

## **The Role of Investment Zakat Consumption and Economic Growth in Sustainable SDG Realization**

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### **Abstract**

*Purpose:* This study aims to determine the impact of zakat, investment, and consumption on economic growth, with the ultimate goal of achieving sustainable SDGs. The research focuses on zakat variables as a means to bolster Indonesia's economic growth, consumption, and investment. It emphasizes the importance of synergizing these factors to enhance economic growth and welfare, including poverty alleviation, wealth redistribution, and increased employment opportunities.

*Methodology:* The research methodology involves economic data analysis, a comprehensive literature review, and the utilization of the Ordinary Least Squares (OLS) model. This model is used to explore and unveil how zakat, investment, and consumption collectively influence economic growth.

*Results:* States that zakat and consumption variables have a positive and significant impact on economic growth.

Indicates that the investment variable does not affect economic growth.

*Applications/Originality/Value:* Emphasizes the necessity of the government's role in considering zakat instruments while creating regulations to boost economic growth, particularly in poverty alleviation and fair distribution of income and consumption. Urges the government to seek increased investment in the country to stimulate job availability, aligning with the SDGs' goal of "no poverty."

### **Introduction Section**

Every country in the world certainly has the goal of improving its own country's economy. Economic development is an effort made to improve the standard of living of ethnic groups. According to (R. Dewi et al., 2023)Overall, economic development certainly has the aim of increasing economic growth and balancing economic activities in a country. Economic growth is also one of the other measuring tools used to analyze and find out how the economy is developing in a country. Many factors can encourage economic growth. In developed countries, apart from investment and loans, the level of production of goods and services can also be a factor in economic growth. Meanwhile, in developing countries like Indonesia, it is not easy to rely on the production of goods and services. Therefore, to support economic growth in developing countries, other factors are needed such as consumption levels and capital investment, both from within the country and from abroad.

One of the indicators used to determine the economic condition of a country in a certain period can be seen through the development of Gross Domestic Product (GDP), this is in line with the opinion of (Mankiw, n.d.). A country's income and expenditure over time is calculated by GDP. In an economy, one income stream is obtained from investment both from abroad and within the country, while the expenditure stream is often referred to as consumption. Below we present a graph of economic growth, consumption expenditure and investment from abroad in Indonesia for 2002-2022.

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**Graphic 1.** Growth Domestic Product, Consumption and Investment in Indonesia 2002-2022

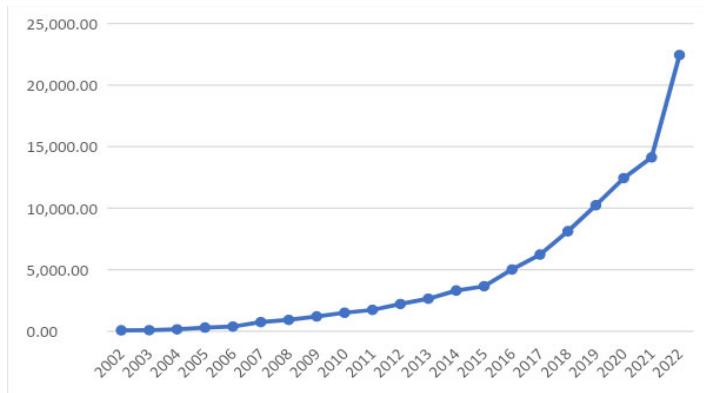


Source: BPS, World Bank 2023

Based on the graph above, it can be seen that Indonesia's economic growth in the 2002-2022 period tends to increase. The highest GDP in that period occurred in 2022 with a GDP value of 1,319 trillion rupiah. This is also in line with the value of investment and consumption which also experienced an increase of 1 where the value of consumption increased by 4% from 769,731 million US\$ to 800,681 million US\$ in 2022. From the explanation above, it can be seen that consumption and investment have a positive correlation with economic growth. When investment and consumption increase, GDP also increases and vice versa.

Besides that, apart from consumption and investment which are factors in economic growth, there are also other factors from an Islamic perspective, namely the amount of zakat earned. According to (Dewi, 2013) zakat infaq and alms contribute to increasing economic growth, namely through reducing poverty and inequality between communities. Below we present data on the collection of zakat infaq and sodakoh in Indonesia from 2002-2022.

**Graphic 2.** Zakat in Indonesia 2002-2022



Source: Baznas 2023

Based on the data above, it can be seen that the zakat collection for the 2002-2022 period tends to increase. As zakat income increases, the greater the number of zakat funds distributed to the community, it is hoped that the zakat funds distributed can improve people's standard of living and encourage Indonesia's economic growth. So it can be seen that consumption, investment and zakat are important factors in Indonesia's economic growth. Therefore, what is the government's policy to maintain the level of public consumption and investment entering Indonesia so that it remains stable and the expected zakat collection will increase. Therefore, researchers are interested in studying the impact of consumption, investment and zakat on economic growth in Indonesia in 2002-2022.

## Literature Review

Gross Domestic Product (GDP) is the increase in the amount of value originating from all business units of a country, this consists of the final total value of goods produced from all units of the economic sector. The added value of goods and services calculated from current annual prices is called GDP at current prices, while that calculated from current prices is called GDP at constant prices. In observing changes and economic structure, GDP is used based on current prices as the basis, while to see the level of economic growth from year to year, GDP is used based on current prices. According to Panglipurngrum & Nurdyastuti Tri (2020) is an action to meet daily needs by using goods or services. People consume to fulfill their various needs, starting from basic, middle, to tertiary needs. A reflection of a society's level of prosperity can be seen from its level of consumption. This means that the higher the level of people's consumption, the more prosperous people's lives will be, and vice versa. According to (Abdillah et al., 2019) consumption patterns play an important role in people's lives, whether in fulfilling their needs for clothing, food, entertainment and so on. Consumption patterns

themselves also reflect the level of welfare in society. The level of welfare that can be seen from consumption patterns is that the higher the level of consumption a person can have, the higher their welfare.

Based on previous research conducted by Putra G (2022) the West Papua Provincial government aims to maintain stability and increase public consumption, and household consumption. The government has had a positive and significant impact on economic growth in West Papua. The government has made policies that encourage people to increase economic efforts by using natural resources to increase regional economic growth and improve people's skills to increase purchasing power. Previous research conducted by Afifah et al, (2019) showed that government consumption had a significant influence on economic growth in Indonesia from 1988-2017, in other words, if government consumption increases, economic growth will also increase.

According to M. Dewi (2016) investment is a means of increasing future production quantities. The distribution of investment that occurs between regions is a reflection of the development and growth of a region's development. With investment, job opportunities will increase, national income will be higher and other economic problems will be resolved. Based on previous research conducted by (Alice et al., 2021), foreign investment does not have a significant effect on the GDP in Indonesia. According to Romdhoni (2017) zakat is an important pillar in Islamic teachings. Zakat comes from the words an-namaa (to develop), atthaharatu (to purify), and albarakatu (blessing). According to economic growth in West Java is not directly influenced by the zakat variable. This means that the amount of zakat given by zakat institutions does not significantly influence economic growth. In other cases, based on research conducted by Agrawal. G (2011) used the OLS (Ordinary Least Square) method in 1993-2009 in China and India to show that FDI had a positive effect in both countries. However, the influence of FDI on GDP is greater in China than in India.

In other research conducted by Suprayitno (2018) zakat influences economic growth in Malaysia both in the short and long term. Distribution of zakat to finance own capital, small capital, medium businesses, and training for short-term and long-term unemployed will also indirectly have a positive impact on economic growth in Malaysia. Meanwhile, in research conducted by (Subekti et al., 2022) zakat has a positive influence on economic growth and can increase state income.

Based on the previous studies above, this study tries to prove and analyze the impact of consumption, investment, and zakat on Indonesia's economic growth from 2002 to 2022. The researchers express specific interest in understanding how government policies contribute to maintaining stability in public consumption and investment. Additionally, the research aims to explore the potential relationship between zakat, a factor introduced from an Islamic perspective, and its impact on reducing poverty, and inequality, and fostering economic growth in Indonesia.

## Research Methods

To find out the results of the analysis regarding the topic of Indonesian Economic Growth in 2002-2022 which is influenced by Consumption, Investment and Zakat, research was carried out on this matter using OLS regression analysis. The OLS (Ordinary Least Squares) method is a general method used to find a regression model that fits the data model. The reason for choosing this method in the analysis that we carried out is because regression with OLS corresponds to the relationship between independent and dependent variables which can be explained easily. as well as producing simple mathematical OLS analytical solutions to find good regression results. so that it can produce solutions to the problems being discussed. estimator model is as follows:

$$GDP_t = \beta_0 + \beta_1 CONS_t + \beta_2 INV_t + \beta_3 ZKT_t + \varepsilon_t$$

|                             |                                     |
|-----------------------------|-------------------------------------|
| GDP                         | = Gross Domestic Product (US \$)    |
| CONS                        | = Consumption (US \$)               |
| INV                         | = Invesment (US \$)                 |
| ZKT                         | = Zakat ( Milyar Rupiah)            |
| $\beta_0$                   | = Long Term Constantas              |
| $\beta_1, \beta_2, \beta_3$ | = Long-term regression coefficients |
| $\varepsilon$               | = error term                        |
| t                           | = Year                              |

## Research and Analysis

The estimation results of the econometric model above and the complementary tests are summarized in Table 1.

**Table 1.** Estimation Results of the OLS Regression

|   |          |            |
|---|----------|------------|
| $GDP_t = -2.39 + 1.468 CONS_t + 1.444 INV_t + 3911 ZKT_t + \varepsilon_t$               |          |            |
| (0.0000)*   | (0.2666) | (0.0217)** |
| R <sup>2</sup> = 0.995; DW-Stat= 0.955; F-Stat=1402.432; Prob. F-Stat= 0.0000           |          |            |
| Diagnostic test   |          |            |
| (1) Multicolinearity (VIF)<br>CONST= 7.536; INVt= 4.330; ZKTt= 2.853                    |          |            |
| (2) Residual Normality (Jarque Bera)<br>JB(2)= 3.132; Prob. JB (2)= 0.208               |          |            |
| (3) Autocorrelation (Breusch Godfrey)<br>$\chi^2(3)= 11.261$ ; Prob. $\chi^2(3)= 0.010$ |          |            |
| (4) Heteroscedasticity (White)<br>$\chi^2(6)=10.630$ ; Prob. $\chi^2(6)= 0.1946$        |          |            |

**Source:** World Bank, processed. **Description:** \* Significant at  $\alpha = 0.01$ ; \*\*\* Significant at  $\alpha = 0.10$

Based on Table 1 of the diagnostic test results, it can be seen that the empirical probability statistics of the Residual Normality, Autocorrelation, and Heteroscedasticity Test values are  $0.208 > (0.05)$ ,  $0.010 > (0.01)$ , and  $0.1946 > (0.1)$ . These results indicate that the model has a normal residual distribution, does not experience autocorrelation problems, and there is no heteroscedasticity in the regression model. However, all VIF values are  $<10$ , means that there were no problems related to multicollinearity caused by the independent variables.

The F-Statistics model proves that the model exists, as can be seen from the empirical probability value of F statistics, which is  $0.0000 < (0.05)$ , with an R<sup>2</sup> of 0.955. This means that consumption, investment and zakat variables can explain 95.50% of the variation or increases in Indonesia's economic growth variables, and the remaining 4.5% is due to other variables outside the model.

### **Analysis of the Effect of Consumption on Economic Growth 2002-2022**

Economic growth is influenced by the level of consumption. The level of consumption is an indicator of people's ability to spend their wealth or money. Based on research that has been conducted on data analysis and hypothesis testing, a significant value of  $0.0000 < (0.05)$  was obtained, the consumption variable (CONS) obtained a regression coefficient value of 1.468, which showed a linear-linear pattern of the relationship between these variables. This means that when the Consumption (CONS) variable increases by 1 US\$, GDP will increase by 1.468 US\$. Conversely, if Consumption decreases by 1 US\$, GDP will decrease by 1.468 US\$. Based on our research, the results are in line with the research conducted by (Affitah et al., 2019), which states that government and household consumption affect the national economic growth in the economic sector. On another previous research by Ramli (2013) shows that household consumption is the most important factor influencing economic growth because of the large aggregate demand, thereby increasing regional gross domestic income and increasing final income. In other words, it will encourage economic growth.

### **Analysis of the Effect of Investment on Economic Growth 2002-2022**

Investment is a means to increase the number of job opportunities, and national income will increase. This has been proven through research conducted by (Alice et al., 2021). In other research conducted by (Trang Thi-Huyen Dinh, 2019), investment can hinder a country's economic growth in the short term, while in the long term, investment will have a positive impact on economic growth. However, based on the results of data analysis and hypothesis testing conducted in this study, a result of  $0.2666 > (0.1)$  was obtained, which means that the investment variable does not have a significant effect on

economic growth. This is also consistent with the study conducted by (Rizky et al., 2022), according to which investments doesn't have a significant impact on economic growth. In another study conducted by (Alice et al., 2021), foreign investment also does not have a significant effect, but this variable shows positive development. This means that foreign investment can generally increase GDP, but in this study, foreign investment did not have a significant impact on economic growth. Therefore, foreign investment needs to be increased. In research conducted by (Humbatova et al., 2020), there is a correlation between Gross Domestic Product (GDP) and investment in the long-term relationship and reveals the results of the OLS model, some of which are positive between investment and GDP. The results of (Iqbal, 2014) the analysis of foreign direct investment in the regression results reveal that foreign direct investment is positively related to GDP and has a large impact on GDP in countries that have an export orientation.

### **Analysis of the Effect of Zakat on Economic Growth 2002-2022**

Based on the analysis of data and hypothesis testing conducted in this study, a significant value of  $0.0217 < (0.05)$  was obtained, which has a regression coefficient 3911. The pattern of the relationship between this variable and GDP is linear-linear, meaning that if the collected zakat increases by 1 billion rupiahs, GDP will increase by 3911 US\$. Conversely, if Zakat decreases by 1 billion, GDP will decrease by 3911 US\$. This is consistent with a study conducted by (Purwanti, 2020), which states that zakat infak has a positive effect on economic growth in Indonesia. Increasing zakat collection increases the level of consumption of zakat recipients, or mustahik, which increases total consumption and ultimately contributes to an increase in national GDP or national economic growth. Zakat can be used as one of the instruments to determine fiscal policy and stimulate human development (Suprayitno et al., 2017). Research conducted by (Nasution & Prayogi, 2019) proves that the zakat variable in his research has a positive and significant effect on increasing the economy, especially for Muslims. From research conducted by Suriani (2021) zakat has been proven to be able to reduce poverty in 21 districts/cities in Aceh province with optimal zakat distribution. This result is certainly by one of the SDG's realizations, namely to eradicate poverty.

## **Conclusion**

Based on the research results, it can be concluded that consumption and zakat variables simultaneously have a positive influence on economic growth in Indonesia in the 2002-2022 period. In the short and long term, the consumption variable and the zakat variable have a positive and significant relationship to economic growth. while the investment variable has a positive but not significant relationship with economic growth. Therefore, the government must be able to consider the zakat variable in making decisions regarding economic policy. The government must also encourage increased zakat collection through national zakat institutions so that the distribution of zakat proceeds can be more equitable.

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