21, P46, I32, O43, I38

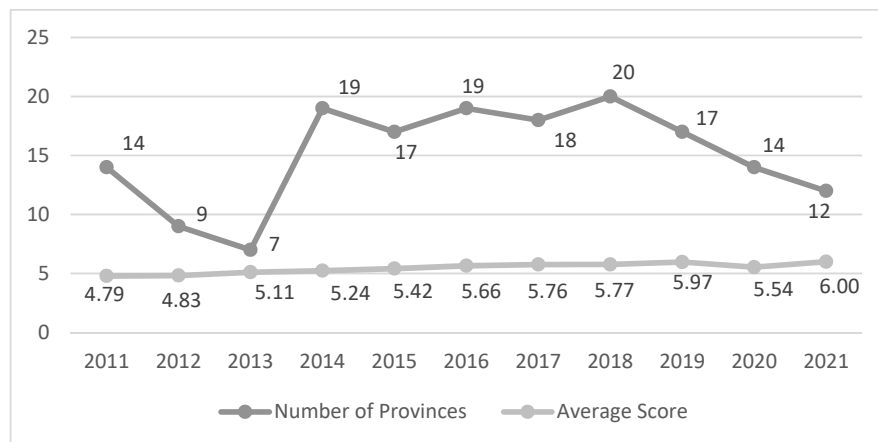
1. Introduction

The development target is not enough with high economic growth, but it is necessary to ensure that all levels of society benefit from economic growth, including the poor, or this concept is known as inclusive growth (Asian Development Bank, 2011). Inclusive growth is closely related to pro-poor economic growth (Grosse et al., 2008; Ravallion & Chen, 2003).

Inclusive growth also refers to economic growth where the benefits of growth are shared more equitably among individuals across the income and wealth distribution (Brys et al., 2016).

In Indonesia, the Ministry of National Development Planning of the Republic of Indonesia (Bappenas) established the measurement of the Inclusive Growth Index called *Indeks Pembangunan Ekonomi Inklusif* (IPEI) in 2018. When assessed based on the IPEI score category from Bappenas, the results show that the average province in Indonesia has a satisfactory index. However, the score of inclusive growth in Indonesia is still uneven in each province. This can be seen from Figure. 1 which shows that from 2011 to 2021 there are still provinces that have IPEI scores below the national average with fluctuating numbers each year.

Figure 1: Number of Provinces with Below-Average IPEI Score



Source: Bappenas (2021), processed

This is also supported by several studies that have been conducted by Hazmi et al. (2022), Pukuh & Fadlun Widyasthika (2017), dan Soleh & Suwarni (2023) that measure inclusive growth in Indonesia with several different methods. The results of each study show that economic growth in Indonesia has not been inclusive.

The Indonesian government has developed a policy framework to create inclusive growth, which is contained in the National Medium-Term Development Plan (RPJMN) 2020-2024 and the Final Draft of the National Long-Term Development Plan (RPJPN) 2025-2045. The RPJPN

2025-2045 and the Indonesian Sharia Economic Masterplan 2019-2024 also contain the goal of inclusive growth through optimizing the Sharia economic and financial ecosystem. In addition, Indonesia, as a country with the largest Muslim population in the world, has a great opportunity to use this instrument to support inclusive growth. In fact, 87.2% of Indonesia's population is Muslim and this figure represents 12.7% of the world's total Muslim population based on data from the World Population Review 2023.

Following up on this, Islam has two instruments that can answer this problem, namely socio-finance instruments through zakat and Islamic banking instruments through the distribution of Islamic financing. First, regarding zakat. Zakat is considered to contribute to inclusive growth in Pakistan. (Iqbal, 2015). Zakat is a financial instrument in the Islamic socio-finance framework to distribute wealth from the rich to the poor in order to equalize socio-economic conditions, increase economic growth, and alleviate poverty. (Bilo & Machado, 2020). Several empirical studies have proven that zakat has a positive impact on the development of the economic sector. Zakat has been proven to significantly reduce poverty in Tunisia. (Bouanani & Belhadj, 2019). In addition, zakat is also proven to increase economic growth in 8 Muslim countries due to its role in increasing consumption, investment, and government spending (Jedidia & Guerbouj, 2020). In Malaysia, through a program of the Selangor Zakat Board (SZB), namely capital assistance for entrepreneurs who fall into the Asnaf group, zakat can improve their economy from Asnaf status to zakat payers. (Hassan & Noor, 2015).

Second, Islamic banking instruments through the distribution of Islamic financing. Islamic bank financing is widely channeled to the real sector so as to increase capital in productive businesses which has implications for improving the standard of living of the wider community and economic growth (Amalia et al., 2019; Ayyubi et al., 2017; Terminanto & Rama, 2017). This instrument is also proven to alleviate poverty in Indonesia because financing is mostly channeled to micro, small, and medium enterprises (MSMEs), most of which are underprivileged people (Nengsih et al., 2021). Similar research was conducted by Alghifary et al., (2021) proves that working capital financing products from Islamic banks are effective in increasing the output value of MSMEs in Indonesia. Islamic bank financing is also proven to have a positive and significant effect on Indonesia's economic growth (Ayyubi et al., 2017). Studies

conducted in 13 countries in the world also prove that an increase in the distribution of Islamic bank financing has a positive impact on the country's economy (Prastowo, 2018). In addition, Islamic banks are also proven to be unaffected by the risk of default during the economic crisis in 23 countries in the world (Bilgin et al., 2021).

Based on the phenomenon and previous research, there is no study that measures the impact of zakat instruments and Islamic banking financing on inclusive growth in Indonesia. Therefore, the researcher formulated a problem to analyze the characteristics of zakat distribution, Islamic banking financing, and inclusive growth in Indonesia. This study also analyzes the effect of zakat distribution and Islamic banking financing on inclusive growth in Indonesia.

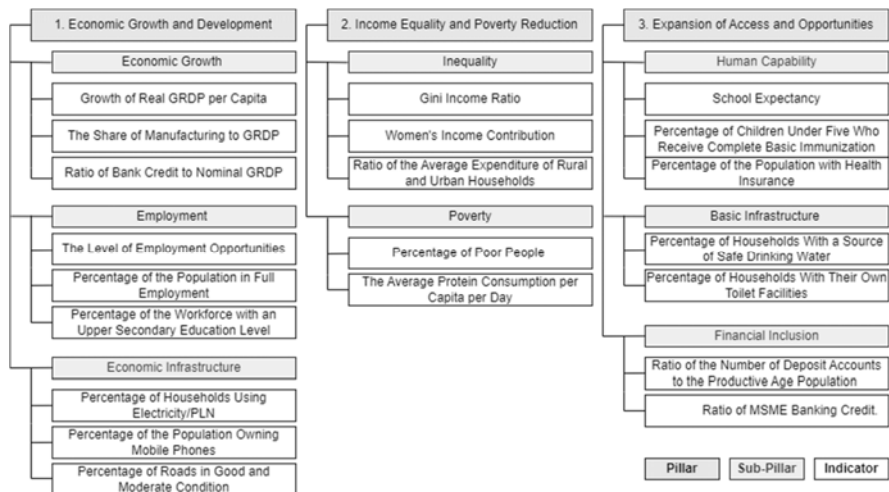
2. Literature Review

Economic growth is often inseparable from development problems and often diverges into destructive growth, rather than increasing the economy's potential for long-term development (Niekerk, 2020). This leads to social exclusion, wealth being concentrated in a few, and resources being poorly distributed (Smart, 2011). Hence, rising inequality is the most frequent outcome (Fioramonti, 2017). Growth-oriented development has also produced three major crises: poverty, inequality, and social exclusion (Mitchell & Shillington, 2002). Moreover, growth that does not consider opportunities for community participation has created job insecurity. The emergence of unemployment itself not only affects the loss of income, but also creates inequality (Bourguignon & Scott-Railton, 2015).

In an effort to overcome inequality in economic development, inclusive growth is a must for every country to make economic growth a growth that reduces poverty and ensures economic security for all levels of society (World Bank, 2018). Through inclusive growth, it is not only focused on output growth, but on improving people's welfare by measuring economic inequality, unemployment, poverty, and equity in access to education, economy, and health. (Safitri et al., 2021). Pukuh & Widyasthika (2017) stated that the concept of inclusive growth actually originated from the concept of pro-poor growth introduced by Kakwani & Pernia (2000), but expanded to include non-income elements (Ranieri & Ramos, 2013).

Indonesia has also adapted the concept of inclusive growth. Bappenas defines inclusive growth as economic growth that is accompanied by the provision of greater access and opportunities for all levels of society in a fair manner, accompanied by increased welfare, and reduced disparities between groups and regions. Bappenas has issued the IPEI to measure the level of inclusiveness of Indonesia's development at the district/city, provincial and national scales as a material to help formulate development policies that focus on encouraging more inclusive development. Bappenas also regulates the level of index calculation results, namely a scale of 1-3 means less than satisfactory, 4-7 means satisfactory, and 8-10 means very satisfactory. The IPEI is built on 3 pillars, 8 sub-pillars, and 21 indicators, which are detailed in Figure. 2.

Figure 2: IPEI



Source: Bappenas (2021), processed

Macroeconomics is one of the variables that support inclusive growth. Research conducted by Anand et al. (2013), Safitri et al., (2021) and Hazmi et al. (2022) proved that economic growth has a positive and significant effect on inclusive growth. In addition, Unemployment has a significant and negative impact on inclusive growth (Maurilla et al., 2022; Resy et al., 2023). Then, in alleviating poverty, an appropriate strategy and policy is needed so that inclusive growth can be increased (Soleh & Suwarni, 2023).

Inclusive growth is also heavily influenced by social aspects, for example through government fiscal policies in distributing social assistance and education aspects. Research from the OECD in 2019 shows that social assistance programs drive inclusive growth. In addition, research from Alekhina & Ganelli (2020) proved that income redistribution through social assistance is one of the determinants of inclusive growth in several ASEAN countries. In addition, human capital can be an influential factor in inclusive economic growth. Unfortunately, research conducted by (Fioramonti, 2017) shows that the education variable with the proxy of higher education participation has a significant, but negative effect on inclusive growth. This is because higher education carried out by certain groups is not evenly distributed in Indonesia so that it will cause economic disparities in the future due to differences in the ability of each human resource.

Islam through the Qur'an and Sunnah discusses sustainable development (Ismail & Rasid, 2022). Grine et al. (2013) stated that Q.S Al-Baqarah: 271 explains the relationship with the problems of poverty and hardship by linking the moral and legal obligations for the welfare of the poor, widows, orphans, and travelers in Q.S At-Taubah: 60. In addition, many verses in the Qur'an instruct Muslims to take actions related to hunger (Q.S Al-Insan:8), social justice (Q.S An-Nisa:58), equality (Q.S Al-Hujurat:10, Q.S Al-Imran 195), and sacrifice (Q.S Al-Hasyr:9). The Qur'an also contains strong bonds of brotherhood and compassion (Q.S Al-Imran:134, Q.S. Al-Ahzab:34), the command to strengthen the sense of family (Q.S Ar-Rum:21), the environment and society (Q.S An-Nisa:36).

In addition, economic activity is part of muamalah which must be subject to the application of Islamic law and is sourced from the Qur'an and As-Sunnah (Notolegowo, 2023). Khatib (2018) states that the purpose of Sharia is to create *maslahah* and avoid harm, which is summarized in the concept of *maqashid Sharia*. This concept is applied in Sharia financial activities with the aim of financial transactions and activities that describe the circulation of wealth, transparency, honesty, and justice for equality, harmony, and balance for the benefit of the people (Amaroh & Masturin, 2018; Mutakin, 2017; Shidiq, 2009).

Iqbal (2015) also explains Islamic economic theory against the background that in the last quarter of the 20th century many developing

countries in Asia experienced growth without damaging income distribution as in the Kuznets curve. The research proves the doubt of the Kuznets curve theory through the concept of Islamic economics which not only favors fair distribution for wage earners, but also pays great attention to fair distribution to all levels of society, and ultimately creates inclusive economic growth, one of which is with the zakat instrument (Iqbal, 2015).

Zakat is present as a provider of social assistance within the framework of Sharia for the welfare of society (Bilo & Machado, 2020). Zakat is imposed on wage earners whose savings exceed a certain amount (nishab) which means the imposition of zakat, long before the introduction of economics, not only supports the Keynesian concept of equitable distribution of income for the possibility of deficient aggregate demand, but also visualizes the detrimental effects of concentration of wealth in a few select classes that impede inclusive growth (Iqbal, 2015). Zakat becomes an instrument of monetary policy in replacing interest rates and overcoming liquidity constraints during economic transition. (Shaukat & Zhu, 2020). In Q.S Ar-Ruum: 38 also contains an order to give zakat to certain groups of people and is suitable for equal distribution (Asnaf).

In addition, Islamic banking is also an instrument that is the answer to income equality, poverty, access to finance, and inclusive growth. (Fasih, 2012). In research from Amalia et al. (2019) also shows the results that zakat and Islamic financing affect economic growth and human development index in Indonesia. The theory of Islamic banking is based on the prohibition of the concept of interest in Islam and Islamic teachings become the basic guidelines in Islamic banking activities. Although interest is prohibited in Islam, trade and profit are encouraged (Farahani et al., 2012). The basic tenet of Islamic law is that contractual unfairness thus involving speculation is not allowed. In Islamic banking, all partners involved in the transaction share the risks and profits or losses, in contrast to conventional banking which has the main objective of maximizing the wealth of shareholders. (Dar & Presley, 2001).

Financing is an activity carried out by Islamic banks to make funding in order to support investment activities so that economic activity can run. In other words. Providing Sharia financing can facilitate the community in carrying out economic activities (Wangawidjaja, 2012). Law Number 21 of 2008 also states that financing is one of the activities carried out by

Islamic banking in providing funds or bills based on agreements between Islamic banks and other parties. It is also explained that the contracts in Islamic bank financing in this regulation are divided into various forms of transactions, including (1) profit sharing (*mudharabah* and *musyarakah*), (2) lease (*ijarah*), lease purchase (*ijarah muntahiya bittamlik*) (3) sale and purchase (*murabahah*, *salam*, and *istishna*), (4) lending and borrowing in the form of receivables (*qardh*). In addition, this regulation also stipulates that supervision of Islamic banking is carried out by the Sharia Supervisory Board and Bank Indonesia.

Several studies have proven that the resilience of Islamic banking during the global financial crisis of 2007-2009 was due to its regulation based on Sharia principles, namely by prohibiting interest as well as asset-based structures and risk sharing between borrowers and lenders (Beck et al., 2013; Hasan & Dridi, 2011). Another study also states that the distribution of Islamic Bank financing is more stable than conventional banks when the economic situation is uncertain in several countries in the world (Bilgin et al., 2020, 2021). In fact, when there was an economic crisis due to the Covid-19 pandemic, a study conducted on 421 conventional and Sharia banks from 17 countries in the world proved that the distribution of conventional bank loans decreased, while the distribution of financing from Islamic banks increased 2.5% faster.

2.1. Hypothesis Development

H1: Zakat distribution has a positive and significant effect on the Inclusive Growth Index.

This research hypothesis is supported by the results of research by Anindya & Pimada (2023) that zakat distribution affects unemployment, poverty, and human development index in the long run in Indonesia. Zakat distribution also has an impact on the economic growth of various countries in the world (Ashfahany et al., 2023; Jedidia & Guerbouj, 2020). Research from Ayuniyyah et al. (2018) The study also proved that the role of zakat in alleviating poverty, unemployment, and income inequality so that it can provide benefits for development and financial stability in general in West Java. In addition, zakat also has an impact in alleviating poverty in some countries. (Choiriyah et al., 2020; Umar et al., 2022). Research from Khasandy & Badrudin (2019) and Ibrahim et al. (2020) also shows that zakat can reduce inequality in Indonesia. In addition,

research from Suprayitno et al. (2017) proved that zakat can be used as an important tool to stimulate human development in Malaysia. Zakat also has a role as a strategic financial instrument to achieve the target of financial inclusion in order to accelerate the process of economic growth. (Suryani et al., 2022).

H2 : Islamic banking financing distribution has a positive and significant effect on the Inclusive Growth Index

This hypothesis is supported by research from Amalia et al. (2019) which shows that Islamic financing has a positive and significant effect on Indonesia's economic growth and human resource development. Islamic banking is also stated to be an instrument to address issues of income equality, poverty, access to finance, and inclusive growth (Fasih, 2012). Islamic financing has also had a favorable impact on economic growth in 13 countries (Prastowo, 2018). Sharia financing has been proven to reduce poverty in Indonesia (Saputri & Zamrudi, 2023). Empirically, financing provided by Islamic banks also plays a role in reducing income inequality in Indonesia (Purwanto et al., 2021). In addition, Islamic banking in some OIC countries has an influence on financial inclusion (Naceur et al., 2015). The following is a framework for thinking about this research.

3. Data and Methodology

This research uses quantitative research methods. This method is based on the philosophy of positivism to examine certain populations quantitatively or statistically whose data collection uses research instruments with the aim of testing the hypothesis that has been set (Sugiyono, 2017).

The sample of cross section data amounted to 33 provinces in Indonesia. In addition, the sample of time series data in the time span of 2018 to 2021. The data collection technique used is panel data. Panel data is a combination of time series and cross section data. Meanwhile, the data used is secondary data. Researchers categorize a number of variables used into dependent variables, independent variables, and control variables. Researchers use control variables to minimize the influence of other than independent variables that are likely to affect the dependent variable (Sugiyono, 2017). The dependent variable used in this study is IPEI (Inclusive Growth). The independent variables considered are follows

Zakah (Total distribution of ZIS-DSKL funds from all BAZNAS and LAZ), Islamic Bank Financing (Total Financing Distribution of Islamic Commercial Banks (BUS) and Islamic Business Units (UUS), Economic Growth (Growth rate of GRDP at constant prices), Unemployed (Open Unemployment Rate), Poverty (Percentage of the Poor), Education (Gross Enrollment Rate (APK) of Higher Education), and Social Assistance (Realization of Social Assistance Expenditure).

To answer the research problem, two analysis techniques were conducted. First, using descriptive analysis to determine the characteristics of zakat distribution and Islamic banking financing in Indonesia. Second, this study uses panel data regression analysis with the aim of explaining the relationship between the independent variable and the dependent variable based on the hypothesis that has been prepared. Before conducting panel data regression, researchers first conducted model tests, namely the Chow Test, Hausman Test, and Lagrange Multiplier Test to determine the most appropriate model to use, namely the common effect model (CEM), random effect model (REM), or fixed effect model (FEM) (Gujarati, 2013). Then, researchers also conducted a classical assumption test to get a model that is Best Linear Unbiased Estimators (BLUE), namely by testing normality, multicollinearity, heteroscedasticity, and autocorrelation (Ghozali, 2016; Widarjono, 2018). The panel data regression analysis equation can be explained in the model below:

$$IPElit = \beta_0it + \beta_1ZDit + \beta_2IBit + \beta_3ECOit + \beta_4UEit + \beta_5PRit + \beta_6EDUit + \beta_7SAit + \epsilon it \quad (1)$$

4. Empirical Results

4.1. Descriptive Analysis

In general, a summary of descriptive statistics on each variable analyzed in this study is contained in Table 1.

Table 1: Summary of Descriptive Statistics

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	IG	ZD	IB	ECO	UE	PR	EDU	SA
Min	3.22	62.811	7.73	-15.74	1.4	3.42	13.2	5.91
Max	7.93	2747230	158377	20.6	10.95	27.43	74.9	6528.36
Mean	5.808	161442	9532.58	3.313	5.275	10.629	34.18	367.24

Source: Data processed by researcher

Based on Table 1, the average value of IPEI from the sample used is 5.808, with the highest value reaching 7.93, while the lowest value is 3.22. For the zakat distribution variable, the average amount of zakat distribution is Rp 161,442,048,301, with the highest distribution amount of Rp 2,747,230,870,630 and the lowest distribution amount of Rp 62,811,000. In the Islamic banking financing distribution variable, the average is Rp 9,532,580,000, with the highest distribution reaching Rp 158,376,800,000, while the lowest distribution is Rp 7,730,000.

Based on Figure 3, dark colors indicate regions that have above-average IPEI score, while light colors indicate provinces with values below the national average. Information can be drawn that in 2021, there are 14 provinces that have an IPEI value below the national average. DKI Jakarta is the province that has the highest level of inclusive growth. Meanwhile, the majority of eastern Indonesia still has a relatively low IPEI score compared to other provinces, even having a score below the national average. The five provinces with the lowest IPEI scores include Papua, West Papua, East Nusa Tenggara, Gorontalo, and Maluku.

Figure 3: Distribution Map of Provinces Based on IPEI Score in 2021



Source: Bappenas (2021), processed

The description of the distribution of zakat distribution for each province in Indonesia is summarized in Figure 4 with dark colors indicating areas that have the amount of zakat distribution above the average, while light colors indicate provinces with the amount of zakat distribution below the national average. There are still 26 provinces that have the amount of zakat distribution below the national average. It can be seen that the 4 provinces with the highest distribution are on the island of Java with DKI Jakarta being the province that has the highest level of distribution of zakat funds. Meanwhile, the eastern part of Indonesia is still dominated by the low amount of zakat distribution. East Nusa Tenggara is the province that has the lowest amount of zakat distribution, followed by West Papua, Central Kalimantan, Maluku, and North Maluku.

Figure 4: Distribution Map of Provinces Based on Total Distribution of Zakat in 2021



Source: BAZNAS (2021), processed

There are 28 provinces that have Sharia financing disbursements below the national average in Figure.5. DKI Jakarta, is the province that has the highest amount of financing distribution from all regions in Indonesia. The majority of provinces on the island of Java are also still provinces that have a relatively high amount of financing distribution compared to several other regions in Indonesia. Meanwhile, the five provinces that have the lowest amount of Islamic banking financing distribution are Maluku, Gorontalo, West Papua, West Sulawesi, and East Nusa Tenggara.

Figure 5: Distribution Map of Provinces Based on Total Islamic Banking Financing in 2021



Source: Finansial Services Authority (2021), processed

From the distribution of zakat and Islamic banking financing, it is found that the distribution has not been evenly distributed throughout Indonesia. For example, DKI Jakarta is the province that has the highest amount of distribution, while the number of poor people in this province is relatively low. In fact, data according to BPS shows that East Nusa Tenggara and Papua are part of the 10 provinces that have the largest number of poor people in Indonesia in recent years and precisely these two provinces have low distribution of zakat and Islamic banking financing.

4.2. Panel Regression

Before conducting a panel data regression analysis, model testing and classical assumption tests are first carried out. The following are the testing stages carried out:

4.2.1. Model Test

First, the chow test is conducted to select the best model between the Common Effect Model and the Fixed Effect Model. The test analysis results can be seen in Table 2.

Table 2: Chow Test Results

	Value
F	13.823
df1	32
df2	92
p-value	<2.2e-16

Source: Data processed by researcher

The result of the chow test shows a p-value of <2.2e-16 thus rejecting H0 and accepting H1 because the p-value < α (0.05). Therefore, the FEM model is the most appropriate model to use.

Second, a test is conducted to select a model between the Fixed Effect Model and the Random Effect Model, namely the Hausman test. The results of the Hausman test analysis are contained in Table 3.

Table 3: Hausman Test Results

	Value
chisq	21.668
df	7
p-value	0.002897

Source: Data processed by researcher

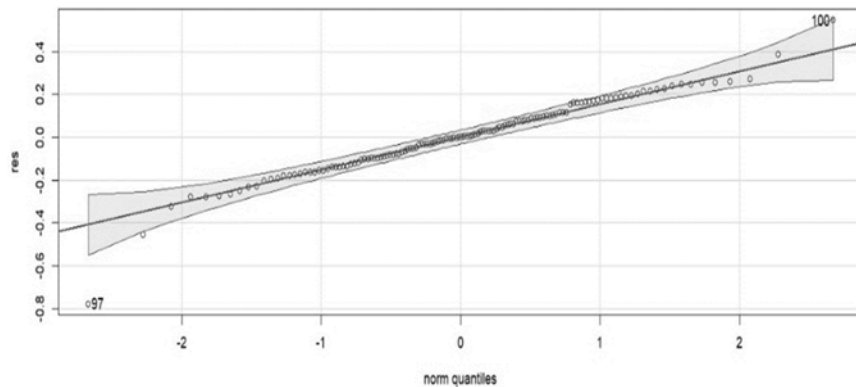
The result of the chow test shows a p-value of 0.002897, thus rejecting H0 and accepting H1 because the p-value < α (0.05). Therefore, the FEM model is the most appropriate model to use for panel data regression analysis.

4.2.2. Classical Assumption Test

After getting the best model, the classical assumption test is carried out. In table 4. Contains the results of the classical assumption test,

namely normality test, autocorrelation test, heteroscedasticity test, and multicollinearity test.

Figure 6: Normal Probability Plot



Source: Data processed by researcher

Table 4: Hausman Test Results

Assumption	Methods	Test Statistics	Value	
Autocorrelation	Durbin-Watson Test	p-value	0.9926	
Heteroscedasticity	Breusch-Pagan Test	p-value	0.02411	
multicollinearity	Variance Inflation Factor	VIF	(ZD)	1.07826
			(IB)	1.357384
			(ECO)	1.4067
			(UE)	1.452766
			(PR)	1.098819
			(EDU)	1.01335
			(BS)	1.305935

Source: Data processed by researcher

First, a normality test is performed to detect whether all variables in the model are normally distributed, close to normal, or abnormal (Umar, 2011). Ghozali (2016) states that the normality test can be done by graphical analysis. In Figure 6, the normal probability plot shows that the data spreads on the diagonal line and follows the diagonal line. With this, the model fulfills the classic assumption of normality.

Second, the autocorrelation test. This test aims to determine the correlation between residuals (confounding errors) in period t with the previous period (Ghozali & Ratmono, 2017). Based on the results of the autocorrelation test using the Durbin-Watson method, it can be seen that the p -value is 0.9926. This means that the p -value $> \alpha$, which means that the model does not detect autocorrelation problems.

Third, the heteroscedasticity test. This test has the aim of testing whether there is an inequality of variance from the residuals of each variable in the regression model (Ghozali, 2016). The model is considered good if the residuals between variables are constant or homoscedasticity. The statistical test is carried out by the Breusch-Pagan method by regressing the absolute value of the residuals between variables. Based on the test results, the p -value is 0.02411. In this case, the p -value $< \alpha$, meaning heteroscedasticity occurs.

Fourth, the multicollinearity test. Multicollinearity test is used to determine the existence of a very strong correlation between independent variables (Ghozali, 2016). The way to detect multicollinearity is by looking at the VIF value. If the VIF value > 10 , then multicollinearity is detected (Gujarati & Porter, 2009). Based on the results of the multicollinearity assumption test, the VIF value of each variable is less than 10. This means that the regression model used in this study does not contain multicollinearity between its variables.

4.2.3. Panel Regression Analysis

After conducting the model test, it can be concluded that the best model is the Fixed Effect Model. However, due to the heteroscedasticity problem detected, the model can be corrected with the Robust Standard Error method (White, 1980). This method helps avoid errors in the calculation of the estimation interval in statistical tests due to heteroscedasticity problems. The panel data model regression test results after performing Robust Standard Error are as follows:

Table 5: Hausman Test Results

	Coef	Std. Error	t value	Pr(> t)	
ZD (Zakah)	1.75E-02	4.89E-03	3.5754	0.0005596	***
IB (Financing)	-9.11E-06	3.56E-06	-2.5608	0.0120727	*
ECO (Economics Growth)	3.68E-02	6.34E-03	5.8097	8.89E-08	***
UE (Unemployed)	1.08E-02	2.22E-02	0.4839	0.6296061	
PR (Poverty)	-2.64E-01	7.97E-02	-3.3136	0.0013183	**
EDU (Education)	2.89E-02	2.24E-02	1.2892	0.2005754	
SA (Social Assistance)	1.21E-04	7.24E-05	1.6777	0.0968085	.
Signif. Codes:		0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1			
n = 33	T = 4	N = 132			
Total Sum of Squares	: 7.7847				
Residual Sum of Squares	: 2.7045				
R-Squared	: 0.65258				
Adj. R-Squared	: 0.50531				
F-statistic	: 24.6874 on 7 and 92				
p-value	: <2.22e-16				

Source: Data processed by researcher

Zakat variable has a significant and positive effect on IPEI variable. Meanwhile, the Islamic banking financing variable has a significant and negative effect on the IPEI variable.

5. Discussion

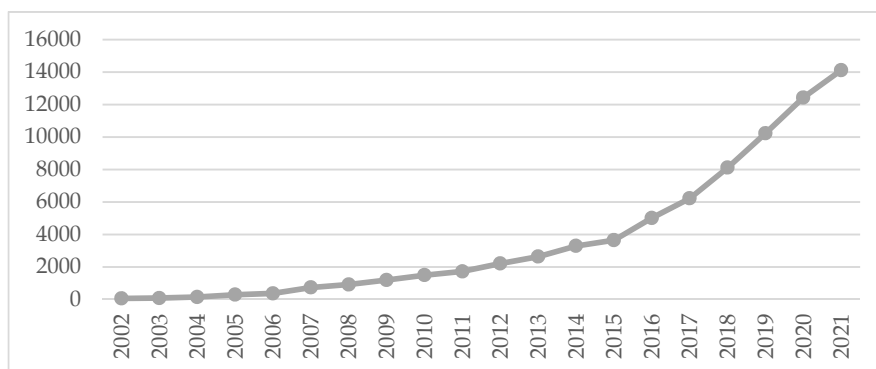
5.1. The Role of Zakat in Inclusive growth in Indonesia

Based on the findings of this study, it is known that zakat has a positive and significant effect on the IPEI variable. This means that the greater the zakat funds distributed, the more inclusive economic growth will be. This is in line with research conducted in Pakistan that zakat has an effect on inclusive economic growth (Iqbal, 2015). Zakat is also an effective instrument as social assistance because it is not tied to the political

spectrum and is directly related to public trust, which tends to be high in Indonesia and several other countries in the world (Malik, 2016).

In Indonesia, zakat collection in 2020 is projected to have a large potential to reach 327.6 trillion rupiah (Pusat Kajian Strategis BAZNAS, 2020). Although the realization has not reached this potential, the amount of zakat, infaq, sadaqah, and other social religious funds (ZIS-DSKL) collection continues to increase as shown in Figure 7. The graph shows that ZIS-DSKL fund collection has increased for almost 20 years. Until 2021, the collection of ZIS-DSKL funds reached 14.1 trillion Rupiah.

Figure 7: Graph of Total ZIS-DSKL Fund Collections (Billion IDR)



Source: OJK (2021), processed

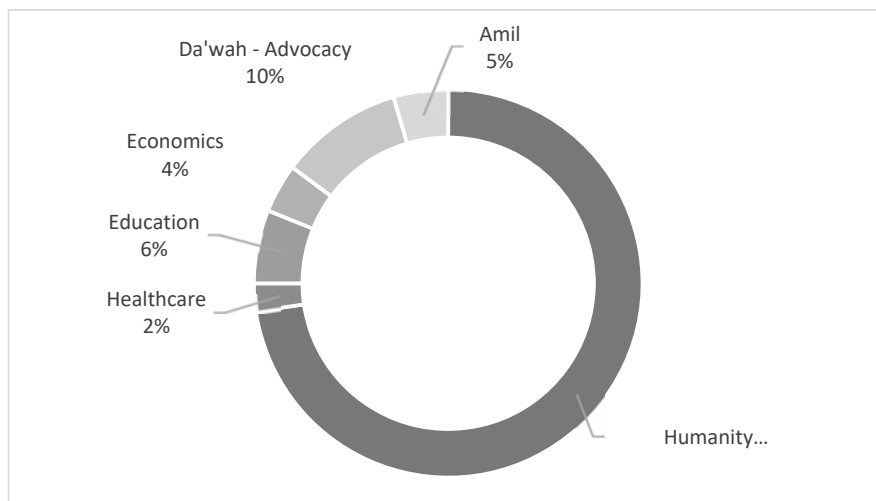
In fact, zakat is proven to be resilient when the economy is in crisis. The collection of zakat funds managed by the National Amil Zakat Agency (BAZNAS) increased by 30% in 2020 or when there was an economic crisis due to the Covid-19 pandemic (Pusat Kajian Strategis BAZNAS, 2022).

Research from Ayuniyyah et al. (2018) also supports the results of this study. It is proven that the zakat distribution program carried out by BAZNAS is able to alleviate poverty and reduce income inequality significantly. The results showed that households in urban and rural areas increased in one year after joining the zakat distribution program. In addition, research conducted by Choiriyah et al. (2020) also strengthens the results of this study that zakat can have an impact on poverty alleviation at the provincial level in Indonesia and zakat distribution

contributes to improving human resources and the quality of life of the poor and vulnerable. The improvement consists of the provision of education, health facilities, and social services.

This is also evident from the zakat distribution activities carried out by BAZNAS and LAZ in Indonesia channeled into various productive programs. Figure 8 contains data on the distribution of National ZIS-DSKL based on the type of program. Humanitarian programs are the highest target, followed by dakwah-advocacy, education, amil operations, economy, and health.

Figure 8. Percentage of ZIS-DSKL Distribution by Program Type



Source: BAZNAS (2021), processed

BAZNAS also has a very good strategy in distributing zakat funds, one of which is by dividing it into two ways of distributing zakat, namely distribution and utilization. Based on Zakat Management Law No. 23 Year 2011, Governments Regulation No. 14 Year 2014, and PERBAZNAS No. 3 Year 2018, there are three main aspects in the distribution and utilization of zakat, including (1) economic, (2) social, and (3) advocacy. The economic program is part of the zakat utilization program, while the social and advocacy programs are distribution programs (Pusat Kajian Strategis BAZNAS, 2018).

The social empowerment program is the first step to solve the problem of poverty through fulfilling access to emergency needs, meeting basic needs, and further needs for the poor so that it is expected that later they will be ready for further empowerment programs. The advanced program, namely economic empowerment in various productive sectors, such as strengthening business capital, strengthening business production, and strengthening market networks. Finally, da'wah-advocacy empowerment through human resource capacity building, providing access to networking, and advocacy and assistance (Achmad, 2023).

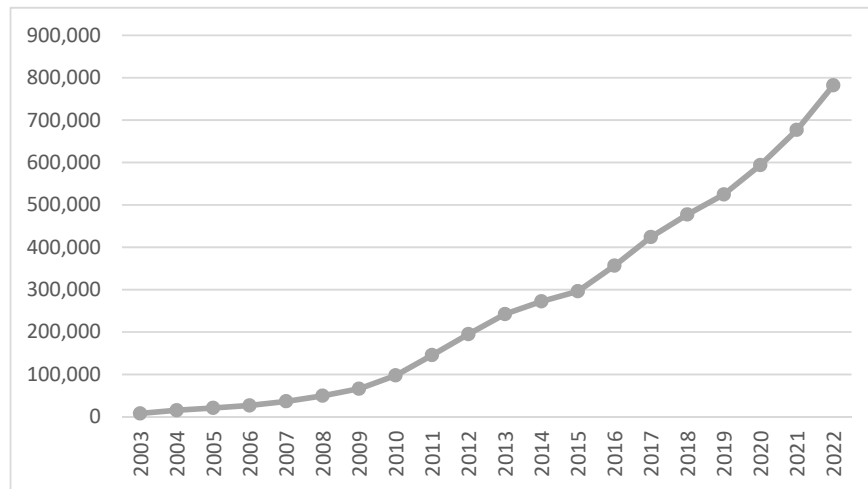
In order to optimize the program, BAZNAS also divides three priority policy directions, including (1) Joint Database Development (2) Giving priority to distribution and poverty alleviation in the foremost, outermost, and disadvantaged areas (3T), and (3) 8 priority programs in 2023. The 8 programs consist of Scholarships, Livable Homes, BAZNAS Healthy Homes, Strengthening BAZNAS Disaster Response, BAZNAS Microfinance, Z Mart, Z Chicken, and Santriprenenur.

The zakat distribution program in various fields will certainly have an impact on the welfare of the community. As is the case when zakat funds are channeled in the field of education, mustahik can improve the quality of life with proper education so as to get a good job in the future (Todaro & Smith, 2011). The research also suggests that health programs that are the target of zakat distribution can increase productivity and income from good health. Research conducted by Ahmed (2008), Al Arif (2012), Hoque et al. (2015), Nurzaman (2017), and Suprayitno et al. (2017) also stated that zakat has a good impact on the development and welfare of mustahik and zakat can overcome the problem of inequality if managed effectively.

5.2. The Role of Islamic Banking Financing in Inclusive growth in Indonesia

Looking at Indonesia, Indonesia actually has a good Sharia banking ecosystem. After the enactment of Government Regulation (PP) No.72 of 1992 concerning Banks Based on Profit Sharing Principles, Islamic banking incrementally entered the Indonesian economy and experienced an increase in assets every year. This can be seen from the graph contained in Figure 9. The increase in assets continues to occur in two decades. Until 2022, the assets owned by Islamic banking reached IDR 782.10 trillion.

Figure 9: Chart of Total Assets of BUS and UUS (Billion Rp)



Source: OJK (2022), processed

In fact, OJK noted that the growth of Islamic banking assets was higher than conventional banking. In December 2022, in detail, the growth of Islamic banking assets reached 15.63%, with financing growing 20.44% and third party funds (DPK) of 12.93%. Meanwhile, conventional banking had asset growth of 9.42%, financing of 10.6% and deposits of 8.58% in the same year.

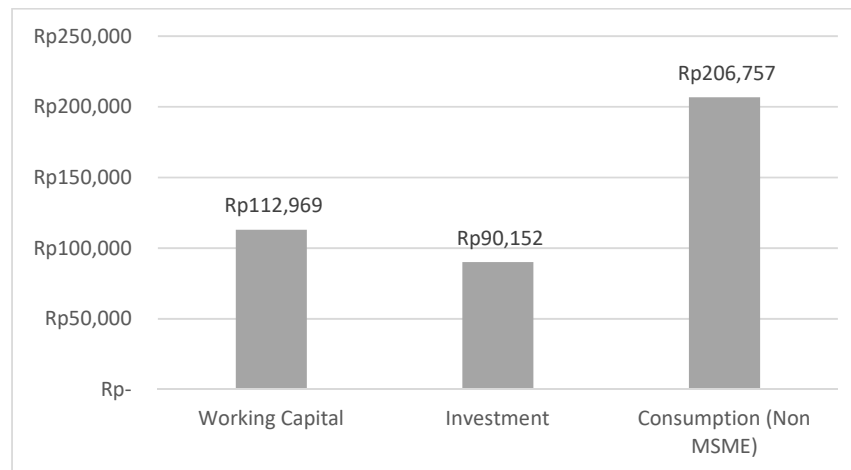
From the good growth of Islamic banking assets, unfortunately Islamic banking financing has a significant and negative effect on the IPEI variable in the results of this study. This means that the greater the financing channeled by Islamic banking, the lower the IPEI score. With this, Islamic banking financing has not been able to optimally support inclusive growth. This is contrary to the results of research from Fasih, (2012) that Islamic banking can be an instrument to overcome problems of income distribution, poverty, access to finance, and inclusive growth.

The findings of this study can be motivated by several things. First, Islamic banking becomes an intermediary institution by collecting funds from people who have excess funds in the form of third party funds (DPK) and then channeling these funds in the form of financing to people in need (Sunendy & Fadhilah, 2018). In measuring the effectiveness of this

intermediary function, it can be measured by the Financing to Deposit Ratio (FDR) which compares the amount of financing distribution to deposits. The higher this indicator indicates a better intermediary function of the institution. Unfortunately, the average FDR of BUS in 2018-2022 is still 75.62%. In fact, Bank Indonesia through Bank Indonesia Circular Letter No. 6/23 / DPNP in 2004 set a good FDR standard of 85-110%. With this, Islamic commercial banks in Indonesia are still not optimal in carrying out their intermediary function so that public funds collected by Islamic banks have not been distributed effectively and inclusively.

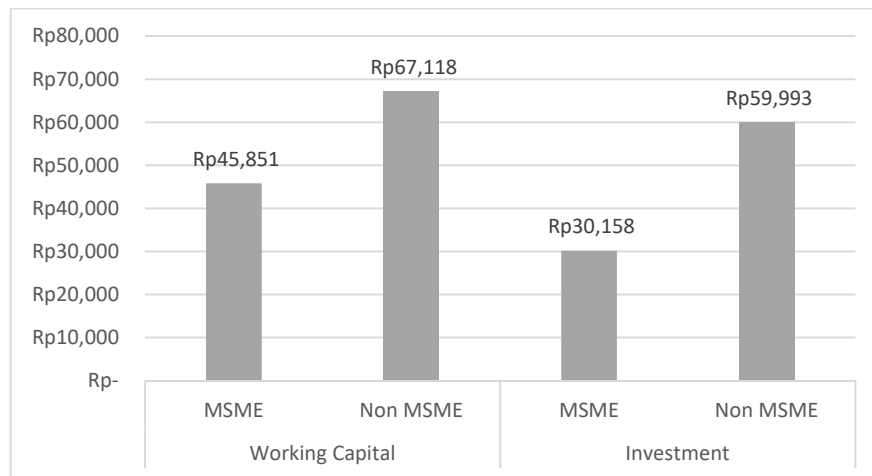
Then, although ideally Islamic banking financing is mostly channeled to MSMEs, most of whose business actors are underprivileged people (Nengsih et al., 2021), in fact the distribution of Islamic banking financing is still dominated by financing for consumption (non-MSMEs). While working capital ranks second, and investment is the least financing distribution. Working capital and investment financing are also divided into 2 parts, namely distribution to MSMEs and non-MSMEs. It can be seen in Figure 10 and 11 that the total distribution of working capital and investment financing is mostly channeled to non-MSMEs.

Figure 10: Graph of Total Financing 2021 (Billion IDR)



Source: OJK (2021), processed

Figure 11: Chart of Total Financing for Working Capital and Investment 2021 (Billion IDR)



Source: OJK (2021), processed

In addition, research conducted by Setiawan (2021) also shows that although the average growth of MSME financing has increased every year, the portion of MSME financing to overall financing has decreased. This can be due to the fact that people who have a small economy, often called the unbanked, do not have the ability to access formal financial institutions or banks (Agwu et al., 2020). This happens because banking services have complicated regulations and processes and are not easily accessible to people living in non-urban areas due to high operational costs (Isukul & Tantua, 2021).

A study conducted by Ramadhanty & Auwalin (2021) also showed similar results to this study. The study has the result that Islamic commercial bank financing has a negative influence on Indonesia's economic growth in the 2010-2019 time span. The study states that Islamic bank financing still tends to be channeled for consumptive purposes so that it does not have a significant impact on economic growth. Whereas in fact Islamic banks are present as a medium to help people achieve prosperity through good trading activities in accordance with Allah's words in Q.S. An-Nisa: 29.

In addition, research conducted by Asnuri (2013) dan Silvira & Rani (2021) shows that Islamic banks still have a fairly small market share compared to conventional banks. This is also evident from the total assets of Islamic banking which are still far below conventional banks. Until 2021, the total assets of Islamic banking amounted to IDR 67,673,546,040 while conventional banking assets reached IDR 10,112,304,051,738.30.

6. Conclusion

Research conducted with panel data regression has the result that zakat has a significant and positive effect on IPEI, while Islamic banking financing has a significant and negative effect on IPEI. As for the control variables used, economic growth and social assistance have a significant and positive effect on IPEI. Poverty has a significant and negative effect on IPEI. In addition, unemployment and education have no significant effect on IPEI.

Zakat is one of the instruments that can support inclusive growth in Indonesia because BAZNAS has created productive programs so that it can improve the economy of the wider community by alleviating poverty and improving the quality of life of the poor and vulnerable. Zakat distributed from BAZNAS and LAZNAS in Indonesia is also right on target so that inclusive growth can be boosted. This is in accordance with the concept of zakat which is present for equalization and distribution of wealth. However, based on the descriptive analysis conducted, it is found that the amount of zakat fund distribution is still uneven throughout Indonesia. There is still an imbalance in the amount of distribution, even there are still many provinces that have the amount of zakat distribution below the national average. In addition, the amount of zakat collection still has not reached the projected potential.

In addition, Islamic banking financing has not been an optimal instrument in increasing inclusive growth. This phenomenon is supported by several things. First, the intermediary function of Islamic commercial banks has not been optimal in channeling financing to people in need. This is indicated by the FDR value of Islamic commercial banks which is still below the BI standard. Second, the distribution of financing is still dominated by the consumptive and non-MSME sectors. Third, the market share of Islamic banking in Indonesia is still relatively small. Fourth, the

amount of Islamic banking financing distribution is still uneven in all provinces of Indonesia.

Based on the findings, more concrete policy implications can be developed. First, the government should include zakat as a fundamental strategy for financial stability and sustainability of inclusive growth by creating better regulations, namely in regulating the collection and distribution to the smallest Zakat Collection Unit (UPZ) level so that the recording and distribution are more equitable and inclusive. In addition, the government can be more massive in supporting Sharia financing distribution activities so that financing can be channeled to all levels of society inclusively. In this case, the government can create a special guarantee program for Sharia financing for ultra-micro and MSME businesses and unbanked communities so that Sharia banking financing products have regulations that are easier for people in need to use.

Second, LAZ is expected to develop more productive zakat programs so that the funds distributed can improve the economic status of the recipients. It is also expected to increase synergy with all stakeholders so that the distribution of zakat funds can be more equitable in all provinces in Indonesia. Third, Sharia banking institutions can create Sharia financing products and distribution programs that are more inclusive for all levels of society, especially the poor and vulnerable by working with the government as a guarantor.

This research also has limitations, such as the year used and there are provinces that are not the scope of the research. For this reason, future research is expected to conduct research in a broader year and area coverage.

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