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THE PROGRESS OF SHARI'AH IMPLEMENTATION IN ZAKAH MANAGEMENT & THE ACTUAL PROCEEDS: MALAYSIA AS A CASE STUDY WITH ARDL METHOD & CORRELATION ANALYSIS

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ABSTRACT

This paper analyzes the Malaysian Zakah/Zakat Management, which is related to law and its actual proceeds.Despite numerous efforts being made in many OIC Muslim countries and technological breakthroughs, Zakah is still unable to tackle poverty eradication. This study shows the progress of Zakah by one of the OIC Muslim countries, Malaysia. Malaysia's Zakah actual proceeds are a far cry from a total Muslim population; in fact, approximately 60% of Malaysians are Muslim. Although enjoying tremendous economic growth, Zakah's potential contribution in Malaysia indicates a gap within the country's GDP. These failures may relate to Zakah institutions in each state that do not fully adhere to general Islamic law or not following the fatwa of the Shafi' sect that Zakah is obligatory. The explanation is that, since the country is home to many races and religions, Zakah is exempted from contribution. A prove that the fatwa affects the Zakah's collection, the data would be computed to estimate the proceeds by statistical tools, namely; descriptive, correlation, regression, and the ARDL approach to co-integration testing.This study examines a collection of data between 1991 to 2019 related to economic growth in Malaysia, for instance, Zakah's collection, GDP, interest, inflation, taxes, and unemployment in the country. This paper encourages policymakers to review the decision taken by National Council Fatwa Committee to adhere to the proper fatwa by Shafi's sect and to create effective infrastructure policies.

Keywords

Zakah, Fatwa, Actual Proceeds, GDP, Interest, Inflation, Unemployment, Tax Revenue, ARDL, Correlation & Cointegration

ZEKÂT YÖNETİMİNDE ŞERİAT UYGULAMASINDAKİ GELİŞME VE GERÇEK İLERLEME: ARDL YÖNTEMİ VE KORELASYON ANALİZİ İLE BİR VAKA ÇALIŞMASI OLARAK MALEZYA

ÖZ

Bu makale, hukuki ve fiili ilerlemeleri ile ilgili olan Malezya Zekat Yönetimini analiz etmektedir. Birçok İİT Müslüman ülkesinde gösterilen sayısız çabaya ve teknolojik atılımlara rağmen, Zekat hala yoksulluğun ortadan kaldırılmasıyla mücadele edemiyor. Bu çalışma, İİT Müslüman ülkelerinden biri olan Malezya'nın Zekat konusundaki ilerlemesini göstermektedir. Malezya'nın gerçek Zekat gelirleri, toplam Müslüman nüfustan çok uzak; aslında, Malezyalıların yaklaşık %60'ı Müslümandır. Muazzam bir ekonomik büyümenin keyfini çıkarmasına rağmen, Zekat'ın Malezya'daki potansiyel katkısı, ülkenin GSYİH'si içinde bir boşluğa işaret ediyor. Bu başarısızlıklar, her devletteki genel İslam hukukuna tam olarak uymayan veya Zekat'ın zorunlu olduğuna dair Şafi mezhebinin fetvasını takip etmeyen Zekat kurumlarıyla ilgili olabilir. Ülke, birçok ırk ve dine ev sahipliği yaptığı için Zekat'ın bağıştan muaf olduğu ile açıklanmaktadır. Fetvanın Zekat tahsilatını etkilediğinin bir kanıtı olarak, veriler istatistiksel araçlarla tanımlayıcı, korelasyon, regresyon ve eş bütünleşme testine ARDL yaklaşımı ile gelirleri tahmin etmek için hesaplanacaktır. Bu çalışma, Malezya'daki ekonomik büyüme ile ilgili olarak 1991 ile 2019 yılları arasındaki bir veri koleksiyonunu, örneğin ülkedeki Zekat'ın tahsilatı, GSYİH, faiz, enflasyon, vergiler ve işsizlik verilerini incelemektedir. Bu makale, politika yapıcıları Şafi mezhebinin uygun fetvasına uymak ve özellikle etkin altyapı politikaları oluşturmak için Ulusal Konsey Fetva Komitesi tarafından alınan kararı gözden geçirmeye teşvik etmektedir.

Anahtar Kelimeler

Zekât, fetva, fiili gelir, GSYİH, faiz, enflasyon, işsizlik, vergi geliri, ARDL, Korelasyon ve Eş bütünleşme

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1. INTRODUCTION

The New Economic Policy (NEP) was developed by the 2nd Prime Minister of Malaysia, Tun Razak, on poverty alleviation and ethnic restructuring in 1971. Malaysia has rich and varied natural resources in which have been used for social purposes and invests productively. There was a vast public sector creation in the 1970s, partly through privatization and increased private investment in the late 1980s. Malaysia follows a more familiar path between developing countries by expanding its public sector, forming many public enterprises, and eventually develop technology industries. During his time, Tun Razak emphasized Islamic civilization to the community by encouraging Malaysians to further their studies in Egypt and Saudi Arabia and initiating Islamization through Islamic financial institutions.

His vision was officiated by the 4th Prime Minister Tun Mahathir through various initiatives in the 1980s. Graduates from the Middle East contributed a lot by intensifying various agencies that help Muslims in Malaysia, such as Pilgrimage Hajj Institution in 1963 (Tabung Haji), Islamic banking in 1983 (Bank Islam), Takaful in 1984 (Takaful Malaysia), and Zakah institutions (Pusat Pungutan Zakat,1991). Zakah is one of the pillars of Islam, which has been made obligatory by God to the believers who can indirectly eradicate poverty. In order to ensure the successful growth of Zakah, Sheikh Yusuf Al-Qardawi, OIC, and Fiqh Academy contributed several ideas. (Abdullahi, S.I ,2018). Some experts claim that Zakah is a fiscal policy instrument and an operational mechanism within the context of the Islamic economy. (Faridi F. R., 1983). Zakah is a payment channel for redistributing wealth and income in society from the rich to the underprivileged.(Kahf, Monzer,1989). Therefore, many Muslim countries use the systems adopted in the world's economy to distribute Zakah.

Malaysia, as an example country, provides each state to collect the zakat funds. (Abdul Rahman A.R . ,2007). The government encourages Muslim employees to pay Zakah, which can be deducted through salary income instead of only paying a tax. It is generally acknowledged that the Malaysian Zakah system has developed since the country provided a system to collect and redistribute through Zakah institutions based in each state. However, Zakah is still unable to address poverty eradication. This is due to the institution's principle of the country itself that did not make an appropriate obligation and policy, including Malaysia who follows the Shafi' sect. (Othman, A & Noor, A. H.

M.,2012). Besides, statistics in the specific PPZ website, for instance, Perlis state does not show an increase in Zakah's collection, and the activities of the distribution were not showing their integrated report as certain states do disclose their activities.

Several analytical techniques are used to ensure the accuracy of previous literature through numerical analysis. This study uses time series to analyze and understand the determining factors and structure behind the observed data; GDP, Tax Revenue, Zakah collection, unemployment rate, inflation rate, and interest rate. The 8 steps of theoretical analysis include the method of residuals. (Engle, R. F. & C. W. J. Granger.,1987). and ordinary least square technique (OLS). (Phillips, P.C.B., and B. E. Hansen., 1990). However, the analysis was later modified with the ordinary least square procedure by Johansen. (Johansen, S. 1988) and Juselius. (Johansen, S. and K. Juselius.,1990). The autoregressive distributed lag process ARDL (Pesaran, M. Hashem, and Yongcheol S., 1999). is the famous method that eventually has been further expanded due to better methods. (Pesaran, M. Hashem.,2007). ARDL technique is a flexible and exemplary method for less than 30 observations and tolerates different lags in different variables.

Significance of the study

The Zakah system is a unique scheme that provides interest-free financial support for the community. In addition, it also contributes to the government tax system by increasing the level of employment rate, productivity, and output. (M. Kabir Hassan & J. Masrur Khan, 2007). Although the Malaysian government wants to reduce poverty and unemployment, the government has never considered Zakah a national poverty reduction strategy. For this reason, this study emphasizes the need for Zakah‘s collection by estimating the revenue of Malaysian Zakah with a proposal to reconsider Zakah as the poverty reduction program. Furthermore, this paper illustrates how the actual revenue of Zakah and religious, social activities are related. One of the benefits of this study is that academicians and practitioners can use the findings of this study to understand the problems, predict financial and economic patterns, and plan suitable structures to solve economic problems by Sharia'. In addition, these findings can serve as a basic guideline on how exactly Zakah revenue should be collected and a way to promote Zakah. It also provides additional literature that can be used for further discussion.

This study shows in brief that Malaysia's Zakah actual proceeds have a gap with the total GDP when the tax revenue is higher than Zakah. Therefore, a theoretical analysis

is vital to estimate the data, including other observation samples. However, as the data sample indicates a few observations, the analysis is turned to the ARDL method because it could not yield a VAR outcome. Moreover, the ARDL method provides valid t-statistics, regardless of its endogeneity. (Harris, Richard, and R.Sollis., 2003). ARDL is a flexible method that integrates the observations through the error correctionmechanism (ECM) using the long-run equilibrium. Besides, it can compute less observation and allows the addition of dummy variables. (Marques, L. Miguel, J. A. Fuinhas, & A. C. Marques., 2019). and offers simple procedures. (Haug, Alfred A., 2002).

Objectives of the Study

The aim of the study is stated below:

a) To identify public awareness by the progress of Shari'ah implementation in the management, including the fatwa in Malaysia.
b) To estimate Zakah's actual proceeds of Malaysia from the ARDL method, Regressor, and
   Correlation approach by computing the data of GDP, Zakah, Tax revenue, Unemployment, Interest, and Inflation.
c) To investigate the impact by looking at the correlation between variables and causality of
   Zakah and economic growth

The remainder of the paper is organized as follows. Section 2 describes the overview of Malaysia's economy by providing the current view related to 6 variables, especially Zakah. The literature on economic growth related to Zakah's fatwa and its contribution to poverty is in Section 3. Statistical tools, for instance, descriptive, correlation, and ARDL analysis, are explained in the subsection in detail. The calculation of data and methods of Zakah proceeds and other variables and statistical analytical by Descriptive, Regressor, Correlation, and ARDL is explained in section 4. Section 5 illustrates the result of Zakah's computation. Finally, section 6 concludes.

2. METHODOLOGY

The study is based on descriptive literature about Zakah fatwa and quantitative analysis for actual proceeds with an objective of the research to investigate the effect of the fatwa on economic growth in Malaysia, especially Zakah. Along with the estimation, it investigates the correlation of the calculated Zakah with Tax Revenue. The first part of the methodology calculates the Zakah proceeds by using methods of Zakah estimation. Then, however, Statistical tools, such as Descriptive, Correlation, and ARDL analysis, are explained in a subsection. Stationarity, co-integration, and causality are the steps in the ARDL procedure.

3. LITERATURE REVIEW

Overview of Zakah and Economy in Malaysia

Since its people have different faiths and races, Malaysia is a nation that values peace by always tolerating one another. Malaysians have the freedom to choose as long as they do not put the country at risk. Taxation has always been one of the country's most important production mechanisms. In the economic sector, the direction of both Zakah and taxation is essential for economic growth. According to Shaikh (2017), consistent with Zakah's collection, can generate better than tax revenue, encourages investment, and even the redistribution of Zakah can ensure an unbalanced distribution of resources. Zakah and taxation are distinct terms since the imposition of Zakah should be equally obligatory as tax, but it is leading many to become ignorant. (Mansor, N.A. Fatzel, F.H.M Shamsudin, S.M & Anwar, I. S. K., 2018). People decided not to pay Zakah when there is an absence of efficiency of the Zakah institution would cause the public to lose their confidence in the system and institution of Zakah.

Concept of Zakah & the fatwa (Shafi' sect).

The Shafi' sect followers migrate to Asia is related to the Islamization of Malacca, the Malay kingdom. A preacher named Sayyid Abdul Aziz came from the Arabian Peninsula, which was an Islamic territory, under the influence of the Shafi sect. (Abdullah Ishak., 1992). The arrival of Islam in the archipelago, including Malaysia, or known as Malaya, can be seen in the Shafi sect's legislation as one of the most dominant related to

fiqh in Asia. (John Crawfurd ,1877)..Therefore, to adopt any sect other than Shafi', the Malaysian government put into consideration of public interest. Furthermore, Shafi' sect's position in Malaysia is further strengthened through allocation law through the state enactments. For example, the Law Administration Act Islam (Federal Territories) 1993 provides in Section 39:

1) The Mufti always refers to the Shafi sect in issuing a fatwa under section 34 or confirming an opinion under section 38, 2) If the Mufti final qaul shows not aligned with the public interest, the Mufti may follow the final qaul of another sect, for instance, Hanbali, Maliki & Hanafi. 3) If the Mufti does not have a single final qaul that can follow the four sects, he can resolve an issue without being bound by qaul from any of the four sects as long as he considers its public interest. It means the Zakah is not following Shafi's sect but an assumption of public interest. The collection of Zakah and Tax revenue affect the national income to eradicate poverty. It is due to the nature of each has a different law. Essentially, tax is legally binding, while there is a law that the government could use to enforce the payment of Zakah, but that is not the case in Malaysia. In addition, the Ministry of Religious Affairs has adopted the Council National for Islamic Affairs to spread beliefs other than the Shafi' sect to curb the ideology that can confuse a society that is not prone to different sects. This proposal was approved by the Conference of Rulers 133 (special) on 3 December 1984. (L. H. Abdullah & et. al,2002). However, in the context of Zakah is not consider mandatory even though encourages by Shafi' sect, but the country considers the enactment stated that the most important is the public interest.

Historical Aspect of Zakah in Malaysia

In Malaysia, the administration of Zakah called State Islamic Religious Counters (SIRCs) or Pusat Pungutan Zakat (PPZ) in the Malay language has been established since 1991. Malaysia has 14 states, means each of them have their own SIRC (Selangor, Negeri Sembilan, Malacca, Johor, Pahang, Kelantan, Terengganu, Kedah, Penang, Perlis, Perak, Sabah & Sarawak) and one for the federal territory which is under the authority of state government or known as Wilayah Persekutuan. As a result, the total of Zakah's collection has gradually increased. It might be due to the steady economic growth and online paying method that increase the efficiency level for zakat management and zakat payers. (H. W. S. Ahmad & R. A.Kader,2008). The Zakah institution in Malaysia offering services to

manage some schemes known as Business in Zakat, Share by Charity, Employee Provident Fund Zakah (EPF), Personal Zakah Income-tax, Savings-in-Charge Gold-Charge, and Qadha Zakat.

State Islamic Religious Counters (SIRC) Malaysia

Source: Jawhar

Malaysian economy

Malaysia is a multiracial country that values harmony by always being tolerant of each other. Despite having various religions and races, the people are given the freedom to choose if it does not harm the country. The direction in the economic sector, both Zakah and tax, are necessary for economic growth. Tax imposition contains several objectives to ensure the possibility of reducing income inequality, consumption, and labor redistribution. According to OECD (2014), taxation has always been one of the most critical revenue-generating mechanisms for governing a nation.

An efficient taxation system is capable of ensuring (i) the delivery of necessities as services in the country, (ii) economic growth, (iii) equity in income or wealth distribution, and (iv) equilibrium in the economy. Therefore, obtaining tax revenue is very important for economic development. However, this tax does not meet the assistance of Muslims who care about halal resources. With an estimated 60% of the Muslim population, Malaysians should be more concerned about paying Zakah than taxes. The comparison of the tax and collection of Zakah is in the next section, which demonstrates the

responsibility to give fatwa in Zakah, causing Muslims in Malaysia not to know the impact on other Muslims in need.

Role of Zakah in Riba Elimination in Malaysia

The practice of interest is still well known in Malaysia, despite being colonized by the British 63 years ago and the majority of the population professes Islam; surprisingly, Muslims still accept it despite knowing its effects in this world and the hereafter. It may be due to pressure from multiple needs to finance the cost of living.

Interest is an important instrument that has been used in the capitalist economic system, where the poor become poorer, and the rich get richer. However, in Islam, this instrument is strictly forbidden. In this case, Islam offers various alternatives to replace the concept. Indeed, Zakah is one of the important institutions in Islam mentioned in Surah al-Rum, (30:39). It means Zakah can be considered as one of the dynamic economic institutions in society.

As with other legislation, Zakah can influence both the micro and macro levels of society. At the micro-level, practicing Zakah has indicated that there is no need for a loan to survive, and eventually, it will help improve the economic situation. In addition, it would be a gradual reduction of the practice of usury and even a decline of the practice of borrowing with foreign countries. However, without obligation imposed on Zakah, people are not aware of its importance. They may assume the consideration of paying Zakah is by Shafi's sect.

National Council Fatwa Committee

Sultan is the highest authority for the religious council, including the operation of the Zakah institution. As the Law Administration Act Islam (Federal Territories) discussed above, the act in Islam must be based on public interest. In this case, Zakah is not compulsory unless it is necessary to get permission from the Sultan. According to Ahmad Hidayat Buang (2004), the Regional Fatwa Committee Federation, strengthen it with several rulings as follows:

1) All fatwas must be based on the Shafi' sect. If any sects are needed, the Mufti need to explain and get permission from the Yang Di Pertuan Agong (The Sultan).

2) Muslims are free to follow any other sects, but they should not blame those who follow Shafi' sect.

3) Other sects cannot be taught or lectured openly in public but can be taught on lesson occasions.

4) It is an offense to teach other sects other than the Shafi' sect openly.

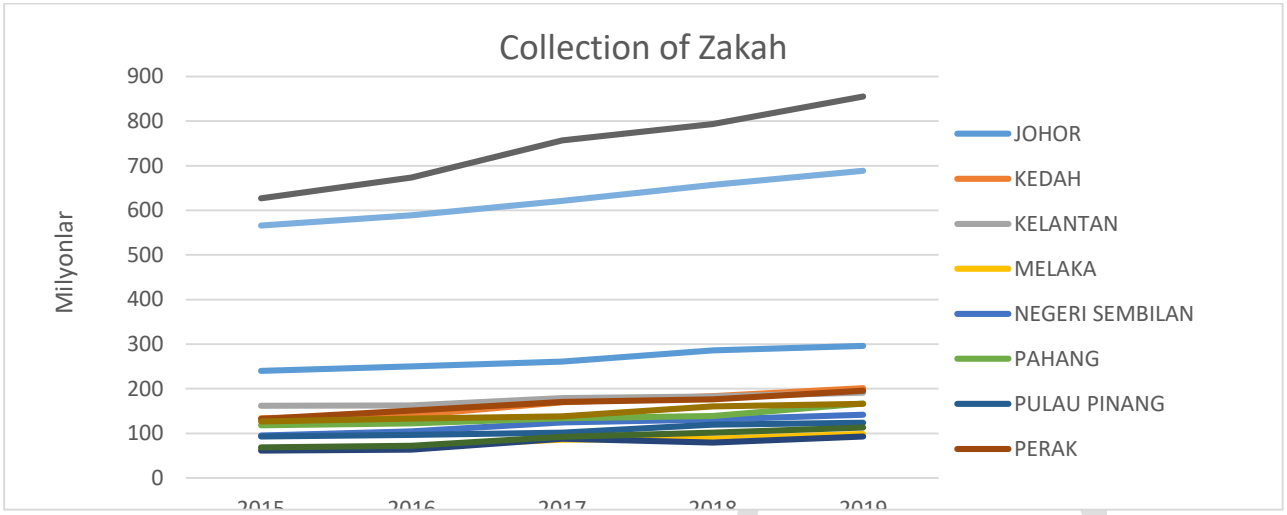
5) If the fatwa has been issued based on the Shafi ' school, then no one can dispute it by using arguments of other sects.

Collection of Zakah in Malaysia

The Zakah Collection Institution or Pusat Pungutan Zakat (PPZ) manages both collection and distribution. The Zakah institution showed its professionalism that extends the benefits to Muslims). The Zakah rate is 2.5 percent only, but depending on business results, the income tax ranges from 5 percent to 45 percent. (Migdad, A. R., 2019). There are online services with clear information to support the payment of Zakah. As the illustration from the line graph below, the collection of Zakah is related to the area of states. There are 3 big cities shown as the highest collection, namely Selangor due to has a significant population than the rest of the state, Johor state which is a shipping port area, and Wilayah Persekutuan (Putrajaya and Kuala Lumpur) as the central city and administration area.

It means the collection of Zakah depends on the people's income. It can be hypothesized that Malaysian people who live with high income have no issue contributing Zakah compared to some rural areas. However, the Perlis state rarely discloses its collection and distribution. Besides, each website of PPZ shown that they have activities that are not similar to one another. Most of the PPZ states do not show the progress of their project from year to year. It seems they change the program and do not intend to disclose the result after years. According to Abdullahi (2018), the lack of efficiency of the Zakah institution will cause the public to lose their trust in the system of Zakah.

Collection of Zakat in Malaysia



Source: JAWHAR

Federal Government Revenue 2018-2020.

	2018	2019[1]	2020[2]	2018	(%) 2019[1]	2020[2]
Tax revenue	174,060	180,566	189,951	74.7	68.3	77.7
Direct tax	130,035	134,723	142,676	55.8	51.0	58.3
Indirect tax	44,026	45,843	47,275	18.9	17.3	19.3
Non-tax revenue	58,821	83,849[3]	54,579	25.3	31.7	22.3
Total revenue	232,881	264,415	244,530	100.0	100.0	100.0
Share of GDP (%)	16.1	17.5	15.2			

Source: Federal Government Revenue 2018-2020. Sources Ministry of Finance Malaysia, Fiscal Policy.

Tax revenue remains a significant contributor to total federal government revenue. Tax revenue earned RM 189.951 billion in 2020, which shows its growth compared to 2019 180.566 billion and 174 060 billion in 2018. It has primarily led to safe employment and wage increases, and the revision of the tax rate for middle-income employees. However, Malaysian Muslims must understand the distinction between Zakah and taxation. Many people refuse to pay Zakah because it has nothing to do with law enforcement. Poverty can be minimized if Muslims take the initiative to pay Zakah than tax. In addition, Kahf addressed two other projections of the zakah proceeds for Saudi Arabia (2.7% of GDP) and Kuwait (2.1% of GDP). (S. N. Shah. ,2006).

Zakah has been broadened to Zakah due to businesses. (Muhammad I.,2019). The Muslim population in Selangor was 1.3 million, age 25 years old and above, with 20,000 companies registered in 2006. The Zakah's collection average for individuals in 2006 was RM 1,129.5 per person, and businesses were RM 5513.29 per company. (Makhtar, A. S &

Wahab, H. A. A.,2010) Therefore, the potential of Zakah collection approximately 1.6 billion in Selangor as data below:

Zakah's Collection & the actual proceeds in Selangor state, 2006

Zakah's Collection & the actual proceeds in Selangor state, 2006.	Average Zakah (RM)	Potential (RM)
Individual (1,316,684)	1129.54	1,487,247,245.36
Company (20,000)	5513.29	110,265,800
	Total	1,597,513,045.36

Source: Ahmad Shahir & Adibah, Lembaga Zakat Selangor, MAIS (2006)

However, the result of data is highly accurate; not all adults need to pay Zakah, including businesses not all meet the minimum rate of pay for Zakah. There was also a study that 2002 claimed that only 20 percent of businesses paid Zakah (Foad, H.M.,2002) while Ram et al.,

(2010) stated that since Zakah is not compulsory in Malaysia, the role of Zakah institution is the most important to ensure the society's involvement in paying Zakah. Therefore, Ahmad Shahir and Adibah (2006) assumed that 30 percent of workers and businesses could pay Zakah as indicated below. The prospective Zakah's collection in Selangor is RM 479,314,683, but the collection in 2006 was lower than this. If businesses fulfill conditions such as Muslim-owned companies, adequate nisab, and haul, the entrepreneur should pay Zakah. If businesses fulfill conditions such as Muslim-owned companies, adequate nisab, and haul, the entrepreneur should pay Zakah. (Abdullah L.H, et. al, 2011) After the growth of companies in Malaysia, research has been increased to 62 GLC companies, but only 18 companies have paid Zakah. (M. Rizuan& et. al,2014).It means that in 2021, the population may increase with the potential to hit billions as growing businessmen run their businesses, as indicated in tax data of federal government revenue.

According to Makhtar A. Shahir & Abdul W. Adibah (2010) stated that, the difficulty of having the real Zakah is linked to Malaysia's actions who love to contribute to Zakah by chance, lack of legal provisions, no business rebates, different Nisab rate by a different state, different view about the fatwa and tradition.

Zakatable Items & Nisab

Some factors include rental buildings, financial savings, excess transportation, or excretion due to contemporary. (Kahf, M.,1980).However, not many are aware of the contemporary zakatable items. In addition to basic needs, Zakah can only be granted to a person who does not own a nisab, 87,475 grams of gold or 612.34 grams of silver or its equal value in local currency. Zakatable's object items are:

a. Gold and Silver.
b. Cash, saving, money lent to others.
c. Business Stock.

The business stock relates to those products purchased with the intention of resale. The nisab is the minimum amount of zakatability for a person as a payer of the Zakah. Nisab is a distinct concept from zakatable items, and a person who owns nisab has to pay Zakah. Nevertheless, the amount of Nisab and Zakah Fitr are different in accordance to states. It can confuse the public, especially those grown-up but work in different locations, or several people will take advantage of the different amount by not contributing at all with an excuse that the management is not efficient and fair. The figures of Zakah Fitr and the Nisab as below:

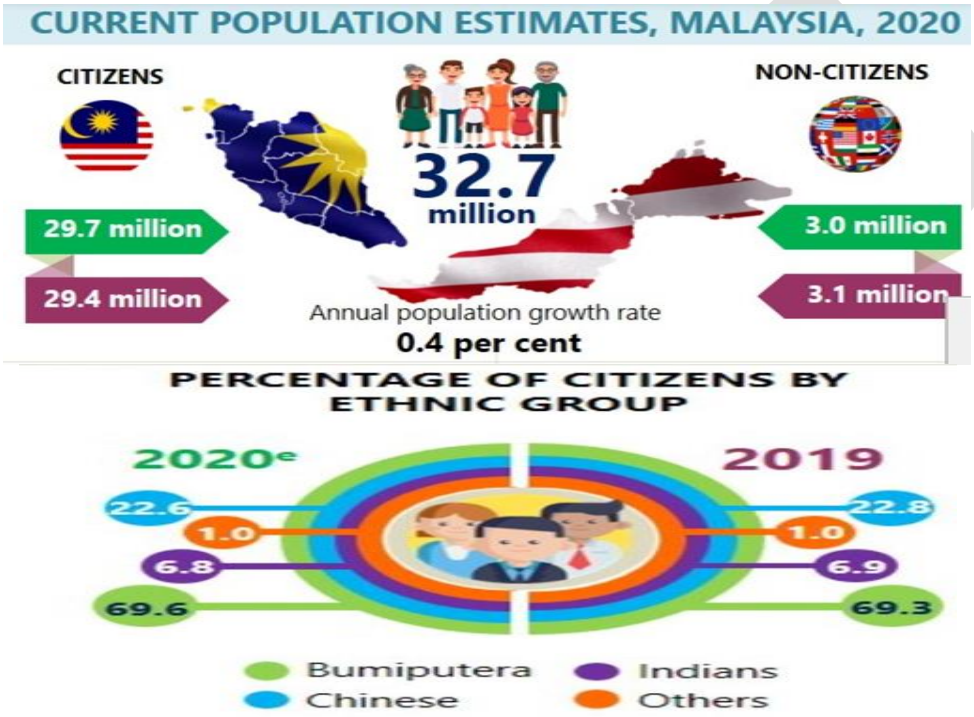
Statistics of Nisab: Zakat Fitr Rate in Ringgit Malaysia (RM)

Year	2020	2019	2018	2017	2016
Johor	7/10	7/10	7	7	6/8
Kedah	5/7/14/21	7/14/21	7	7	7
Kelantan	7/14/21	7	7	7	7
Malacca	7/14	7/14	6.7	6.7	6.7
Negeri Sembilan	7	7	6.5	6.5	6.5
Pahang	7	7	7	7	7
Pulau Pinang	7/16	7	7	7	7
Perak	7/14/21	7/14/21	7	7	7
Perlis	7	7	7	7	7
Selangor	7/14/21	7	7	7	7
Terengganu	7	7	7	7	7
Sabah	6/7.5	7	7	7	7
Sarawak	7	7	7	7	7
Wilayah Persekutuan	5/7	7	7	7	7

Source: State Islamic Religious Councils (SIRCs)

4.FINDINGS & DISCUSSION

In this section, the research completely shifts from a theoretical to a statistical pattern. This section looks at the connection between economic growth, Zakah's collection, and some variables in Malaysia. The section starts with descriptive data, correlation, and the ARDL method.



Source: Department of Statistics, Malaysia

The data above indicates the population of Malaysia in which has 29.7 million citizens in 2020 compared to 29.4 million in 2019. There are 69.6% Bumiputera, 22.6% Chinese, 6.8% Indian, and 1% others in 2020. Even though Malay is considered as Bumiputera (native citizen), but approximately 60% are Muslim Malays as to consider other natives such as Orang Asli, Sabahan & Sarawakian who may not convert to be Muslim as Malay people. Therefore, this data cannot gives an accurate figure of Muslims. In addition, certain Chinese, Indian, Sikh, or Pakistani migrated to Malaysia before independence converted to be Muslim.

Malaysia' Data variables; Zakah, Tax Revenue, Inflation, Uneployment Rate, Interest Rate & GDP

DATE	ZKH	TAX	INF	UNE	INT	GDP
1991	61.000	30596.000	4.330	3.700	5.563	135124.000
1992	76.000	34381.000	4.780	3.700	7.565	150682.000
1993	92.000	39780.000	3.550	4.100	5.812	172194.000
1994	110.000	44240.000	3.690	3.600	4.644	195461.000
1995	122.000	50134.000	3.470	3.100	4.918	222473.000
1996	159.000	56905.000	3.480	2.500	6.041	253732.000
1997	202.000	48765.000	2.660	2.400	6.906	281795.000
1998	198.000	48874.000	5.290	3.200	3.351	283243.000
1999	196.000	51857.000	2.730	3.400	8.514	300764.000
2000	259.000	66601.000	1.550	3.000	-1.086	356401.000
2001	320.000	72241.000	1.430	3.500	8.849	352579.000
2002	374.000	66860.000	1.790	3.500	3.296	383213.000
2003	408.000	64891.000	1.070	3.600	2.906	418769.000
2004	473.000	72049.000	1.420	3.500	0.034	474048.000
2005	573.000	80595.000	3.040	3.500	-2.673	543578.000
2006	671.000	86631.000	3.620	3.300	2.409	596784.000
2007	806.000	95168.000	2.030	3.200	1.457	665340.000
2008	1038.000	112898.000	5.430	3.300	-3.903	769949.000
2009	1197.000	106504.000	0.600	3.700	11.782	712857.000
2010	1364.000	109515.000	1.720	3.300	-2.113	821434.000
2011	1639.000	134885.000	3.170	3.100	-0.472	911733.000
2012	1933.000	151643.000	1.660	3.000	3.748	971252.000
2013	2265.000	155952.000	2.110	3.100	4.468	1018614.000
2014	2457.000	171770.000	3.140	2.900	2.069	1106443.000
2015	2490.000	165440.000	2.100	3.100	3.307	1176941.000
2016	2631.000	169343.000	2.080	3.400	2.826	1249698.000
2017	2923.000	177658.000	3.800	3.400	0.780	1372310.000
2018	3083.000	174060.000	0.970	3.300	4.187	1447451.000
2019	2990.000	180566.000	0.660	3.300	4.794	1510693.000

Source: Author's compilation from: Ministry of Finance, Malaysia (2021) for Tax & GDP (1991-2019). Migdad, (2019) for Zakah (1991 until 2008). Jawhar, Malaysia (2020) for Zakah year (2009-2019). Department of Statistics (2021) for Unemployment (1991-2019). Worldbank (2021) for Inflation & Interest Rate (1991-2019). Notes: ZKH=Zakah, TAX= Tax Revenue, INF = Inflation Rate, UNE=Unemployment rate, INT= Interest rate, GDP=Economic Growth

The above data is the movement of economic growth, which shows a remarkable increase from year to year but slightly decreased during the crisis in 1997 to 1999 and 2007 to 2008. Both show an increasing trend, but the contribution of Zakat remains constant while GDP increases since 1991. As mentioned earlier, Zakah collection is

meager in Malaysia compared to Tax revenue. Therefore, there is room for debate that the fatwa impacts the collection of Zakah. Tax revenue, inflation rate, unemployment rate, and interest rate are the observations used in the combined analysis by ARDL in the next session.

Descriptive Statistic

Indicators	*ZKH*	*TAX*	*INF*	*UNE*	*INT*	*GDP*
Mean	1072.76	97269.03	2.67	3.30	3.45	650191.55
Standard Error	195.44	9460.93	0.25	0.07	0.67	79447.30
Median	573.00	80595.00	2.66	3.30	3.35	543578.00
Standard Deviation	1052.46	50948.67	1.33	0.35	3.59	427836.81
Sample Variance	1107667.76	2595767327.39	1.78	0.12	12.92	183044336293.04
Kurtosis	-0.96	-1.33	-0.60	1.36	0.10	-0.88
Skewness	0.78	0.46	0.39	-0.53	0.00	0.61
Range	3022.00	149970.00	4.83	1.70	15.69	1375569.00
Minimum	61.00	30596.00	0.60	2.40	-3.90	135124.00
Maximum	3083.00	180566.00	5.43	4.10	11.78	1510693.00
Sum	31110.00	2820802.00	77.37	95.70	99.98	18855555.00
Count	29.00	29.00	29.00	29.00	29.00	29.00

Source: Author's Computation

Before investigating the core statistical analysis, data measurements are required to get a more reasonable statement about the data sample as above. Some details can be used to analyze, such as kurtosis and skewness related to symmetry data. All variables tend to be positive except the unemployment rate, meaning only the unemployment data set is tilted to the left tail. While kurtosis, the data set is viewed negatively with Zakah, tax, and inflation, indicating a flat condition data distribution, which means that the data is not distributed normally.

Correlation Analysis

Variable	*ZKH*	*TAX*	*INF*	*UNE*	*INT*	*GDP*
ZKH	1					
TAX	0.982810814	1				
INF	-0.349237115	-0.366322717	1			
UNE	-0.160960004	-0.215144197	0.019042586	1		
INT	-0.186206399	-0.25680623	-0.162440743	0.12415619	1	
GDP	0.98671719	0.985284809	-0.380638245	-0.164763374	-0.26552	1

Source: Author's Computation

The degree of association between variables is shown by correlation analysis. According to the results, two pairs are significantly and strongly correlated (positive)—i.e., i) Zakah and Tax Revenue, and ii) Zakah and GDP, suggesting that the increase in Zakah would correspond to the increase in tax revenue and GDP and vice versa. On the other hand, the other three pairs in terms of Zakah: Zakah/Inflation, Zakah/Unemployment, and Zakah/Interest rate, are weakly correlated.

Granger Causality Analysis

The Granger causality test illustrates, as stated earlier, the causal relationship between two variables. In addition, the test demonstrates that a unilateral causal relationship exists between the pair. For example, the first pair shows that tax revenue does Granger cause Zakah's collection, meaning that the collection of Zakah is caused by tax revenue. In other words, it can be said that there is a causality exist between tax revenue and Zakah's collection considering 10% level of significance (p-value< 0.10).

Granger Causality between Tax Revenue (TR) and Zakah's Collection (ZC)

Parwise Granger Causality Test			
Sample : 1997-2018			
Lags : 2			
Null Hyphothesis	Obs	F-Statistic	Prob.
TR does Granger Cause ZC	20	3.63284	0.0517
ZC doesn't Granger Cause TR		0.07387	0.9291

Correlation

$$\text{Correlation Coefficient (r)} = \frac{\text{Covariance(x,y)}}{\sigma_x \sigma_y}$$

Pearson correlation coefficient is used by considering R-value, which lies between +1 and -1 (Renter, 2009). This value is categorized into different points as below:

Degree of Correlation

Value	Description
Exactly -1	A perfect negative linear relationship
Between -0.70 and -1.0	A strong negative linear relationship
Between -0.30 and -0.70	A moderate negative linear relationship
0	No linear relationship
Between 0.30 and 0.70	A moderate positive linear relationship
Between 0.70 and 1.0	A strong positive linear relationship
Exactly +1	A perfect positive linear relationship

Stationarity

The descriptive statistics include mean, median, minimum and maximum values, skewness, kurtosis, and standard deviation. The unit root analysis is the first step in the ARDL that consists of the degree of integration of each variable. To satisfy the ARDL models, each variable must be I(0) or I(1) or be I(2). According to Pesaran (2007), unit root analysis is performed with a long array of tests, for instance, the augmented Dickey-Fuller (ADF), the Phillips Perron (PP), and the Kwiatkowski Phillips Schmidt Shin (KPSS).

Co-integration

$$\Delta LY_t = a_0 + a_1 t + \sum_{i=1}^{m} \alpha_{2i} \Delta LY_{t-i} + \sum_{i=0}^{n} a_{3i} \Delta LX_{t-i} + a_4 LY_{t-1} + a_5 LX_{t-1} + \mu_{1t} \quad (1)$$

$$\Delta LX_t = \beta_0 + \beta_1 t + \sum_{i=1}^{m} \beta_{2i} \Delta LX_{t-i} + \sum_{i=0}^{n} \beta_{3i} \Delta LY_{t-i} + \beta_4 LX_{t-1} + \beta_5 LY_{t-1} + \mu_{2t} \quad (2)$$

Source: Angeliki N. Menegaki (2019)

According to Menegaki (2019), the observation is in Equations (1) and (2) mean that each variable is interpreted as a function of past variable values, differential values, and past differential values for the other variables. Therefore, it is possible to formulate models (1) and (2) as intercept patterns or ARDL models. The formula above shows that the symbol Δ is the first difference operator; the error term is symbol μ. The residual term is supposed to be serially independent, homoskedastic, and typically distributed. Both

alpha and beta coefficients are non-zero, with a4 and β4 also negative to represent the adjustment speed. The short-run dynamic coefficients at α2i and a3i, while a4 and a5 are long-run coefficients. In the case of this study, the GDP co-efficient relationship would be analyzed. The a0 and β0 are components for μ1t and μ2t. (Inglesi-Lotz, Roula.,2018).

With ordinary least squares, all equations are calculated (OLS). If equations (1) and (2) support the presence of co-integration, the long-run and short-run models are calculated by the Unrestricted Error Correction Model (UECM). The hypotheses for this cointegration are: H0: a1 = a2 = an = 0 H1: a1, a2, and 0. The hypothesis is when there is a co-integration, then reject the null hypothesis. (Menegaki A. N.,2019). The F-statistics is the test to compare the critical values developed by Pesaran et al. (2001) model. There are 4 critical values, namely: restricted intercept and no trend, unrestricted intercept and no trend, unrestricted intercept and restricted trend, and unrestricted intercept and unrestricted trend with the number of regressors, as the sample size would result in I(0): stationary at levels, I(1): stationary at first difference form. (Narayan P. K. & Smyth R., 2005).

Granger causality by unrestricted VAR will be used when there is no co-integration. The VAR equation should be specified on stationary data. The error correction mechanism (ECM) is the next step that indicates a long-run relationship between variables. In order to test the null hypothesis, F-Test will demonstrate more than one short-run coefficient of the same variable that has no integration. (Tursoy et.al, 2018).

Stationarity & Co-Integration

ADF TEST						
	Level Form			Difference Form		
	TS	CV	Result	TS	CV	Result
GDP	-1.5934	-3.5692	Non-Stationary	-1.2785	-1.9411	Non-Stationary
ZAKAH	0.019198	-3.6795	Non-Stationary	1.4574	-1.8367	Non-Stationary
INFLATION	-2.4335	-3.6795	Non-Stationary	-2.3342	-1.9411	Stationary
INTEREST RATE	-1.032	-3.9749	Non-Stationary	-2.4417	-1.8119	Stationary
TAX	-3.9899	-3.5692	Stationary	-3.4538	-1.9269	Stationary
UNEMPLOYMENT	-2.428	-3.9749	Non-Stationary	-3.5039	-1.8119	Stationary
	An intercept and a linear trend			Include no intercept and no trend		

Comparing the ADF test in Zakah in different and level forms shows that the variables are I (2). The following variable is the tax revenue, which indicates that the values are stationary in different and level forms when the test statistics are higher than the critical value. The third is inflation; the result shows I (1) when the variable is non-stationary in the level form while the different form indicates stationary. Both sides of the unemployment rate, GDP and interest rates, are I (1) too. It means that only tax is I (2).

KPSS TEST						
	Level Form			Difference Form		
	TS	CV	Result	TS	CV	Result
GDP	0.16673	0.21609	Stationary	0.346	0.38757	Stationary
ZAKAH	0.15223	0.21609	Stationary	0.27747	0.38757	Stationary
INFLATION	0.13489	0.21609	Stationary	0.15849	0.38757	Stationary
INTEREST RATE	0.13957	0.21609	Stationary	0.20113	0.38757	Stationary
TAX	0.14939	0.21609	Stationary	0.25634	0.38757	Stationary
UNEMPLOYMENT	0.17201	0.21609	Stationary	0.22158	0.38757	Stationary
	An intercept and a linear trend			An intercept but not a trend		

The analysis above shows a mixed result in the level and different forms of PP test, but all observation in the KPSS test shows stationary when test statistic is lesser than a critical value. By the result, it illustrates that the study needs to proceed to ARDL.

ARDL to Cointegration

Observation	Tstatistic
ZAKAH	1.2989
GDP	2.9973
INFLATION	3.7386
INTEREST	3.2062
TAX	2.1488
UNEMPLOYMENT	0.66279

Case II: intercept and no trend

	90%		95%		97.5%		99%	
k	I(0)	I(1)	I(0)	I(1)	I(0)	I(1)	I(0)	I(1)
0	6.597	6.597	8.199	8.199	9.679	9.679	11.935	11.935
1	4.042	4.788	4.934	5.764	5.776	6.732	7.057	7.815
2	3.182	4.126	3.793	4.855	4.404	5.524	5.288	6.309
3	2.711	3.800	3.219	4.378	3.727	4.898	4.385	5.615
4	2.425	3.574	2.850	4.049	3.292	4.518	3.817	5.122
5	2.262	3.367	2.649	3.805	3.056	4.267	3.516	4.781
6	2.141	3.250	2.476	3.646	2.823	4.069	3.267	4.540
7	2.035	3.153	2.365	3.553	2.665	3.871	3.027	4.296
8	1.956	3.085	2.272	3.447	2.533	3.753	2.848	4.126
9	1.899	3.047	2.163	3.349	2.437	3.657	2.716	3.989
10	1.840	2.964	2.099	3.270	2.331	3.569	2.607	3.888

By comparing the output from the F-Statistic as above, the values from the F table of Pesaran by intercept but no trend indicates that only inflation is higher than the upper bound 95%. It means the inflation has a long-run relationship among the variables in 2 lags. Therefore, the study rejects the null hypothesis.

Akaike				
	F-Statistic	**Lower bound 95%**	**Upper bound 95%**	**Integration**
ZAKAH	1.0774	3.2314	4.7208	No
GDP	4.6605	3.2314	4.7208	No
INFLATION	4.7578	3.2314	4.7208	Yes
INTEREST	5.6551	3.2314	4.7208	No
TAX	2.7336	3.2314	4.7208	No
UNEMPLOYMENT	8.153	3.2314	4.7208	No

Source: Author's Computation

Schwarz Bayesian Criterion				
	F-Statistic	**Lower bound 95%**	**Upper bound 95%**	**Integration**
ZAKAH	1.4292	3.2314	4.7208	No
GDP	4.6605	3.2314	4.7208	No
INFLATION	NIL	3.2314	4.7208	Yes
INTEREST	6.3395	3.2314	4.7208	No
TAX	3.811	3.2314	4.7208	No
UNEMPLOYMENT	8.153	3.2314	4.7208	No

Source: Author's Computation

The dependent variable is dL_INF

Error Correction Representation for the Selected ARDL Model				
F-statistic	**90% Upper Bound**	**95% Lower Bound**	**95% Upper Bound**	**90% Lower Bound**
4.7578	3.2671	4.7516	2.6514	3.9782
ecm(-1)	-1.2867	.43222	-2.9771[.014]	

Source: Author's Computation

With the order of ARDL with lags maximum of 2, by Akaike and Schwarz Bayesian Creiterion for LRSM as above, it shows that only inflation is consistent with OLS. Based on AIC, it suggests that unemployment has an impact on inflation. From the analysis with Error Correlation term in 3 lags, inflation is an endogenous factor, and the rest are the followers. All have an impact except Zakah and GDP on Inflation. When there is inflation, some Malaysian still want to contribute to Zakah, or it can say that certain Muslims will continue to contribute to Zakah and see it as an obligation.

5.CONCLUSION

This research is an effort to uncover part of the bigger picture that shows economic development in Malaysia. This study aims to calculate the effect of Zakah on economic growth. Based on the literature and findings, Malaysia has vast potential Zakah proceeds that can be the instrument for poverty alleviation & development of socio-economic.

There is a need to take the right approach, use the right metrics and accurate data to represent the correct outcome. The study covered the methodology for measuring economic growth in order to assess whether how the fatwa can affect the contribution of Zakah. All steps are numerical analyses of unemployment, interest, inflation, GDP, tax, and Zakah. The literature is divided into several categories: Zakah, the fatwa, the Malaysian economy, and ARDL analysis. The total of observations is 29 only since Zakah had been established in 1991. Therefore, ARDL method has been applied as the observation of the study as it has fewer observations.

A final list of appropriate calculations of ARDL indicates a significant result. The results has shown that inflation is the factor that has an impact in the long run and there is a huge gap of GDP to compare with Zakah's collection. It means, the higher is the inflation, the lower is the Zakah's collection.It is indicate the Zakah fatwa's effect on the total of Zakah's collection that leads to the public interest, not an obligation in which the reason of confusing and ignorance.

In summary, there is a possibility that inflation is the cause less of purchasing power, saving and Zakah. This study can be seen as an introduction to further studies exploring and creating new ways of measuring economic development .

6. RECOMMENDATION

The Sultan/Agung, as the highest authority for the Zakah institution, plays an essential role in seeing better improvement in the Zakah institution. The Islamic act should be a genuine initiative to discuss federal law that Zakah is not binding on the public interest. The order of Agong is the root; any promotion and activity of Zakah may be successful once the fatwa has changed to the correct statement as Shafi' sect that Zakah is obligatory. In addition, there is a need for the institution of Zakah, perhaps invest some of Zakah's funds for advertisement and documentaries through media and billboards to give new perceptions about the importance of Zakah to the public to prioritize the collection of Zakah. The Government Religious Affairs Agency (JAWHAR) should centralize each

activity for each state. In addition, the Zakah Institution needs to hire experts who are well versed in Shariah's law to gain trust and maintain the interest of Zakah's contributors in achieving accountability. It shall include the proper provision by each SIRC/PPZ disclosure or integrated reporting to build public trust. In terms of distribution, micro-credit businesses must be improvise along with proper business courses to ensure the poor people sustainability. By then, the Zakah institution will meet the sustainable development goals of eradicating poverty.

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