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Islamic Philanthropy and Poverty Reduction in Indonesia: The Role of Integrated Islamic Social and Commercial Finance Institutions

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Abstract:

The recent studies about the role of Islamic philanthropy in addressing socio-economic problems have been growing and confirming its significant role in overcoming the problem. This is in line with the existence of regulations that support the effectiveness of its role in poverty reduction in Indonesia, such as Law No. 23 of 2011 on Zakat Management and Law No. 41 of 2004 on Waqf. This study has two objectives. First, to analyze the impact of Islamic philanthropy on poverty reduction as the socio-economic problems in Indonesia in the short and long run. Second, to analyze the effectiveness of integrated Islamic commercial and social-economic or finance

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to address the poverty compared to unintegrated one. This study used Auto-Regressive Distributed Lag (ARDL) approach to analyze annual data for the period of 2002-2019 while investigating the long and short-run relationships among variables. It found that Islamic philanthropy reduces poverty both in the short and long run, particularly in the integration of Islamic social and commercial finance in a single model. The government should therefore include Islamic philanthropy or other Islamic social finances as a fundamental strategy for building financial stability and sustainable development.

Keywords:

Philanthropy; Integration; Social and commercial finance; Poverty

Abstrak:

Menjamurnya studi-studi terbaru terkait peran filantropi Islam dalam mengatasi masalah sosial-ekonomi telah mengkonfirmasi peran pentingnya dalam mengatasi masalah ini. Hal ini sejalan dengan adanya regulasi yang mendukung efektivitas perannya dalam pengentasan kemiskinan di Indonesia, seperti Undang-Undang Nomor 23 Tahun 2011 tentang Pengelolaan Zakat dan Undang-Undang Nomor 41 Tahun 2004 tentang Wakaf. Penelitian ini memiliki dua tujuan. Pertama, untuk menganalisis dampak filantropi Islam terhadap penurunan tingkat kemiskinan sebagai sebuah permasalahan sosial-ekonomi di Indonesia, baik dalam jangka pendek maupun jangka panjang. Kedua, untuk menganalisis efektifitas integrasi atau antara filantropi dan komersial dalam kerangka ekonomi Islam dalam mengatasi permasalahan kemiskinan. Penelitian ini menggunakan pendekatan Auto-Regressive Distributed Lag (ARDL) untuk menginvestigasi hubungan jangka pendek dan jangka panjang antara filantropi Islam dan tingkat kemiskinan selama periode tahun 2002-2019. Penelitian ini menemukan bahwa filantropi Islam dapat menurunkan tingkat kemiskinan baik dalam jangka pendek maupun jangka panjang. Penelitian ini juga menemukan bahwa ketika filantropi dan komersial dalam kerangka ekonomi Islam diintegrasikan, tingkat kemiskinan dapat diturunkan baik

dalam jangka pendek maupun jangka panjang. Pemerintah seyogyanya menempatkan filantropi Islam sebagai kebijakan dan strategi fundamental dalam rangka mewujudkan stabilitas keuangan dan pembangunan berkelanjutan.

Kata Kunci:

Filantropi; Integrasi, Keuangan sosial dan komersial;
Kemiskinan

Introduction

For more than two decades, research on Islamic economics and finance has gained prominence. A recent survey paper by Paresh Kumar Narayan et al.¹ highlighted the development of Islamic economic or finance research while discussing the potential for future research in the field. The recent studies about the role of Islamic philanthropy system such as *zakāt* (payment made annually under Islamic law on certain kinds of property and used for charitable and religious purposes), *infaq* or *ṣadaqah* (voluntary charity), *waqf* (endowment) and others in addressing the socio-economic problems, most notably poverty and income inequality, have been growing and confirming its significant role in overcoming the problem.

This is in line with the existence of regulatory and statutory instruments that support the effectiveness of Islamic philanthropy's role in poverty reduction in Indonesia. Two of which are Law No. 38 of 1999 and Law No. 23 of 2011 on *Zakāt* Management and Law No. 41 of 2004 on *Waqf* as a result of Indonesian Muslims' struggle to strengthen regulations on *zakāt* since 1968. The former that was later updated with Law No. 23 of 2011 is considered very strategic and helpful to strengthen Islamic philanthropy. Meanwhile, the later that mainly aims to encourage the progress of *waqf* management is also considered able to support the maximization of *waqf* management in improving the socio-economic welfare of Muslim society.²

¹ Paresh Kumar Narayan et al., "Price Discovery and Asset Pricing," *Pacific-Basin Finance Journal* 40 (2016): 224-35.

² Abdurrohman Kasdi, "Filantropi Islam Untuk Pemberdayaan Ekonomi Umat (Model Pemberdayaan ZISWAF Di BMT Se-Kabupaten Demak)," *Iqtishadia: Jurnal Kajian Ekonomi Dan Bisnis Islam STAIN Kudus* 9, No. 2 (2016): 227-45.

The existence of legal certainty and legal products is very important in supporting the implementation of *zakāt*, *infaq*, *ṣadaqah*, and *waqf* for improving people's welfare and economic empowerment.³ Moreover, as a country with a Muslim majority population with 216.66 million people or 85 percent of its total population, Indonesia has *Badan Amil Zakat Nasional* (National Zakāt Agency of Indonesia) or so-called BAZNAS.

Islamic money and property management are supposed to bridge the gap between the have and the needy. *Zakāt*, for instance, enhances the circulation of wealth and ensures that the wealth does not idle and be hoarded. Nonetheless, from the macroeconomic perspective, *zakāt* is used to increase the aggregate demand due to the high spending of *zakat* recipients (*mustahiq*).⁴ Thus, it will boost economic growth and will encourage investment.⁵ It is also an instrument of fiscal policy that serves to ensure that economic activity can run at the level of primary needs fulfillment.⁶ Therefore, the governments of Muslim countries need to give serious attention to optimize *zakāt* as a source of growth and equitable distribution of wealth. There is a need for a big move to reconstruct the spirit of *zakāt* while preventing lack of focus as happened in past.⁷

Some progress has been made toward achieving this goal in several countries. However, there are still many development programs that have not been successful. Many works in effective programs are also needed. In fact, as a part of efforts towards reducing poverty in Islamic countries, *zakāt* is an important form of

³ Azwar Iskandar and Khaerul Aqbar, "Reposisi Praktik Ekonomi Islam: Studi Kritis Praktik Ekonomi Islam Di Indonesia.," *NUKHBATUL'ULUM: Jurnal Bidang Kajian Islam* 5, No. 1 (2019): 39-53.

⁴ Zainal Abidin, "Meneropong Konsep Pertumbuhan Ekonomi (Telaah Atas Kontribusi Sistem Ekonomi Islam Atas Sistem Ekonomi Konvensional)," *Al-Ihkam: Jurnal Hukum Dan Pranata Sosial* 7, No. 2 (2014): 113-26.

⁵ Juhari, "Reinstrumentasi Fungsi Zakat Menuju Pengentasan Kesenjangan Sosial Ekonomi Umat," *Al-Ihkam: Jurnal Hukum Dan Pranata Sosial* 1, No. 1 (2012): 113-26.

⁶ Muhammad Nejatullah Siddiqi, *Teaching Economics in Islamic Perspective* (Scientific Publishing Centre, 1996).

⁷ Faisal Faisal, "Sejarah Pengelolaan Zakat di Dunia Muslim dan Indonesia (Pendekatan Teori Investigasi-Sejarah Charles Peirce dan Defisit Kebenaran Lieven Boeve)," *Analisis: Jurnal Studi Keislaman* 11, no. 2 (2011): 241-72.

charitable funding.⁸ In the context of Indonesia, *zakāt* has promising potential for contributing to poverty and inequity reduction.⁹ This is clear from data on *zakāt*, *infaq*, and *ṣadaqah* in Indonesia that shows an increase in *zakāt* collection from 2002 to 2019 which is shown from table 1 below:

Table 1. Islamic Philanthropy Collection and GDP Per Capita in Indonesia (Period of 2002–2019)

Year	Islamic Philanthropy (IDR Billion)	Growth (%)	GDP Per Capita (US Dollar)	Growth (%)
2002	68.39	-	8,381,725.70	-
2003	85.28	24.70	9,140,209.04	9.05
2004	150.09	76.00	10,282,012.90	12.49
2005	295.52	96.90	12,259,877.14	19.24
2006	373.17	26.28	14,561,495.32	18.77
2007	740.00	98.30	17,002,285.26	16.76
2008	920.00	24.32	21,016,237.31	23.61
2009	1,200.00	30.43	23,494,217.33	11.79
2010	1,500.00	25.00	28,383,630.91	20.81
2011	1,729.00	15.27	31,951,073.85	12.57
2012	2,212.00	27.94	34,677,483.69	8.53
2013	2,639.00	19.30	37,910,608.80	9.32
2014	3,300.00	25.05	41,428,865.92	9.28
2015	3,650.00	10.61	44,609,441.72	7.68
2016	5,017.29	37.46	47,415,515.66	6.29
2017	6,224.37	24.06	51,350,980.38	8.30
2018	8,117.59	30.42	55,436,453.25	7.96
2019	10,070.00	24.05	58,508,674.98	5.54
Mean	2,682.87	36.24	30,433,932.73	12.23

⁸ Habib Ahmed, "Zakah, Macroeconomic Policies, and Poverty Alleviation: Lessons from Simulations on Bangladesh," *Journal of Islamic Economics, Banking and Finance* 4, no. 2 (2008): 81–105.

⁹ Evi Aninatin Ni'matul Choiriyah et al., "Zakat and Poverty Alleviation in Indonesia: A Panel Analysis at Provincial Level," *Journal of Islamic Monetary Economics and Finance* 6, no. 4 (2020): 811–32.

Source: BAZNAS;¹⁰ Irfan Syauqi Beik¹¹; Evi Aninatin Ni'matul Choiriyah et al.¹²

Table 1 shows that the collection of Islamic philanthropy including *zakāt*, *infaq*, or *ṣadaqah* (voluntary charity), *waqf* (endowment), and others increases every year from 17 years. In 2005 and 2007, there was an increase with almost 100 percent due to national disasters in the country (the Aceh Tsunami in 2004 and the Yogyakarta Earthquake in 2006). The average growth of the collection from 2002 until 2019 was 36.24 percent. Another important point is the high growth of Islamic philanthropy collection compared to GDP per capita growth (US Dollar). The increase in average annual Islamic philanthropy growth between 2002 and 2019 is higher than average GDP growth for the same period which only reached 12.23 percent.

Furthermore, the fact that the growth of Islamic philanthropy was not significantly affected by global economic shocks suggests that in the future, it has big potential to contribute to national development. Thus, national economic policy should include Islamic philanthropy in its efforts to reduce poverty or inequality while utilizing Islamic philanthropy as a fundamental strategy for financial stability and sustainable development.¹³

Using Indonesian experience, this paper will cover several aspects of Islamic philanthropy particularly in answering how Islamic philanthropy contributes to the socio-economic aspect, namely poverty reduction, and decrease income inequality in the country in both the short and long run. It, therefore, aims to contribute precisely in revealing the role of Islamic philanthropy in reducing poverty. Other than that, it aims to analyze the effectiveness of integrated Islamic commercial and social finance to build the welfare of people

¹⁰ Pusat Baznas, *Outlook Zakah Indonesia 2018* (Jakarta: Pusat Baznas, 2018).

¹¹ Irfan Syauqi Beik, "Potensi Zakah Nasional 2020 (Potential of 2020 National Zakah)," 18 (Jakarta, 2020).

¹² Imam Wahyudi Indrawan Evi Aninatin, Ni'matul Choiriyah, Abdul Kafi, Irma Faikhotul Hikmah, "Zakat and Poverty Alleviation in Indonesia: A Panel Analysis at Provincial Level," *Journal of Islamic Monetary Economics and Finance* 6, No. 4 (2020): 811–32.

¹³ Evi Aninatin Ni'matul Choiriyah et al., "Zakat and Poverty Alleviation in Indonesia: A Panel Analysis at Provincial Level," *Journal of Islamic Monetary Economics and Finance* 6, no. 4 (2020): 811–32

compared to unintegrated ones. Since relevant previous works have not yet thrown some light on such integration, this is the novelty of this paper.

Furthermore, this paper allows for possible symmetrical causality between the role of Islamic philanthropy and poverty reduction in Indonesia. The reason behind this is because Islamic philanthropy variants including *zakāt*, *infaq*, and *waqf* in Islam are largely working out to help people come out of poverty. In this sense, the combination between both commercial and social finance for this study is another novelty compared to the previous works that mostly focus on the social-economic/finance or commercial economic/finance only.

Moreover, in both classical and modern literature, *zakāt* collection is always seen as the responsibility of the government. It is regarded as an effective instrument to realize the purpose of financial goals that are expected to affect the development of the country as well as the social welfare of society as listed in *al-Amwāl* by al-Dawudi and Rawls' theory of social justice.¹⁴ Other previous studies were those of Irfan Syauqi Beik¹⁵, Rahmatina A Kasri¹⁶, and Qurroh Ayuniyyah et al.¹⁷ for the case of Indonesia; Fuadah Johari et al.¹⁸ for the case of a new convert (*muallaf*) in Malaysia; Hisham Handal

¹⁴ Mohamad Ramdon Dasuki, "Teori Keadilan Sosial Al-Ghazali dan John Rawls (Studi Perbandingan dalam Konteks Politik dan Hukum)," *Tangerang Selatan: Cinta Buku Media*, 2015; Ai Nur Bayinah, "Role of Zakat as Social Finance Catalyst to Islamic Banking and Economic Growth," *International Journal of Zakat* 2, no. 2 (2017): 55-70.

¹⁵ Irfan Syauqi Beik, *Economic Role of Zakah in Reducing Poverty and Income Inequality: A Case Study in the Province of DKI Jakarta, Indonesia* (Jakarta: LAP Lambert Academic Publishing, 2013).

¹⁶ Rahmatina A Kasri, "Effectiveness of Zakah Targeting in Alleviating Poverty in Indonesia," *Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah* 8, no. 2 (2016): 169-86.

¹⁷ Qurroh Ayuniyyah et al., "Zakat for Poverty Alleviation and Income Inequality Reduction: West Java, Indonesia," *Journal of Islamic Monetary Economics and Finance* 4, no. 1 (2018): 85-100.

¹⁸ Fuadah Johari, Muhammad Ridhwan Ab Aziz, and Ahmad Fahme Mohd Ali, "The Role of Zakat in Reducing Poverty and Income Inequality among New Convert (Muallaf) in Selangor, Malaysia," *Online Journal of Research in Islamic Studies* 1, no. 3 (2014): 43-56.

Abdelbaki¹⁹ for the case of Bahrain; Arif Widodo²⁰ about the role of integrated Islamic commercial and social finance in reducing income inequality in Indonesia; and Naziruddin Abdullah et al.²¹ using the Basic Needs Deficiency Index (BNDI) in Pakistan.

The earlier works have indeed made a huge contribution to the works of *zakāt* and the formulation of a coherent policy on *zakāt*, yet there are certain aspects that can further be developed. Given that most of the studies on the role of *zakāt* conducted by using primary data at the micro level, Irfan Syauqi Beik²², for instance, focused on the Jakarta area as an object of study, while Qurroh Ayuniyyah et al.²³ studied the effectiveness of *zakāt* distribution both for consumptive and productive purposes in three different regions in West Java. Hence, they have not yet covered the broader areas. This implies the need for using data that covers as many areas as possible aiming to provide a comprehensive analysis, especially from the macro context.

Accordingly, the previous works seem to focus mainly on the social aspect of Islamic finance like *zakāt* while excluding Islamic commercial finance in the analysis.²⁴ In regard to this, Ascarya²⁵ has stressed the fundamental principle which has been deeply embedded in the Islamic finance framework. Ascarya²⁶ explained that Islamic finance cannot accept the difference between social and commercial

¹⁹ Hisham Handal Abdelbaki, "The Impact of Zakat on Poverty and Income Inequality in Bahrain," *Rev. Integr. Bus. Econ. Res* 2, no. 1 (2013).

²⁰ Arif Widodo, "The Role of Integrated Islamic Commercial and Social Finance in Reducing Income Inequality in Indonesia," *Journal of Islamic Monetary Economics and Finance* 5, no. 2 (2019): 263–86.

²¹ Naziruddin Abdullah, Alias Mat Derus, and Husam-Aldin Nizar Al-Malkawi, "The Effectiveness of Zakat in Alleviating Poverty and Inequalities: A Measurement Using a Newly Developed Technique," *Humanomics*, 2015.

²² Beik, *Economic Role of Zakah in Reducing Poverty and Income Inequality: A Case Study in the Province of DKI Jakarta, Indonesia*.

²³ Qurroh Ayuniyyah et al., "The Comparison between Consumption and Production-Based Zakat Distribution Programs for Poverty Alleviation and Income Inequality Reduction," *International Journal of Zakat* 2, no. 2 (2017): 11–28.

²⁴ Arif Widodo, "The Role of Integrated Islamic Commercial and Social Finance in Reducing Income Inequality in Indonesia," *Journal of Islamic Monetary Economics and Finance* 5, no. 2 (2019): 263–86.

²⁵ Ascarya, "Integration of Islamic Commercial and Social Finance in Micro-Small Scale" (Surabaya, 2016).

²⁶ Ascarya.

finance in the system as applied to a conventional system. Thus, it is urgently needed to address the question of the surging inequality problem by considering the integration between these two aspects in Islamic finance.²⁷

On the other hand, Nazamul Hoque et al.²⁸ shows that developing entrepreneurship through *zakāt* for poverty reduction is a new approach to consider because instead of financing and resources, the cause of poverty is the lack of entrepreneurship. Another previous study by Nazamul Hoque et al.²⁹ investigated how the Gross Domestic Product of a Region (GDPR) and the *zakāt* index can contribute to poverty reduction.

Accordingly, recent studies by Choiriyah et al.³⁰ investigated the significance of *Indeks Kesejahteraan* (Welfare Index) BAZNAS (IKB) as a measure of impactful *zakāt* towards poverty reduction at the provincial level in Indonesia. IKB is an instrument used by BAZNAS to identify how impactful *zakāt* distribution for the recipient of *zakat* (*mustahiq*) wellbeing is. The panel-data analysis in Choiriyah et al. (2020)'s study found that impactful *zakāt* is strongly linked to the reduction of poverty headcount ratio. The study found the role of *zakāt* contributing to improve human capital and quality of life of the poor and vulnerable. Such improvement can be seen in the provision of education, health facilities, and social services. In other words, *zakāt* has already played a big role in reducing the population living below the poverty line even though the IKB is still found not significant yet in improving *h* the quality of life of the needy at the provincial level in Indonesia.

²⁷ Arif Widodo, "The Role of Integrated Islamic Commercial and Social Finance in Reducing Income Inequality in Indonesia," *Journal of Islamic Monetary Economics and Finance* 5, no. 2 (2019): 263–86.

²⁸ Nazamul Hoque, Mohammad Aktaruzzaman Khan, and Kazi Deen Mohammad, "Poverty Alleviation by Zakah in a Transitional Economy: A Small Business Entrepreneurial Framework," *Journal of Global Entrepreneurship Research* 5, no. 1 (2015): 1–20.

²⁹ Nazamul Hoque, Abdullahil Mamun, and Abdullah Mohammad Ahshanul Mamun, "Dynamics and Traits of Entrepreneurship: An Islamic Approach," *World Journal of Entrepreneurship, Management and Sustainable Development*, 2014.

³⁰ Evi Aninatin, Ni'matul Choiriyah, Abdul Kafi, Irma Faikhotul Hikmah, "Zakat and Poverty Alleviation in Indonesia: A Panel Analysis at Provincial Level."

Method

To analyze the impact of Islamic philanthropy on poverty reduction as the socio-economic problems in the case of Indonesia both in the short and long run and as well as analyze the effectiveness of integrated Islamic commercial and social-economic or finance to address the poverty compared to unintegrated one, the study used annual data from the BAZNAS, Statistics Centre Agency of Indonesia (*Badan Pusat Statistik*, BPS), Financial Services Authority of Indonesia (*Otoritas Jasa Keuangan*, OJK), and the World Bank. The data set spans from the period 2002 to 2019.

One reliable measure of Islamic philanthropy is the total amount of *zakāt*, *infaq*, and *ṣadaqah* (ZIS) as Islamic philanthropy or charity collected by BAZNAS. It consists of individual *zakāt māl* (property alm), *zakāt fitr*³¹ (annual basic alm), *infaq* or *ṣadaqah*³², Corporate Social Responsibility (CSR), and other socio-religious funds. Another focus variable is poverty. The study measures the poverty using headcount ratio at national poverty lines (%).³³

In addition to this one core variable, the use of Islamic domestic credit or financing to the private sector such as *murābahah*,³⁴

³¹ It is another smaller charitable obligation which is mandatory for all Muslims, male or female, little or adult as long as he or she has the means to do so. Traditionally, it is paid at the end of the fasting in the Islamic holy month of Ramadan.

³² It is an Arabic word meaning spending or disbursement but also carrying the sense of doing so simply to please God without asking for any favor or hoping for any return.

³³ The poverty headcount ratio is measured based on national poverty lines. This may vary across rural and urban areas, across the different costs of living, or across differences in diets and consumption baskets. Poverty estimates at national poverty lines is computed from household survey data. National poverty lines reflect local perceptions of the level and composition of consumption or income needed to be non-poor. Almost all national poverty lines are inflation-adjusted and anchored to the cost of a food bundle - based on the prevailing national diet of the poor - that provides adequate nutrition for good health and normal activity, plus an allowance for non-food spending. Source: <https://www.indexmundi.com/facts/indicators/SL.POV.NAHC>.

³⁴It is originally a term of *fiqh* (Islamic jurisprudence) for a sales contract when the buyer and seller agree on the markup (profit) or "cost-plus" price for any successfully sold item(s).

muḍārabah,³⁵ *qard*,³⁶ *ijārah* (Islamic finance contracts)³⁷ working as a capital and investment scheme for Micro, Small, and Medium Enterprises (MSMEs) as a proxy of commercial finance also works. Financing to MSMEs provides more benefits to people in the area because one of its characteristics is that MSMEs tend to be labor-intensive rather than capital intensive. It expects the coefficient associated with financing MSMEs to be negative and significant. The Islamic domestic credit used in this study is not only from the Sharia Commercial Banks but is also extended to Sharia Business Units as this indicator measures the role of financial institutions in channeling funds to fund users in bank-based type.

Last but not least, the study also includes one control variable in its model. The control variable is a growth rate of annual percentage GDP per capita since it is highly correlated with poverty (see for instance by Clarke, Xu, and Fou³⁸). Another reason for using per capita GDP is because poverty relates to the person instead of aggregate, though a more accurate measure is when all funds allocated for public and potentially brings positive impact to the poor.³⁹

In order to examine the relationship between Islamic philanthropy and poverty, we propose following long-run estimation model that can be shown by equation 1:

$$POV = \alpha + \beta_1 IPT_t + \beta_2 ICF_t + \beta_3 (IPT * ICF)_t + \beta_4 GDP_t + \varepsilon_t \quad (1)$$

³⁵ It is a partnership or trust financing contract (similar to the Western equivalent of General and Limited Partnership) where a partner (*rabb-ul-māl* or “silent partner” or financier) gives money to another (*muḍārib* or “working partner”) for investing it in a commercial enterprise.

³⁶ It is the one without any collateral. However, some Islamic scholars deem it as a form of interest-free loan (fungible, marketable wealth) that is extended by a lender to a borrower based on benevolence (*ihsān*).

³⁷ It is a term of *fiqh* (Islamic jurisprudence) and product in Islamic banking and finance. In traditional *fiqh*, it means a contract for hiring persons or renting/leasing any services or the “usufruct” of a property, generally for a fixed period and price.

³⁸ G Clarke, L Xu, and H F Fou, “Financial and Income Inequality: Test of Alternatives Theories,” *World Bank Policy Research Paper*, WPS 2984 (2002).

³⁹ David Dollar and Aart Kraay, “Growth Is Good for the Poor,” *Journal of Economic Growth* 7, no. 3 (2002): 195–225.

Where *POV* represents a proxy for poverty, *IPT* represents Islamic philanthropy, *ICF* is Islamic Commercial Finance, and *GDP* represents the annual percentage growth rate of GDP per capita. All variables used in Equation (1) are in natural logarithm form for consistent and reliable results. The log-linear specification provides better results because the conversion of the series into logarithm reduces the sharpness in time series data.⁴⁰

Before proceeding with long-run estimation, we ascertain that our variables are cointegrated. To do so, we use ARDL bounds test approach for cointegration. The ARDL approach as developed by M. Hashem Pesaran, Yongcheol Shin, and Richard J Smith⁴¹ can be applied irrespectively of whether the variables are I(0) and/or I(1). Thus, we use the following specification for ARDL bounds test for cointegration with the estimation model which can be shown by Equation 2, 3, and 4:

$$\Delta POV_t = \alpha + \beta_1 POV_{t-1} + \beta_2 IPT_{t-1} + \beta_3 GDP_{t-1} + \beta_4 \Delta POV_{t-1} + \beta_5 \Delta IPT_{t-1} + \beta_6 \Delta GDP_{t-1} + \varepsilon_t \quad (2)$$

$$\Delta POV_t = \alpha + \beta_1 POV_{t-1} + \beta_2 ICF_{t-1} + \beta_3 GDP_{t-1} + \beta_4 \Delta POV_{t-1} + \beta_5 \Delta ICF_{t-1} + \beta_6 \Delta GDP_{t-1} + \varepsilon_t \quad (3)$$

$$\Delta POV_t = \alpha + \beta_1 POV_{t-1} + \beta_2 (IPT * ICF)_{t-1} + \beta_3 GDP_{t-1} + \beta_4 \Delta POV_{t-1} + \beta_5 \Delta (IPT * ICF)_{t-1} + \beta_6 \Delta GDP_{t-1} + \varepsilon_t \quad (4)$$

The study also uses the F-test statistics obtained from the bounds test in order to examine the long-run relationship between poverty or inequality and Islamic philanthropy. The F-test statistics examine the joint significance of the null hypothesis, that is $H_0: \beta_1 = \beta_2 = \beta_3 = 0$. The obtained F-test statistic is then compared against the upper and lower critical value bounds provided by Paresk Kumar Narayan.⁴² If the obtained F-test statistic exceeds the upper critical bound (UCB), then the series are cointegrated; if it is below the

⁴⁰ Muhammad Shahbaz and Faridul Islam, "Financial Development and Income Inequality in Pakistan: An Application of ARDL Approach," 2011.

⁴¹ M Hashem Pesaran, Yongcheol Shin, and Richard J Smith, "Bounds Testing Approaches to the Analysis of Level Relationships," *Journal of Applied Econometrics* 16, no. 3 (2001): 289-326.

⁴² Paresk Kumar Narayan, "The Saving and Investment Nexus for China: Evidence from Cointegration Tests," *Applied Economics* 37, no. 17 (2005): 1979-90.

lower critical bound (LCB), there is no cointegration. Likewise, if the calculated F-test statistic is between the UCB and the LCB, then a decision about cointegration is inconclusive.

For each application, there is a band covering all the possible classifications of the variables into I(0) and I(1). However, according to Paresh Kumar Narayan,⁴³ the existing critical values in Pesaran, Shin, and Smith⁴⁴ cannot be applied for small sample sizes as they are based on large sample sizes. Hence, Paresh Kumar Narayan⁴⁵ provides a set of critical values for small sample sizes, ranging from 30 to 80 observations. The critical values are 2.496 - 3.346, 2.962 - 3.910, and 4.068 - 5.250 at 90%, 95%, and 99%, respectively.

Discussion and Results

The term philanthropy comes from Greek, namely *philos* (loving) and *anthropos* (mankind). Literally, philanthropy is the conceptualization of the practices of voluntary giving, services, and association to help other people who are in need as an expression of the feeling of love. In general, philanthropy is defined as voluntary action for the public's good. There are two most common models of philanthropy, namely traditional philanthropy based on charity and social justice philanthropy.⁴⁶

Islam as a religion that teaches humans to love each other show affection and sympathy has a configuration of charity or philanthropy from its teachings.⁴⁷ Among the teachings are in the forms of orders to give *infaq*, *ṣadaqah*, *zakat*, and *waqf*, which can increase faith in God, foster a high sense of humanity, eliminate miserly greedy and materialistic human nature, foster peace of life, clean and develop possessions, and overcome various problems in

⁴³ Narayan.

⁴⁴ Pesaran, Shin, and Smith, "Bounds Testing Approaches to the Analysis of Level Relationships."

⁴⁵ Narayan, "The Saving and Investment Nexus for China: Evidence from Cointegration Tests."

⁴⁶ Ahmad Soleh Sakni, "Konsep Ekonomi Islam Dalam Mengentaskan Kesenjangan Sosial: Studi Atas Wacana Filantropi Islam Dalam Syari'at Wakaf," *Jurnal Ilmu Agama: Mengkaji Doktrin, Pemikiran, Dan Fenomena Agama* 14, No. 1 (2013): 151-66.

⁴⁷ Qurratul Uyun, "Zakat, Infaq, Shadaqah, Dan Wakaf Sebagai Konfigurasi Filantropi Islam," *Islamuna: Jurnal Studi Islam* 2, No.2 (2015): 218-34.

social life, economy, education, even environment.⁴⁸ This role is expected to overcome the economic shocks and facilitate the whole society, especially Muslims, to participate in contributing to recover these shocks.

In the basic concept of *zakāt* and poverty reduction, Islam regulates the practice of income redistribution. According to Magda Ismail A Mohsin and Magda Ismail,⁴⁹ *zakāt* aims to eradicate usury and eliminate hardship from Muslim society at micro and macro levels through its role in the state sector. Throughout the history of Islam, *zakāt* has been an important instrument of philanthropy in Muslim countries.

During the Caliphate of Umar bin Khattab and Umar bin Abdul Aziz, for instance, poverty was overcome through effective and efficient *zakāt* distribution. The population reached a standard of living above the poverty line so that the distribution of *zakāt* to the poor was not required because the population's basic needs had been met.⁵⁰ Thus, *zakāt* is an economic instrument in Islam that aims to build people's welfare as well as being an instrument of income equality.⁵¹ Eventually, the role of *zakāt* will be able to guide in creating a better and more prosperous life.⁵²

In Indonesia, *zakāt* institution is served separately with *Baitul Māl wa al-Tamwīl* (house of wealth and property) although both are under the category of Islamic social finance. The *Baitul Māl* is an Islamic microfinance institution (IMFI) registered as an Islamic cooperative in Indonesian financial regulation. Islamic social finance⁵³

⁴⁸ Abdurrohman Kasdi, "Filantropi Islam Untuk Pemberdayaan Ekonomi Umat (Model Pemberdayaan ZISWAF Di BMT Se-Kabupaten Demak.)"

⁴⁹ Magda Ismail A Mohsin and Magda Ismail, "Potential of Zakat in Eliminating Riba and Eradicating Poverty in Muslim Countries," *EJBM-Special Issue: Islamic Management and Business* 5, no. 11 (2013): 114–26.

⁵⁰ Mohsin and Ismail; Ahmed, "Zakah, Macroeconomic Policies, and Poverty Alleviation: Lessons from Simulations on Bangladesh."

⁵¹ Adel Sarea, "Zakat as a Benchmark to Evaluate Economic Growth: An Alternative Approach," *International Journal of Business and Social Science* 3, no. 18 (2012).

⁵² Evi Aninatin, Ni'matul Choiriyah, Abdul Kafi, Irma Faikhotul Hikmah, "Zakat and Poverty Alleviation in Indonesia: A Panel Analysis at Provincial Level."

⁵³ It is a category of financial services in the Islamic frame that aims to leverage private capital to address challenges in areas of social and environmental

is under the management of its *Baitul Māl* division while Islamic commercial finance is managed in the *Bait al-Tamwīl* division.⁵⁴ Islamic commercial finance is commonly offered by Islamic banks and Islamic rural banks as a part of the national banking industry.⁵⁵

The *Baitul Māl* division manages social funds including *zakāt*, *ṣadaqah* (voluntary charity), cash *waqf* (Islamic endowment), and other social funds. It acts as a cooperative IMFI for collecting deposits from its members for initial capital (principal and compulsory deposits) and saving deposits. When funding is in the short term, *Bait al-Tamwīl* can serve as a financial intermediary from external funding sources such as an Apex institution, Islamic banks, or foreign sources which provides liquidity for microfinance institutions.

The integration of Islamic commercial and social finance under one institution brings more benefits to stakeholders and may solve some most common problems of Islamic financial institutions like what the following figure shows.⁵⁶

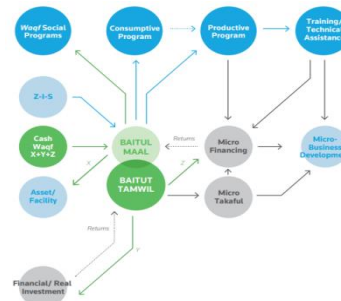


Figure 1. The integration of Islamic social and commercial finance in BMT. Source: Ascarya⁵⁷

need including *zakāt*, *ṣadaqah* (voluntary charity), cash *waqf* (Islamic endowment) and other social funds.

⁵⁴ Hans Dieter Seibel and Wahyu Dwi Agung, "Islamic Microfinance in Indonesia" (Working Paper, 2006); Mohammed Obaidullah, "Introduction to Islamic Microfinance," *IBF Net Limited*, 2008; Mohammed Obaidullah, "Role of Microfinance in Poverty Alleviation: Lessons from Experiences in Selected IDB Member Countries," *Islamic Development Bank*, 2008.

⁵⁵ Aqbar, "Reposisi Praktik Ekonomi Islam: Studi Kritis Praktik Ekonomi Islam Di Indonesia."

⁵⁶ Ascarya, "Baitul Māl Wat Tamwil (BMT): An Integrated Islamic Social and Commercial Financial Institution in Indonesia," 2018.

⁵⁷ Ascarya.

Figure 1 illustrates the integration of Islamic social and commercial finance in BMT. BMT, certified as *zakāt* personnel (*'āmil*), collects and manages *zakāt*, *infaq*, and *ṣadaqah* (ZIS) funds from members, employees, and the community. Afterward, it uses the funds accordingly for their designated purposes through various consumptive and productive programs including training, technical assistance, and *qard* (benevolent lending) financing to make the recipients (the poor and needy) as self-sufficient micro-entrepreneurs.

In another role as a certified administrator (*nazir*), BMT collects either directly or indirectly cash *waqf* and deposits funds. Direct cash *waqf* (X+Y in Figure 1) is used for non-profit generating assets (X) such as developing Islamic schools, hospitals, or mosque or generating profit assets (Y) such as investment in financial/real assets. Meanwhile, indirect cash *waqf* (Z) is used in commercial financing for micro and small enterprises or other purposes.

To mitigate the risks, *waqf* investments are insured by micro *takāful*.⁵⁸ Profits from *waqf* investments are partly used to fund social programs, while the other part is for reinvestment as cash *waqf*. The integration of Islamic social and commercial finance is helpful not only for *zakāt* and *waqf* recipients (*mawquf 'alayh*), but also for other recipients such as IMFIs with stronger financial standing. As a result, these IMFIs would be able to provide members with cheaper financing so that they would be more resilient to financial crises.

In the preliminary analysis, this study looks at some common descriptive statistics of all variables (namely POV, INE, IPT, ICF, and GDP) used in it. More specifically, we report mean, median, Standard Deviation (SD), Skewness, Kurtosis and Jarque-Bera test statistics for all variables in Panel A of Table 2. This table reports selective descriptive statistics of all variables in Panel A. All data are taken in natural logarithm form. Finally, * and ** denote statistical significance at 1% and 5% levels.

⁵⁸ It is a cooperative system of reimbursement or repayment in case of loss which is organized as an Islamic or sharia-compliant alternative for conventional one which is considered to contain *riba* (usury) and *garār* (excessive uncertainty).

Table 2. Descriptive Statistics and Unit Root Test

Panel A: Descriptive Statistics				
Variables:	IPT	ICF	GDP	POV
Mean	6.941875	11.10188	17.07000	2.370625
Std. Dev.	1.120180	1.265887	0.591642	0.625188
Skewness	-0.972708	-0.467040	-0.427199	-0.331669
Kurtosis	2.806585	1.961022	1.851242	1.657270
Jarque-Bera	2.548037	1.301321	1.366428	1.495293
Probability	0.279705	0.521701	0.504991	0.473480

Panel B: Unit Root Test				
Variables	ADF Test		PP Test	
	t-statistic	Prob.*	t-statistic	Prob.*
Level				
IPT	-0.496185	0.9723	0.021856	0.9927
ICF	2.166656	0.9885	3.811299	0.9996
GDP	-2.703652	0.2495	0.316067	0.9968
POV	-2.186604	0.4646	-2.269842	0.4247
1 st Difference				
IPT	-4.509023	0.0177**	-7.946463	0.0001*
ICF	-2.865233	0.0074	-2.865233	0.0074*
GDP	-3.745292	0.0490**	-3.745292	0.0490**
POV	-2.012713	0.5451	-5.167356	0.0049*

Based on Table 2 Panel A, the mean of IPT, ICF, GDP, POV, and INE for Indonesia over the period 2002-2019 are 6.94, 11.10, 17.07, 2.37, and 3.60. Moreover, according to Skewness and Kurtosis statistics, none of all variables follow a normal distribution. In addition, we also conduct the Jarque-Bera (JB) test which examines the null hypothesis of “normal distribution.” Specifically, we report JB test statistics and their corresponding p-values in the last two rows. For all variables, p-values are greater than 0.1 which implies that we do not reject the normal distribution of the null hypothesis. Therefore, we conclude from JB test results that IPT, ICF, GDP, POV, and INE follow a normal distribution.

Standard unit root tests, meanwhile, were conducted before running the estimation. The unit root test guides to ascertain whether

ARDL is applicable or not because it is only applicable to the analysis of variables integrated of order zero [I(0)] or order one [I(1)]. It is not applicable when higher order of integration such as I(2) variable is involved. Testing the stationarity of the variables is important to avoid spurious regression. Thus, the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) test techniques were used to investigate the stationarity of the variables. The ADF and PP test results are showed in Panel B of Table 2. The null hypothesis of the unit root problem is rejected at the first difference.

This shows that all variables are found to be stationary at 1st difference implying that variables are integrated at I(1) and all variables used in this study are integrated of the same order, hence one may employ the ARDL approach to test for cointegration. Should we find one cointegration vector (i.e. the underlying equation), we will re-parameterize the ARDL model of the cointegration vector into ECM. This will provide us with the short-run dynamics (i.e. traditional ARDL) and long-run relationships of the variables of a single model. The re-parameterization is possible because the ARDL is a dynamic single model equation and of the same form as the ECM.

Finally, we discuss the results of the bounds cointegration test with the following approach: Each of the three variables from Equation (1) enters Equation (2) as a dependent variable in order to calculate F-statistics. This results in two cointegrating ARDL models that we report the results in Table 3.

Table 3. ARDL Bound Test for Cointegration

Model Specification	ARDL order	F-statistics
$F_{POV}(POV IPT, GDP)$	ARDL(2, 3, 3)	14.56213*
$F_{POV}(POV ICF, GDP)$	ARDL(4, 1, 3)	30.33842*
$F_{POV}(POV IPT * ICF, GDP)$	ARDL(4, 3, 3)	310.0146*

We note the model specification in the second column where the first variable refers to the dependent variable followed by explanatory variables. We also report lag orders of ARDL model specification the ARDL bounds tests F-statistics in columns 3 and 4 respectively. In order to examine the null hypothesis of no

cointegration, these F-statistics are compared against the critical values generated by Paresh Kumar Narayan.⁵⁹

Results of the study are not surprising. Significant evidence has found in cointegration in one out of two ARDL model specifications. More specifically, we find evidence of cointegration where we consider POV as a dependent variable and the other variables, namely IPT, ICF, IPT*ICF, and GDP, as explanatory variables in Equation (1). This finding supports our long-run empirical framework where POV is considered to be dependent variable.

Table 3 above reports ARDL bound test results for cointegration. The bounds cointegration test is examined by considering all variables as dependent one at a time within the above ARDL specification. The ARDL model specification is provided in column 2. We use the Akaike Information Criterion (AIC) to choose optimal lags of variables that enter the ARDL specification. We use the *F – test* statistics obtained from the bounds test. More specifically, the *F – test* statistics examine the joint significance of the coefficients on the one period lagged levels of the variables in the above ARDL model, that is $H_0: \beta_1 = \beta_2 = \beta_3 = 0$. Critical values are obtained from Narayan (2005). Finally, *, ** and *** denote statistical significance at 1%, 5% and 10% level.

This study discusses results obtained using the short and long-run estimation frameworks. *The first* is focusing on long-run elasticity by estimating Equation (1). Long-run estimation results in Panel A of

⁵⁹ Narayan, "The Saving and Investment Nexus for China: Evidence from Cointegration Tests."

Table 4.

Table 4. The short and Long-run Relationship

Panel A: Long-run elasticity						
Variables	Model 1		Model 2		Model 3	
	Coef.	Prob.	Coef.	Prob.	Coef.	Prob.
IPT	-0.406292	0.0084*				
ICF			-2.58638	0.0611***		
GDP	0.239696	0.0027*	1.926300	0.0583***	0.843816	0.0553***
IPT*ICF					-0.63111	0.0569***

Panel B: Short-run elasticity						
Variables	Model 1		Model 2		Model 3	
	Coef.	Prob.	Coef.	Prob.	Coef.	Prob.
D(POV(-1))	-0.38377	0.0233*	-0.53269	0.0108**	-0.2858	0.0697***
D(POV(-2))			0.104713	0.3786	0.22457	0.0633***
D(POV(-3))			-0.35081	0.054***	0.10128	0.1917
D(ICF)			-0.29058	0.094***		
D(IPT)	-0.09749	0.1443				
D(IPT (-1))	0.33851	0.0029*				
D(IPT (-2))	0.546597	0.00128				
D(GDP)	1.6058	0.0138**	-2.76486	0.0072*	-1.2909	0.0324**
D(GDP(-1))	1.158171	0.0528***	-1.10589	0.081***	-0.2068	0.2544
D(GDP(-2))	1.743992	0.0275**	-0.77621	0.079***	0.70580	0.0462**
D(IPT*ICF)					-0.2771	0.0451**
D(IPT*ICF (-1))					0.00919	0.6182
D(IPT*ICF (-2))					-0.1976	0.0454**
ECT(-1)*	-0.76603	0.0013*	-0.2855	0.0012*	-0.6447	0.0121**

Based on table 4, particularly in model 1, this study found that Islamic philanthropy has a statistically significant and positive effect on poverty reduction in the long run. In other words, we conclude

that Islamic philanthropy helps in reducing poverty in Indonesia. For instance, 1% increase in Islamic philanthropy collected from the richer people may lead to a poverty reduction in Indonesia by 0.41%. In contrast, the control variable such as growth does significantly affect poverty, withstanding the positive coefficient of the annual percentage growth rate of GDP per capita.

The significant impact of *zakāt* on tackling socio-economic problems such as poverty obtained in this study supports previous works by Irfan Syauqi Beik⁶⁰ and Qurroh Ayuniyaah et al.⁶¹ in Indonesia, as well as those of Johari, Ab Aziz, and Ali⁶² in Malaysia among *muallaf* (newly Moslem converts), even though their works were conducted using primary data in micro perspective. In other words, promoting in tackling poverty and promoting the welfare of the beneficiaries is qualitatively and quantitatively proven, even when the study is conducted from the macro perspective (growth).

Moreover, since *zakāt* collected from those in the middle and top income who have assets and income that exceed a certain threshold (2.5 percent) is defined as tax by some Islamic scholars as to the redefinition of *zakāt* in the contemporary era (see Latief⁶³), the result of this study is in agreement with the proposal of progressive taxation introduced by Thomas Piketty and Emmanuel Saez.⁶⁴ They argue that global capital taxation may certainly reduce the concentration of wealth among the few. Similarly, Anthony B Atkinson⁶⁵ brings forward the income and wage taxation.

⁶⁰ Beik, *Economic Role of Zakah in Reducing Poverty and Income Inequality: A Case Study in the Province of DKI Jakarta, Indonesia*.

⁶¹ Qurroh Ayuniyyah, Ataul Huq Pramanik, Norma Md Saad, and Muhammad Irwan Ariffin. "The Comparison between Consumption and Production-Based Zakat Distribution Programs for Poverty Alleviation and Income Inequality Reduction." *International Journal of Zakat* 2, no. 2 (2017): 11-28."

⁶² Johari, Ab Aziz, and Ali, "The Role of Zakat in Reducing Poverty and Income Inequality among New Convert (Muallaf) in Selangor, Malaysia."

⁶³ Hilman Latief, "Contesting Almsgiving in Post-New Order Indonesia," *American Journal of Islamic Social Sciences* 31, no. 1 (2014): 16-50.

⁶⁴ Thomas Piketty and Emmanuel Saez, "Optimal Labor Income Taxation," in *Handbook of Public Economics*, vol. 5 (Elsevier, 2013), 391-474.

⁶⁵ Anthony B Atkinson, "Can We Reduce Income Inequality in OECD Countries?," *Empirica* 42, no. 2 (2015): 211-23.

Model 2 then puts a great emphasis on the role of commercial finance for poverty reduction, as clear from the data that financing is able to cause a marked decline in poverty with its negative sign of the coefficient. Furthermore, when the commercial and social finance are integrated as in model 3, the finding demonstrates the same: an increase of 1 percentage point in the interaction between *zakāt*, Islamic financing and integrated Islamic finance such as BMTS causes a decrease of 0.843 percent in poverty. It indicates the superiority of the integrated model over the separated model.

As noted earlier by Ascarya,⁶⁶ the integrated finance model could benefit low-income families and those in need through consumptive and productive programs to stimulate consumption, distribute income more equitably, and at the same time through product distribution and encouragement of entrepreneurship. Hence, an Islamic bank that seems to focus on the business to gain more profit, through this model, can contribute substantially to combat income disparity. The stimulating idea of managing *zakāt* funds for socio-economic development is suggested also by Jennifer Bremer⁶⁷ in the case of Middle Eastern countries, notably Egypt, despite the debate among Muslim jurists (*‘ulamā*) regarding the possibility of *zakāt* to be distributed in such a scheme.⁶⁸

Through table 4, the study reported for long-run and short-run relationships in Panels A and B respectively. In the case of the short-run estimation model, we have included ECT which is simply the residual obtained from the long-run estimated model. In all estimations, we use Newey-West standard errors to control for autocorrelation in the residuals. Finally, *, **, and *** denote statistical significance at 1%, 5% and 10% levels respectively.

This study uses the ARDL lag order as stated in Table 3. Previously, this study has reported evidence of cointegration in the

⁶⁶ Ascarya, "Baitul Maal Wat Tamwil (Bmt): An Integrated Islamic Social And Commercial Financial Institution In Indonesia," 2017.

⁶⁷ Jennifer Bremer, "Zakat and Economic Justice, Emerging International Models and Their Relevance for Economic Growth," in *World Zakat Forum, WZF: New York*, 2014.

⁶⁸ Mek Wok Mahmud and Sayed Sikandar Shah, "The Use of Zakat Revenue in Islamic Financing: Jurisprudential Debate and Practical Feasibility," *Studies in Islam and the Middle East* 6, no. 1 (2009): 1-15.

model specification where POV is considered as the dependent variable with IPT, ICF, IPT*ICF, and GDP as explanatory variables. Therefore, now we have estimated the error correction model (ECM) within an ARDL framework. This study found that in the short run, there is evidence of the statistically significant relationship between Islamic philanthropy and poverty as socio-economic problems in Indonesia.

It also reveals that in the contemporaneous effect, one-lag of Islamic philanthropy, current of integrated of Islamic social and commercial finance and two-lag of integrated of Islamic social dan commercial finance have a statistically negative significant effect on poverty. On the other side, commercial finance has also a statistically negative significant effect on poverty.

In the pursuit of model consistency, it is necessary to undertake several sensitivity checks with different specifications though the model is still based on the baseline model. Table 4 below shows the results for long-run elasticities. We have used three estimators, namely FMOLS, DOLS, and CCR, in Cointegration Regression Estimation. Finally, * and ** denote statistical significance at 1% and 5% levels, respectively.

Table 5. Robustness Checks

Variables	FMOLS			DOLS			CCR		
	1 Coef. [Prob.]	2 Coef. [Prob.]	3 Coef. [Prob.]	1 Coef. [Prob.]	2 Coef. [Prob.]	3 Coef. [Prob.]	1 Coef. [Prob.]	2 Coef. [Prob.]	3 Coef. [Prob.]
IPT	-0.411 [0.023]**			-0.502 [0.015]**			-0.294 [0.038]**		
ICF		-0.819 [0.000]*			-0.732 [0.000]*			-0.657 [0.000]*	
GDP	0.299 [0.001]*	0.669 [0.000]*	0.568 [0.000]*	0.341 [0.000]*	0.615 [0.000]*	0.489 [0.000]*	0.242 [0.000]*	0.546 [0.000]*	0.440 [0.000]*
IPT*ICF			-0.403 [0.000]*			-0.327 [0.000]*			-0.307 [0.000]*

All specifications provided in Table 5 above are arranged systematically according to equation (2) which focuses solely on

Islamic philanthropy and mainly concerns the performance of Islamic financing and the integrated model with the interaction between social and commercial in equation (3). This confirms that the ARDL long-run elasticity coefficient is to be used in the formal analysis. Table 5 shows the estimation results as based on estimators include Fully-modified (FMOLS) and Dynamic OLS (DOLS) and Canonical Cointegration Regression (CCR) Models of the performance of Islamic philanthropy in addressing poverty in Indonesia respectively. The findings exhibit consistent coefficients as in the baseline model, indicating the role served by Islamic philanthropy in reducing poverty.

Conclusion

This study found that: (i) an increase in Islamic philanthropy will lead to a reduction in Indonesia's poverty number both in the short and long run; and (ii) when the Islamic commercial and social finance are integrated into a single model, poverty can be reduced more effectively. Therefore, it is highly crucial for several institutions encompassing regulatory authority, in this case, are Bank Indonesia and BAZNAS, to enact the regulation and pursue the collaborative endeavors. Encouragement for Islamic banks--which do not have *Baitul Māl* yet-- and any *zakāt* institution to establish *Baitul Māl* as mandated in Islamic Banking Act No. 21/2008 is also needed. Meanwhile, two interrelated limitations characterize this study. *First*, due to the unavailability of data, this study is constrained by a small sample period that restricts the analysis from using additional control variables. *Second*, future studies should consider alternative measures of poverty and Islamic philanthropy such as *waqf* whose data is still difficult to access. Given these limitations, this study should be treated as preliminary on which future studies may develop.

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