

Does Zakat Impact on Human Development Index? Empirical Evidence from Indonesia

Ega Rusanti, Annisa Sasri Anindya, Nikmatul Atiya, Tika Widiastuti
Faculty of Economics and Business, Universitas Airlangga, Surabaya, Indonesia

ABSTRACT

The Human Development Index (HDI) is critical for measuring a country's economic growth. This research aims to determine the impact of zakat distribution in five priority sectors, i.e., humanity, education, economy, health and religion, on Indonesia's HDI. The data consists of zakat distribution and HDI for the 2012-2022 period. Ordinary Least Square (OLS) regression is used to analyze the relationship between variables using the EViews 12 tool. The distribution of zakat in the education and humanitarian sectors has a positive and significant effect on increasing HDI in Indonesia. Meanwhile, no impact is found on the economic sector, health and religion. Implications are drawn for zakat institutions and the government to formulate policies and programs to optimize zakat funds consistently and strategically in vital sectors.

Keywords: Zakat, Distribution, Human Development Index, Sector Priority

INTRODUCTION

The quality of people's lives can be assessed through the human development index (HDI). This idea was formed by the United Nations (UN) which consists of three main factors, i.e., the level of education, health and welfare (Irwanda, 2022). Indonesia's HDI in 2022 experienced an increase of 0.86% to 72.91% whereas in the previous year, it only reached 72.29%. Throughout 2022, all provinces in Indonesia were at the maintained level of HDI (BPS, 2022). However, economic problems such as unemployment and poverty still occur. In addition, the existence of development inequality including education facilities, health and economic infrastructure is also a major problem that prevents Indonesia's HDI from increasing significantly (Koyimah et al., 2020; Saputra & Panorama, 2022).

HDI has a very essential function in encouraging economic growth, through HDI a country can be said to be prosperous

(Murniati & Beik, 2014). Hidayati et al., (2022) stated, to find out how good the quality of society is through HDI. Human development is the process of expanding the population's choices. If human development is accelerated, such as equalization in all fields to encourage increased economic growth. This can be seen through the achievement of productivity and employment opportunities (Arwani & Wahdati, 2020). However, in reality, the high poverty rate of 9.54% (BPS, 2022) is still a big homework for Indonesia in encouraging an increase in HDI. This is based on the fact that in general, those who are classified as poor people do not have broad access to various infrastructures that support the quality of human resources, e.g., higher education levels, proper health facilities, and broad employment opportunities.

In addressing these problems, Islam encourages equal distribution of income to improve community welfare through zakat, infaq and shadaqah. The distribution of social funds is not only used for

consumption but can also be channelled in the form of working capital to advance productivity (Putra & Widiastuti, 2020). The collection of social funds, especially zakat in Indonesia, has increased every year. Based on the National Zakat Agency Performance report in 2022, the collection of zakat reached Rp26 trillion, a sharp increase from the previous year, Rp21 trillion in 2021 (BAZNAS, 2022).

The distribution of zakat has been carried out in two forms, i.e., productive and consumptive, with the target recipients being people who are classified as 8 asnaf (those who are entitled to receive zakat), as mentioned in Al-Qur'an surah At-Taubah verse 60, below:

﴿ إِنَّمَا الصَّدَقَتُ لِلْفُقَرَاءِ وَالْمَسْكِينِ وَالْعَمِلِينَ عَلَيْهَا
وَالْمَوْلَاةِ قُلُوبُهُمْ وَفِي الرِّقَابِ وَالْغُرْمِينَ وَفِي سَبِيلِ اللَّهِ وَابْنِ
السَّبِيلِ فَرِيضَةً مِّنَ اللَّهِ وَاللَّهُ عَلِيمٌ حَكِيمٌ

“Verily, zakat is only for the poor, the amil zakat, those who are converted, for

(freeing) slaves, for (releasing) debtors, for the cause of Allah and for those who are on a journey (who need help), as an obligation from Allah. Allah is All-knowing, All-wise”

Based on the division of these groups, the main focus of the zakat distribution aims at underprivileged people. Therefore, BAZNAS as an official government institution that manages zakat nationally develops a zakat distribution plan that does not provide zakat funds without a clear structure and long-term goals.

BAZNAS has formulated the main sectors that are prioritized in the distribution of zakat. These sectors consist of the health sector, education sector, economic sector, humanitarian sector and religion sector. Through these sectors, it is expected to contribute more significantly to reducing poverty through the development of human resources.

Table 1. Zakat Distribution Based on Main Sectors (in thousand rupiah)

Sector	2022 (January-June)	2021	2020	2019	2018
Economics	57.990.281	53.986.971	27.836.295	32.136.420	38.115.051
Health	41.218.097	33.327.691	25.964.614	24.608.936	30.424.663
Humanities	192.111.710	216.238.610	152.937.462	82.558.628	58.691.558
Education	55.066.382	56.275.865	32.209.302	40.061.303	45.064.208
Religion	37.252.914	57.236.461	39.260.521	56.568.777	35.972.669
Total	383.639.384	417.065.601	278.208.196	235.934.067	208.268.151

Source: BAZNAS (2022)

Research on the effect of zakat distribution on priority sectors on the development of HDI in Indonesia is limited. Previous studies have focused on the distribution of zakat collectively, e.g., Candra et al. (2023) found the distribution of zakat simultaneously has a significant effect on human development with a positive direction of influence in the long run. This means that with every increase in

the amount of zakat distribution, the level of human development increases. Similarly, Mohamad Soleh Nurzaman (2020) discovered that zakat has an influence on increasing the consumption of the poor in Jakarta City but has no direct impact on HDI.

This study conducts a regression analysis to determine the effect of zakat distribution based on five specific fields on

the increase in the HDI in Indonesia in the 2012-2022 period. This is done considering the limited literacy on this topic. The novelty contributed is the data used by the authors, and thus, it is expected to be a reference for zakat management to be more focused on the main sectors and understand the extent of the zakat impact on Indonesia's HDI.

LITERATURE REVIEW

Human Development Index

The UN's Human Development Index (HDI) emerged in response to the shortcomings of using per capita income as a proxy for development. HDI is formed by three basic dimensions, i.e., long and healthy life; knowledge and a decent standard of living. For a long time, key macroeconomic indicators, such as Gross Domestic Product (GDP) per capita, have been used as a proxy for social, economic and human development. The search for alternative indicators began after many researchers revealed the shortcomings of GDP (Aydin, 2017). For example, GDP fails to capture goods and services produced for non-market purposes, excludes leisure variables that drive consumption levels to increase and does not consider income distribution or the depletion of scarce natural resources (Suriani et al., 2021).

The components of HDI include longevity as measured by average life expectancy, access to knowledge as measured by the percentage of literate adults and school enrollment obtained from the combined ratio of school enrollment from primary school to secondary school and above, and a decent standard of living as measured by per capita income in purchasing power parity (Hidayati et al., 2022). HDI is often associated with a country's economic growth. Irwanda (2022) found that economic growth has a

significant effect on HDI. Good economic growth can encourage the creation of public facility infrastructure that can encourage an increase in HDI in Indonesia. However, the results of this study are not in line with the results of Rahmadhani and Idris' research in Wardani & Al Arif (2021), concluding that economic growth has a negative and significant effect on human development. This means that if there is an increase in economic growth, it will have an impact on the decline in HDI.

Human development and economic growth are also driven by the success of social factors. Zakat is a philanthropy that plays a role because it has two main concepts, i.e., economic growth and profit-sharing mechanism in the economy. Zakat distribution has increased every year. From 2012 to 2022, the distribution of zakat increased by approximately Rp1.9 trillion each year, showing the considerable potential of zakat to contribute to the implementation of development. Wardani & Al Arif (2021) found that zakat has a positive effect on the HDI of *mustahik* (zakat recipients) because giving zakat to *mustahik* affects income levels. Likewise, the HDI of *mustahik* increased from 47 to 49 after the distribution of zakat.

Zakat: A Macroeconomic Perspective

Zakat is a religious instrument that helps individuals in society to help the needy and the poor. Although this instrument has great potential to promote poverty alleviation, it does not eliminate the government's obligation to create welfare. Zakat also does not replace the government spending component for welfare and the government budget for disaster management (Nurzaman, 2020). However, zakat alms are expected to meet the needs of life that can be transferred to more capable people, especially to close relatives and neighbors

of the individuals concerned (Nugraha, 2021).

ZIS funds can encourage economic growth as they increase the wheels of the economy. Rachmasari et al. (2018), Agus et al. (2020) and Usi et al. (2021) found that ZIS has a positive and significant impact on increasing economic growth. If the distribution of ZIS funds is high, it leads to an impact on increasing economic growth. High distribution balanced with superior quality human resources can increase community productivity because ZIS is not only channelled for consumption but also for working capital. Hence, the income and productivity of *mustahik* increase.

The relationship between HDI and zakat is insignificant in the existing scholarly works. Previous studies, e.g., Nurzaman (2018); Murniati & Beik (2020), discussed the impact of zakat productivity and efficiency on improving the welfare of zakat recipients (*mustahik*) by using welfare indicators, which are not only measured by economic indicators but also by education and health. The MPI value used is household level compared with regional and national average MPI values, further verifying the impact of zakat on MPI value and its components. The results of the MPI assessment showed an average score of 69.43. This score is still below the average of Jakarta CPI (77.36) and national (71.76). The production results of zakat recipients will also have an indirect impact on MPI through the regression method. However, interestingly, this zakat has an impact on changes in income distribution and consumption for production purposes.

Priority Sector Zakat Distribution and Human Development Index Improvement

In the effort of human development and poverty reduction, BAZNAS formulates five main areas that are prioritized for zakat distribution which have also been

determined in the Guidelines for the Implementation of the Distribution and Utilization of Zakat in the National Amil Zakat Agency.

The first field is economics, which is the provision of zakat funds distributed for productive means, i.e., capital providers of marginalized entrepreneurs, among others. Second is education, in which BAZNAS provides school renovation assistance, tahfidz scholarships and college scholarships. Third is the health sector, in which BAZNAS distributes zakat funds to meet the needs of the community for adequate health facilities. Fourth is the advocacy of *da'wah*, in which zakat distribution is generally given in the form of Islamic training, construction of houses of worship and intensive preaching. The last is the humanitarian sector, in which zakat is distributed for disaster relief, accidents, victims of abuse and victims of other humanitarian tragedies.

These five priorities of zakat distribution have a direct link to the HDI indicator. For example, in education and *da'wah*, this encourages an increase in the level of community education, not only in basic education but also in higher education. This also reduces the illiteracy rate that is experienced by the poor. Similarly, health and humanitarian sectors assist the community to improve their quality of life. When they can get good health services and facilities, this encourages an increase in life expectancy. In the economic field, it also influences *mustahik* productivity, especially in the distribution of zakat funds productively with good supervision from BAZNAS. This scheme helps the *mustahiks* to improve the welfare of their families and at the same time, they can be released from the state of poverty.

Drawing upon the existing theories, the authors formulate the hypotheses as follows:

H₁: Zakat distribution for the religious sector has a significant positive effect on increasing HDI

H₂: The distribution of zakat for the economic sector has a significant positive effect on increasing HDI

H₃: Zakat distribution for the humanitarian sector has a significant positive effect on improving HDI

H₄: Zakat distribution for the health sector has a significant positive effect on increasing HDI

H₅: Zakat distribution for education has a significant positive effect on increasing HDI

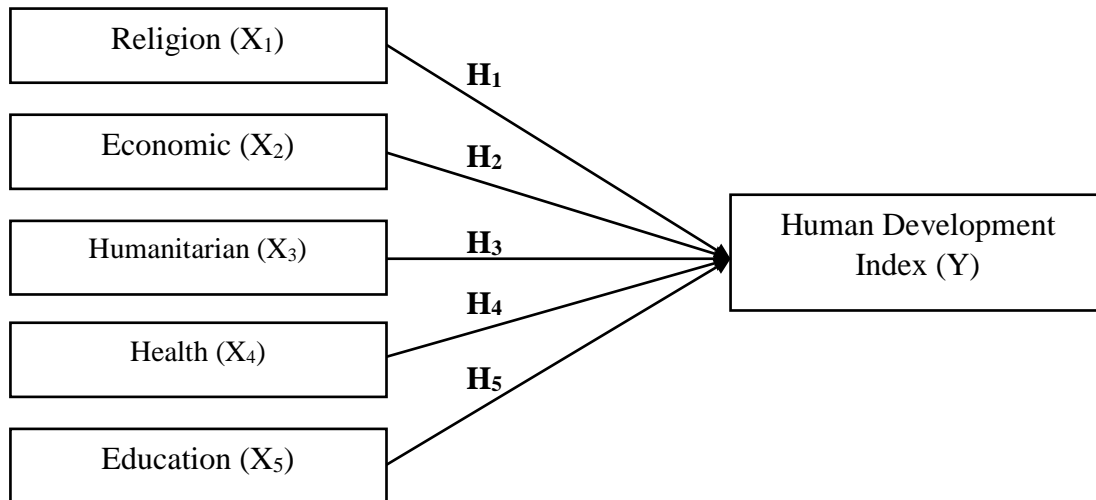


Figure 1. Research Framework
Source: Authors (2023)

METHODOLOGY

This study uses a quantitative associative method, aiming to understand the relationship between two or more variables (Sugiyono, 2019). Secondary data is used, i.e., quarterly time series data for the last five years (2012-2022). In this study, the authors set the zakat variable as the independent variable (X), but the author describes this variable in four new variables according to the division of the priority areas of zakat distribution, i.e., religion (X1), economy (X2), humanity (X3), health (X4) and education (X5). The zakat distribution data in the five main areas is obtained from monthly data on the website of the National Amil Zakat Agency (BAZNAS). HDI (Y), as an independent variable, the data is obtained from the

quarterly publication of the Central Statistics Agency (BPS).

The data analysis technique used is multiple regression analysis using EViews 12 to determine the equation and the impact of the priority areas of zakat distribution on the HDI both in the short and in the long term.

The equation in this study is expressed in the formula below:

$$Y_t = \alpha + \beta_1 X_t + \beta_2 X_{t-1} + \beta_3 X_{t-2} + \beta_4 X_{t-3} + \beta_5 X_{t-4} + \epsilon_t \tag{1}$$

$$HDI_t = \alpha + \beta_1 Reg_t + \beta_2 Eco_{t-1} + \beta_3 Hum_{t-2} + \beta_4 Hlt_{t-3} + \beta_5 Edu_{t-4} + \epsilon_t \tag{2}$$

Description:

- α = Intercepts
- β = Slope
- IPM = Human Development Index
- Reg = Religion

Eco = Economic

Hum = Humanitarian

Hlt = Health

Edu = Education

ε = Error

RESULT

Descriptive Statistics

The results of statistical data processing carried out on zakat distribution data per

sector from 2012-2022, which includes 44 observations, show that the mean value of HDI (Y) is 4.24, Religion (X1) 19.4, Economy (X2) 21.19, Humanity (X3) 22.97, Health (X4) 21.83, and Education (X5) 21.69. Meanwhile, the distribution of zakat in the religious sector (X1) has the highest standard deviation, i.e., 6.27.

Table 2. Descriptive Statistics

	HDI	Religion	Economic	Humanitarian	Health	Education
Mean	4.249091	19.40591	21.19818	22.97205	21.83045	21.69614
Median	4.250000	21.52000	21.49500	22.89500	21.83000	21.80500
Maximum	4.280000	24.11000	23.94000	25.22000	23.76000	24.01000
Minimum	4.200000	0.000000	13.45000	21.27000	19.55000	18.48000
Std. Dev.	0.026132	6.271269	1.719328	1.042581	0.879035	1.159120
Skewness	-0.303055	-2.445356	-2.012737	0.339460	-0.339894	-0.541917
Kurtosis	1.808454	7.749009	10.51818	2.064715	3.862112	3.115084
Jarque-Bera	3.276444	85.19894	133.3337	2.448765	2.209807	2.177890
Probability	0.194325	0.000000	0.000000	0.293939	0.331243	0.336571
Sum	186.9600	853.8600	932.7200	1010.770	960.5400	954.6300
Sum Sq. Dev.	0.029364	1691.139	127.1119	46.73992	33.22619	57.77304
Observations	44	44	44	44	44	44

Source: EViews V.12 (2023)

Normality test

The normality test is used in this research to determine whether the residual values are normally distributed. The research results

are said to pass the normality test if the probability value is more than >0.05 . The probability of this research's normality test is 0.198. Hence, the normality test is passed.

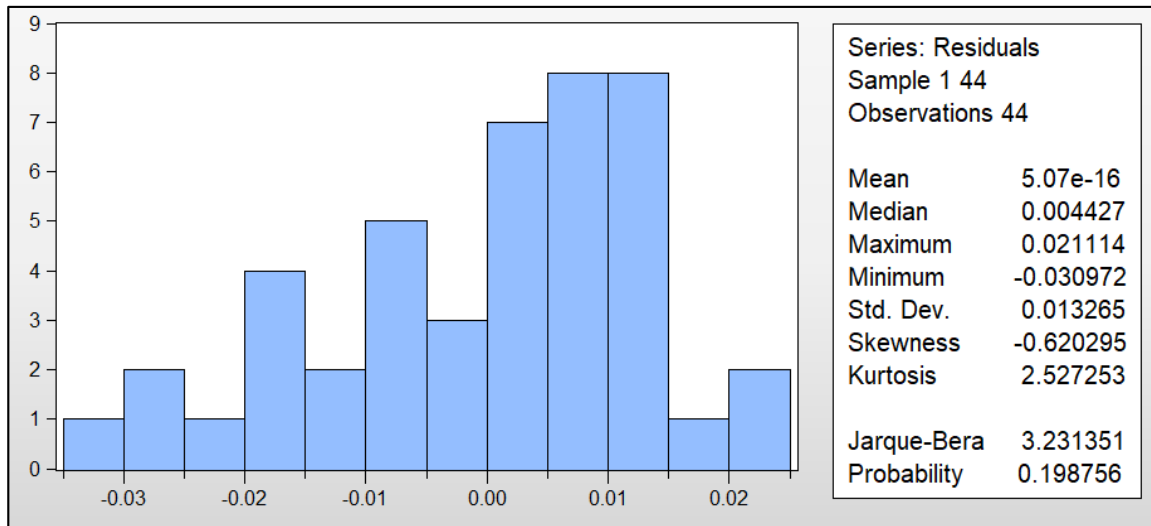


Figure 2. Autocorrelation Test Result
Source: Eviews V.12 (2023)

Multicollinearity Test

The multicollinearity test is used to determine whether there is a linear relationship between independent variables. One way to find out if a

multicollinearity issue occurs is to look at the VIF value. If the VIF value is >10, then it occurs. The test shows that the VIF value of each independent variable is >10. Thus, the multicollinearity does not occur.

Table 3. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
Religion	1.40E-07	1.287.177	1.192.042
Economic	2.34E-06	2.338.525	1.493.809
Humanitarian	8.14E-06	9.513.597	1.911.205
Health	7.01E-06	7.392.111	1.169.454
Education	6.56E-06	6.841.486	1.903.042
C	0.006077	1.342.886	NA

Source: EViews V.12 (2023)

Heteroscedasticity Test

The heteroscedasticity aims to test an inequality of variance from the residuals of one observation to another that occurs in the regression model. The test is determined

through the white test with the prob. chi-square value should be >0.05. The test results in a probability value of 0.98. Thus, no heteroscedasticity was found in this research.

Table 4. Heteroscedasticity Test Result

Heteroskedasticity Test: White

Null hypothesis: Homoskedasticity

F-statistic	0.624969	Prob. F(20,23)	0.8540
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Obs*R-squared	15.49245	Prob. Chi-Square(20)	0.7476
Scaled explained SS	8.823951	Prob. Chi-Square(20)	0.9849

Source: EViews V.12 (2023)

Autocorrelation Test

The autocorrelation test aims to show the correlation of observation members ordered by time or space. This research uses the

Breusch-Godfrey Serial Correlation LM Test where the results of the prob. Chi square must be >0.05 . The results of the prob. Chi square is 0.06. Hence, no autocorrelation was found.

Table 5. Autocorrelation Test Result

Breusch-Godfrey Serial Correlation LM Test:

Null hypothesis: No serial correlation at up to 7 lags

F-statistic	1.992780	Prob. F(7,31)	0.0882
Obs*R-squared	13.65481	Prob. Chi-Square(7)	0.0577

Source: EViews V.12 (2023)

The model chosen for this study satisfies the requirements of the classical assumptions, according to the results of the tests for heteroscedasticity, multicollinearity, and normality that make up the classical assumption test.

Regression Result

This research divides the distribution of zakat per sector, i.e., religious, economic, humanitarian, health and education sectors, to test its effect on the HDI. Table 6 provides the results of the regression test.

Table 6. Regression Result Test

Dependent Variable: IPM

Sample: 144

Included observations: 44

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Religion	0.000217	0.000375	0.578105	0.5666
Economic	0.001564	0.001530	1.022287	0.3131
Humanitarian	0.013197	0.002853	4.625055	0.0000
Health	0.000236	0.002647	0.089110	0.9295
Education	0.011470	0.002561	4.478674	0.0001
C	3.729277	0.077955	47.83896	0.0000
R-squared	0.742324	Mean dependent var		4.249091
Adjusted R-squared	0.708420	S.D. dependent var		0.026132
S.E. of regression	0.014111	Akaike info criterion		-5.557638
Sum squared resid	0.007566	Schwarz criterion		-5.314339
Log likelihood	128.2680	Hannan-Quinn criter.		-5.467411

F-statistic	21.89445	Durbin-Watson stat	1.276462
Prob(F-statistic)	0.000000		

Source: Eviews V.12 (2023)

$$\begin{aligned} \text{HDI} = & 0.000216577106362 * \text{Religion} + \\ & 0.00156378537031 * \text{Economic} + \\ & 0.0131970343281 * \text{Humanitarian} + \\ & 0.000235898966353 * \text{Health} + \\ & 0.0114699306226 * \text{Education} + \\ & 3.72927735835 \end{aligned} \quad (3)$$

It is evident that only the distribution of zakat in the humanitarian (X3) and education (X5) sectors significantly impacts HDI. As in Table 6, every increase in zakat distribution in the humanitarian sector will increase HDI by 1.3%. Similarly, increasing zakat distribution in the education sector will increase HDI by 1.1%. This means that the greater the distribution of zakat in these two sectors will increase the HDI.

Meanwhile, the distribution of zakat in the religion (X1), economic (X2) and health (X4) sectors did not find a significant influence. It is interesting to analyze why the economic and health sectors, which are closely related to the HDI dimensions, do not show a significant influence. These results are consistent with Widiastuti et al. (2022), which robustly show that zakat influences HDI in OIC countries and Hasbi et al. (2023) who analyzed the positive influence of zakat on HDI in 34 provinces in Indonesia.

Discussion

Zakat distribution in the humanitarian sector has a significant impact on HDI. Pusat Kajian Strategis - Badan Amil Zakat Nasional (2022) explained that such distribution for humanitarian aims to improve the quality of life, e.g., disaster response programs, and disability care, among others. The distribution of this

program meets the basic dimensions of HDI, i.e., decent living standards. Thus, it makes sense that such distribution for the humanitarian sector impacts HDI.

The distribution of zakat for the education sector significantly increases HDI with a coefficient of 1.1%. This finding is relevant to Adewale & Zubaedy (2019), stating that zakat is an important instrument in improving the quality of education through the provision of funds for educational facilities. Abdelmawla (2014) found that zakat and educational attainment have a 1% greater influence on people's decent lives. This means that zakat distributed in the education sector is important to improve the quality of human resources. The more zakat distributed for the education sector, the more increase the HDI.

Pusat Kajian Strategis - Badan Amil Zakat Nasional (2022) mentioned the recent practices of such distribution for education, e.g., zakat scholarship programs, scholarship for pupils and research grants. Statistics Indonesia (2022) recorded that the average length of schooling for people aged 15 years and above is only 9.08 years. This means that most Indonesians have only completed the primary school. Specifically, only 22.56% have completed junior high school, 29.97% have completed high school, only 10.15% have completed college, and the rest have only completed elementary school. Hence, zakat distribution for the education sector is strategically important to facilitate inclusive and quality education.

The distribution of zakat for religious, economic and health sectors has no impact on HDI. This might be due to several reasons. Pusat Kajian Strategis -

Badan Amil Zakat Nasional (2022) stated such distribution for the religious sector is for the construction or renovation of worship places, e.g., mosques, which has nothing to do with the HDI dimensions. Furthermore, such distribution for the economic sector has no impact on HDI might be explained by the dominance of consumptive zakat distribution, which does not have a long-term effect. The HDI is measured based on the dimensions of a decent living standard, and such zakat distributed for consumptive purposes is less effective in achieving such a decent living standard. Hence, it does not contribute to the HDI.

The productive zakat distribution is deemed critical to HDI. Such distribution is limited to providing business capital and basic training that has yet to open up market access for zakat recipients massively. Mahmud et al. (2014) found that zakat fails to have a significant impact on its recipients due to a lack of monitoring and limited training facilities. Similarly, Saripudin et al. (2020) discovered that zakat fails to improve the welfare of society because of the limited funds distributed. These facts are true considering the realization of zakat funds, which only reached 6.84% in 2022 according to Pusat Kajian Strategis - Badan Amil Zakat Nasional (2022). Athoillah (2018) claimed that zakat is mostly distributed in consumptive form, so it does not provide long-term benefits for society.

The distribution of zakat in the health sector does not affect HDI. These findings contradict Mohammed Idris et al. (2022), who found zakat positively impacts HDI. The proportion of zakat distribution for the health sector has the smallest percentage of 6.03% in 2021, decreased from 2020 (14.12%) (Pusat Kajian Strategis - Badan Amil Zakat Nasional, 2022). The need to increase the amount of zakat distributed to the health sector is deemed

critical to improving the quality of human resources.

In the health sector, zakat is distributed through the provision of health facilities. The zakat distribution data of 2021 indicates that zakat institutions continue to prioritize the religious and humanitarian sectors, with 18.88% and 49.58%, respectively (Pusat Kajian Strategis - Badan Amil Zakat Nasional, 2022). The same pattern happened in 2020 when the religious and humanitarian sectors were the most prioritized. In fact, due to Covid-19, the health sector should be a major concern in 2020–2021. Thus, a business review is practical to prioritize the critical sectors for zakat distribution.

CONCLUSION

Zakat core business activities, e.g., distribution, in Indonesia's zakat administration have been practised for consumptive and productive purposes. Such scheme is categorized into five sectors, i.e., economics, health, humanity, education, and religion, all of which are related to HDI measurements. This study has tested the impacts of such zakat distribution on Indonesia's HDI.

Our empirical results via Ordinary Least Square show that only zakat distribution for humanitarian and education sectors impacts HDI, and no evidence is found from such distribution for religion, health, and economic sectors. This finding draws practical implications for zakat stakeholders. That is, the optimization of zakat collection and revisiting the prioritized sectors for zakat distribution are advisable.

The limitation is claimed in our findings. This study employed a basic regression model. A robustness test is anticipated to be possible in the future investigation. Other variables are deemed critical for future studies, e.g., life

expectancy or mortality rates, as well as population, poverty, and unemployment rates. More recent data also can be used in future studies to uncover the actual conditions.

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Ega Rusanti

Universitas Airlangga

Annisa Sasri Anindya

Universitas Airlangga

Nikmatul Atiya

Universitas Airlangga

Tika Widiastuti

Universitas Airlangga