



# Impact of ZIS (Zakah, Infaq and Sadaqa) Distribution and Islamic Financial Institutions to MSMEs (Micro, Small, and Medium Enterprises) and Gross Regional Product Growth in East Java (2011-2014 Periods)

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**Abstract:** Distribution and utilization are core activities of zakah management. It must be considered that Ameerul zakah institutions' success is not merely founded on their capability to collect zakah fund, but also their ability to distribute and utilize it. This research is aimed at understanding impact of ZIS (*zakah, infaq and sadaqa*) distribution and Islamic Financial Institutions role on distributing their funds in East Java to Micro, Small and Medium Enterprises (MSMEs) and Gross Regional Product (GRP) of East Java. This research is conducted by using secondary data from the quarterly report in 2011-2014 periods and also using quantitative approach through Partial Least Square (PLS) analysis method. The results of this study show that the distribution of ZIS funds has a significant negative effect on MSME growth and an insignificant positive effect on GDRP growth in East Java. The distribution of IFI funds has a significant positive effect on MSME growth and GDRP growth in East Java. The Growth in the number of IRB units has an insignificant positive effect on GRDP growth at the 5% T-table significance = 1.96. The dominant contribution of IFI on the GRDP should be maintained and Zakat Institutions have to improve performance in the ZIS funds management, so that it can contribute more maximally to the economy of East Java in the future. MSME should utilize the available funds of Zakat IFI to support their capital that will increase their productivity and output, thus increasing the GDRP of East Java.

**Keywords:** Badan Amil Zakat (BAZ) of East Java, GRP, Islamic Financial Institutions (IFIs), MSMEs, ZIS funds distributin

## INTRODUCTION

### *Background*

Enactment of Act No. 32 in the year 2004 about the handover of some authority to the regional government to regulate and manage internal affairs to support Republic Indonesia national development and enactment of Act No. No. 33 the year 2004 about financial balance between national and regional government are expected to stimulate creativity and initiative from each region to initiate and develop their potential and manage them in an integrated, harmonious and guided manner in order to encourage development in each region is accordance with its priority and potential (Suryono, 2009:2). Gross Regional Product (GRP) shows economic activities in a region in a certain period. It covers all production output (that) created in it, so indirectly; GRP can be used as an indicator to evaluate overall economic development in a region (Daryono, 1994: 19-20).

GRP growth as an indicator of regional economic growth is also the role of Islamic banks as intermediary institutions that provide financing to the third party i.e. business sector. Empirically, to support growth in economic sectors, third party fund is also allocated to each sector. These economic sectors are: (1) Agriculture; (2) Mining; (3) Manufacture; (4) Electricity, gas and water service; (5) Construction; (6) Trade, hotel and restaurant; (7) Transportation and communication; (8) Finance, leasing and corporate services; (9) Miscellaneous services.



Economic sectors in Indonesia are dominantly supported by Micro, Small and Medium Enterprises (MSMEs). Kara (2013: 316) stated the main problem of these MSMEs is capital. MSMEs find it difficult to access lending from banks. Some reasons behind this are high-interest rate and requirement of physical collateral (Kara, 2013:316). According to Bank Indonesia, Islamic Financial Institutions (IFIs) can be divided into two categories's. Banks and NonBanks. Islamic Banks are also divided into Islamic Commercial Banks and Islamic Rural Banks. On the other hand, one form of NonBank IFIs is Islamic Pawnshop (Sarwoko, 2009:173-174). External capital sources for MSMEs are dominated by a nonbank and informal institutions that provide lending with simpler and flexible approaches to MSMEs, so it will be suitable with MSMEs needs and characteristics (Kaudin, 2005).

Distribution and utilization are core activities of zakah management. It must be considered that Ameerul zakah institutions' success is not merely founded on their capability to collect zakah fund, but also their ability to distribute and utilize it. Requirements for beneficiaries (mustahiq) in infaq and sadaqa are much simpler than zakah ones. It means that infaq and sadaqa funds can be distributed to various kinds of beneficiaries who need them (Rahmah, 2014:68). Utilization of infaq and sadaqa funds can be conducted through financing programs by using qardhul hasan (loan without any interest or any extra payment) contract to develop MSMEs.

Meanwhile, zakah mechanism will ensure economic activity at a minimum level which is marked by primary needs fulfillment. On the other hand, infaq, sadaqa and other similar instruments will enhance aggregate demand because their function is to help society to reach a higher standard of living that minimum level (Bank Indonesia, 2006:35). Metwally stated that zakah has a positive impact on the economy because zakah may stimulate investment and reduce hoarding practices of money. So zakah can contribute to economic growth on the macro level.

East Java is a province with a strong economy and able to equalize Jakarta's economy. This fact is marked by GRP growth that is supported by nine sectors and reached 7.22% in 2011. This GRP growth is higher than national GDP growth which only reached 6.23% in the same year (BPS, 2012: 32). East Java is a province with 29 regencies and nine cities and has a stable economy. According to a study from World Bank, East Java economic growth is considered stable due to contributions from agriculture, manufacture, and trades, hotel and restaurant sectors (The World Bank, 2011). East Java is research object because researcher assumed that regional changes would contribute to the national economy. So, a deep study at regional level will bring impact to the national level.

Statements mentioned have indicated that distribution of IFIs (banks and nonbanks) and ZIS (zakah, infaq and sadaqa) funds have a strategic role to the development of MSMEs. MSMEs have an important role in the economic growth of Indonesia that is measured in Gross Domestic Product (GDP). This fact has made MSMEs as a strategic sector that should be concerned and developed in the consistent and sustainable way. Based on above the argumentations, researcher composed Thesis which titled: "Impact of ZIS (Zakah, Infaq, and Sadaqa) Distribution and Islamic Financial Institutions to MSMEs (Micro, Small, and Medium Enterprises) and Gross Regional Product Growth in East Java (2011-2015 Periods)"

## RESEARCH QUESTIONS

Based on above background, there are some research questions that can be formulated formalized as follows:

1. Does ZIS funds distribution have the influence on MSMEs unit growth in East Java?
2. Does IFIs funds distribution have influence on MSMEs unit growth in East Java
3. Does ZIS funds distribution have the influence on GRP growth in East Java?
4. Does IFIs funds distribution have the influence on GRP growth in East Java?
5. Does MSMEs unit growth have the influence on GRP growth in East Java?



## LITERATURE REVIEW

### Distribution of ZIS and IFIs Funds to MSMEs Units Growth

Zakah is a manifestation of cooperation between rich and poor. Zakah empowerment is a protection of society from social problems such as poverty, physical and mental illness. In Islam, zakah institution can act as a distributor of wealth because zakah is a collective obligation for Muslim societies. Zakah is a form of Muslim commitment in socio-economic sectors that cannot be avoided to fulfill society's needs without relying on national treasury as practiced by socialist and modern welfare states. (Gamal, 2004: 81-82).

In Al Qur'an, it is stated that wealth that is used in Allah's way is regarded as a good loan to Allah. Allah mentioned this in chapter 73, Al-Muzammil [73] verse 20:

فَاقْرَءُوا مَا تَيَسَّرَ مِنْهُ وَأَقِيمُوا الصَّلَاةَ وَآتُوا الزَّكَاةَ وَأَقْرِضُوا اللَّهَ قَرْضًا حَسَنًا وَمَا تَقَدَّمُوا لِنَفْسِكُمْ مِنْ خَيْرٍ تَجِدُوهُ عِنْدَ اللَّهِ هُوَ خَيْرًا وَأَعْظَمَ أَجْرًا وَاسْتَغْفِرُوا لِلَّهِ إِنَّ اللَّهَ غَفُورٌ رَحِيمٌ

A. "...So recite what is easy from it and establish prayer and give zakah and loan Allah a goodly loan. And whatever good you put forward for yourselves - you will find it with Allah. It is better and greater in reward. And seek forgiveness of Allah. Indeed, Allah is Forgiving and Merciful."

Islamic Financial Institutions (IFIs) are growing rapidly nowadays and have become part of an Islamic lifestyle. IFIs are not only found in Islamic countries but also other countries, as long as they have Muslim community. The basic framework of IFIs is a set of regulations and laws that even in accordance with Islamic sharia that regulates economic, social, political and cultural aspects of life. Core business and product of IFIs are basically same as conventional financial institutions i.e. Bank institutions and nonbank institutions (Sholahuddin, 2006:4). First, there are Islamic Commercial Banks and Islamic Rural Banks that act as Islamic based bank institutions. Second, nonbank institutions are Takaful or Islamic Insurance, Pension, Pawnshop, Cooperation and Baitul Mal Wat Tamwil (BMT), and also Islamic Capital Market. Both bank and non-bank institutions are intermediary financial institutions.

In Indonesia, an intermediary financial industry is dominated by banks that have the role as moderator between fund providers and fund users. According to prudential banking principle in credit making process, it can be estimated that banks' fund is accessed by debtors that have to fulfill requirements, especially physical collateral provision. Based on that fact, MSMEs have a small possibility to be financed by banks, so they need financing alternatives that are suitable for them (Abubakar, 2012: 4-5). Professional zakah fund distribution will help the creation of productive societies and enhance MSMEs (Gamal, 2004: 85). Despite that, as intermediary institutions, bank and nonbank institutions are still have the strategic role to MSMEs growth (Kaudin, 2005).

### ZIS and IFIs Fund Distribution to MSMEs and East Java GRP Growth

Yusuf Qardhawi (Rahmah, 2014: 65) mentioned that Islam obliged immediate distribution of zakah fund and it is prohibited to postpone its distribution without clear argument. The faster we distribute, the better result we get. Productive zakah distribution is a form of zakah distribution to provide capital for building social projects, increase MSMEs equity or even making new startup busines for small traders (Mufraini, 153 in Rahmah, 2014: 29). Zakah is utilized to free individual, society and even a country from the poor economic condition.

كَيْ لَا يَكُونَ دَوْلَةً بَيْنَ الْأَغْنِيَاءِ مِنْكُمْ ...

B. "...so that it will not be a perpetual distribution among the rich from among you.." (Al-Hashr [59]:7).



A bank institution in daily life is an agent of development because of its role as an intermediary financial institution. Islamic banks in Indonesian banking system are bank institutions that operate based on Islamic sharia (law) principles. Practically, Islamic Banks are also agents of development which means that they are not only profit oriented but also enhance economic development (Fahmi, 2014:4). Bank function as the intermediary financial institution is also focused on Islamic banks beside their role to manage zakah, infaq dan sadaqa (ZIS) (Kara, 2013: 315). Based on their fund distribution classification, one banking product is financing product to MSMEs.

On the other hand, East Java economic development is increasing annually with a higher rate than the national development. In 2014, East Java economic development reached 7.4%, above national development at 6.9%. High contribution of East Java to national development is supported by MSMEs existence. So, MSMEs existence should be developed and maintained. Also, MSMEs have the role in poverty eradication and decreasing the unemployment rate (Cooperation and MSMEs Department of East Java Province, 2014:1).

The definition of economic development is a process of Gross Domestic Product (GDP) increment. MSMEs sector is the biggest contributor to national GDP and also in East Java's GRP. Based in that fact, MSMEs contribution to regional economic development should become a serious concern (Hapsari et al, 2014:92).

### Previous Studies

Table 1 Previous Studies

No	Author	Title	Variable	Method	Research Findings
1.	Rahmah, 2014	Analisis terhadap Pendistribusian dan Pendayagunaan Zakat, Infaq/ Shadaqah pada Mustahiq	Consumptive and productive zakah distribution, and zakah utilization scheme.	Qualitative, Descriptive Analysis Method	<ul style="list-style-type: none"> <li>- Zakah fund distribution in BAZ (<i>Badan Amil Zakat/Zakah Ameer Board</i>) of East Java is consumptive only</li> <li>- Productive ZIS funds in BAZ will be productive through five main programs</li> </ul>
3.	Kara, 2013	Kontribusi Pembiayaan Perbankan Syariah terhadap Pengembangan Usaha Mikro, Kecil dan Menengah	Islamic based financing for MSMEs in Makassar from 2010 to 2011	Library Research	<ul style="list-style-type: none"> <li>- Islamic banks contribution to MSMEs in Makassar through financing is not optimal yet.</li> </ul>
4.	Abubakar, 2012	Pranata Gadai sebagai Alternatif Pembiayaan Berbasis Kekuatan Sendiri (Gagasan Pembentukan UU Pergadaian)	Pawnshop practices in Indonesia in present, future and Pawnshop Act draft.	Library Research	<ul style="list-style-type: none"> <li>- Pawnshop practices have changed from alternative scheme for financing to speculative investment.</li> <li>- Pawnshop regulation is aimed to create a financial institution that stimulates economic development, especially for MSMEs.</li> <li>- Pawnshop regulation is also aimed to enhance real sector and national economy.</li> </ul>



6.	Hapsari et al, 2014	Pengaruh Pertumbuhan Usaha Kecil Menengah (UKM) terhadap Pertumbuhan Ekonomi Daerah (Studi di pemerintah Kota Batu)	Independent variables: Unit of MSMEs, labor, capital and profit of MSMEs. Dependent variable: regional economic development	Panel Regression	<ul style="list-style-type: none"> <li>- Number of MSMEs' units and labors has insignificant influence on the economic growth.</li> <li>- MSMEs' capital and profit have significant influence to economic growth of Batu city.</li> </ul>
7.	Firmawati, 2015	Pengaruh Penyaluran LAZ (Lembaga Amil Zakat) terhadap Pertumbuhan Ekonomi Masyarakat Kecil di Desa Sidogiri	Productive zakah distribution by LAZ ( <i>Lembaga Amil Zakat/ Lembaga Amil Zakat/ Ameel Zakah Institution</i> ) Sidogiri in form of infrastructure, tools and capital.	Field Research	<ul style="list-style-type: none"> <li>- Zakah has strategic role to eradicate poverty and raise economic development</li> <li>-</li> </ul>
8.	Rama, 2013	Analisis Kontribusi Perbankan Syariah Terhadap Pertumbuhan Ekonomi Indonesia	Independent variables: GDP, Total Financing, Total Deposit, Consumer Price Index (CPI) and Opennes of Economy (OE) Dependent variable: GDP	Cointegration Test and Vector Error Correction Model (VECM)	<ul style="list-style-type: none"> <li>- There is a long-term relation between Islamic banking sector and economic growth in Indonesia.</li> <li>- There is a reciprocal relation between Islamic banking growth and economic growth in Indonesia.</li> </ul>

Based on the above studies, the difference of this study is that this study is conducted in East Java with research object of the growth of MSMEs' units as an endogenous variable with two variables: ZIS fund distribution and IFIs fund distribution. On the other hand, it also acts on exogenous variable for GRP growth of East Java

**RESEARCH METHOD**

***Research Approach***

This research aims to answer the research question, which is an impact of ZIS and IFIs funds distribution to MSMEs' units and East Java's GRP growth. This research is conducted by using a quantitative approach which aims to test a hypothesis with measurable data and generalized results. According to Indriantoro and Supomo (1999:70-71), quantitative research is intended to test the theory, to place the theory deductively as a basis for research findings and solutions of research questions. This research uses secondary data from the quarterly report from 2011 to 2014 in corporations, institutions, government agencies and Islamic banks in East Java. Secondary data is data collected from an organization or corporation that has been published (Supranto, 2009:112).



### ***Variables and Research Indicators***

There are three kinds of variables in this research. They are exogenous, intervening variable and endogenous variable. Exogenous variables (X) in this research are ZIS funds distribution in East Java (X1) and IFIs funds distribution in East Java (X2). The intervening variable or endogenous intervening variable is MSMEs' unit growth in East Java (Y1). The endogenous variable (Y) in this research is Gross Regional Product (GRP) growth in East Java (Y2).

Indicators to measure ZIS funds distribution (X1) which based on analysis of ZIS distribution to productive sectors as mentioned by Rahmah (2014: 72-74) and supported by Niswah (2009: 82) are Zakah fund distribution (X1.1) and Infaq/Sadaqa fund distribution (X1.2). Indicators to measure IFIs funds distribution (X2) to third party are based on financing classification, which are: Financing by Islamic Commercial Banks (ICB)/Islamic Business Units (IBY) (X2.1), Financing by Islamic Rural Banks (IRB) (X2.2), and Financing by Islamic Pawnshops (IP) (rahn) (X2.3).

Intervening variable or endogenous intervening variable, MSMEs' unit growth in East Java (Y1) is measured based on empowerment of MSMEs indicator which is indicated by the growth of MSMEs' unit in East Java. Indicator to measure endogenous variable, East Java's GRP growth (Y2) is measured from production approach based on nine economic sectors i.e.: Agriculture, Farming and Fishery (Y2.1), Mining (Y2.2), Manufacture Industry (Y2.3), Electricity, Gas and Water (EGW) Services (Y2.4), Construction (Y2.5), Trade, Hotel, and Restaurant (Y2.6), Transportation and Communication (Y2.7), Finance, Leasing, and Corporate Services (Y2.8) and Government, Defence and Security (Y2.9).

### ***Data Analysis Technique***

Analysis in this study is conducted by using Structural Equation Model (SEM) approach that is based on Partial Least Squares (PLS) repeated below.

The analysis in this study is conducted by using Structural Equation Model (SEM) approach that based on Partial Least Square (PLS). PLS is Structural Equation Model (SEM) that is based on components or variance. According to Ghazali (2008), PLS is an alternative approach that changes SEM approach from covariance basis to variance basis. Covariance-based SEM tests causality or theory while PLS is regarded as more predictive.

In a modeling that intended to have predictive property, it has the consequence that it can be conducted without a rigid theoretical basis, ignoring some assumptions and predictive model parameter can be found in determination coefficient (Jogiyanto and Willy, 2009). Structural model test in PLS is conducted by using SmartPLS software. Procedures to be conducted in PLS are as follows:

1. Designing Structural Model or Inner Model
2. Designing Measurement Model or Outer Model
3. Constructing Path Diagram
4. Conversion of Path Diagram to Equation System
5. Estimation: Path Coefficient, Loading, and Weight
6. Goodness of Fit Evaluation
7. Hypothesis Test (Bootstrapping)

The result of Inner and Outer Models design is drawn in a path diagram. The path diagram that shows Inner and Outer Models is shown below

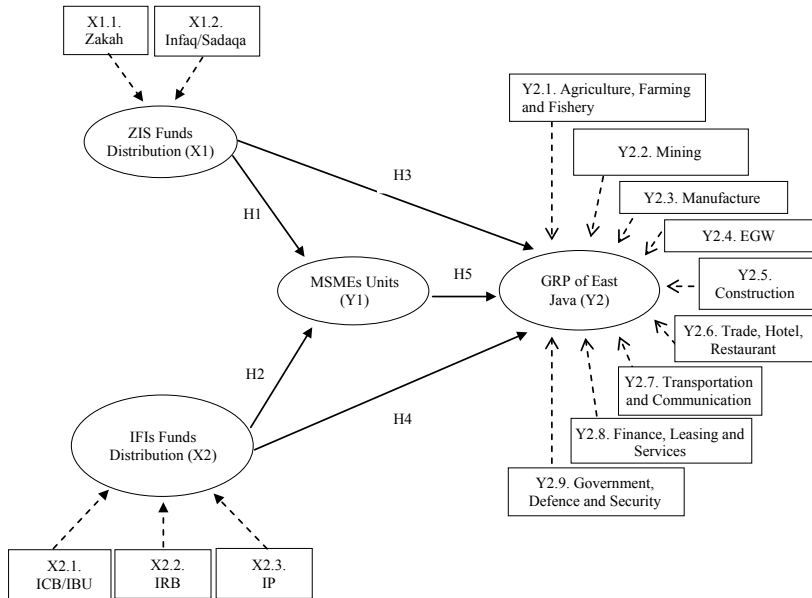


Figure 1. Path Diagram (Inner and Outer Models)

**Research Hypothesis**

From above the explanation, there are hypotheses that are formulized in this research:

- 1) Hypothesis 1: There is significant influence of ZIS funds distribution to MSMEs’ unit growth in East Java
- 2) Hypothesis 2: There is significant influence of IFIs funds distribution to MSMEs’ unit growth in East Java
- 3) Hypothesis 3: There is significant influence of ZIS funds distribution to GRP growth in East Java
- 4) Hypothesis 4: There is significant influence of IFIs funds distribution to GRP growth in East Java
- 5) Hypothesis 5: There is significant influence of MSMEs’ unit growth to GRP growth in East Java

**RESULTS AND DISCUSSION**

Badan Amil Zakat Jawa Timur or commonly known as BAZ Jatim is a body under the Government of East Java province, and supervision of this institution is assisted by several religious, educational and professional institutions in East Java such as the Indonesian Council of Ulema (Majelis Ulama Indonesia/MUI). Utilization of infaq and sadaqa funds in BAZ East Java is conducted through the circular/rolling help that substantially is an interest-free capital loan to assist the development of Micro Enterprises in East Java. The program is integrated with business mentoring and mental development in religious groups.

Islamic law/sharia rules stipulate that any benefits or profit from the collection of zakah, infaq and sadaqa is solely the right of mustahiq/beneficiaries. Allah’s statement in Chapter Adh-Dhaariyat [51] verse 19:

وَيٰٓاٰمُوْلٰٓئِهٖمۡ حَقّۡ لِّلۡسَاۗءِلِ وَالۡمَحْرُوْمِ



C. Meaning: “*And from their properties was [given] the right of the [needy] petitioner and the deprived.*”

This verse explains that on everyone’s possessions there is right for destitute people, either beggars or poor who do not ask for any part of one’s property because they feel shy to ask for that. Thus, the pattern of utilization of zakah, in general, is developed with qardul hasan scheme, which is a form of a loan without a specific rate of return (return or profit share) from the loan principal.

An existence of Islamic banks in Indonesia began to be more significant as stipulated in Act no. 10 of 1998 as the amendment of Act No. 7 of 1992 on Banking. According to Act No.10 of 1998 dated 10 November 1998 on Banking, banking business includes three activities, i.e. collecting funds, distributing funds and providing other banking services. At the time, Islamic banking has begun to operate fully as a bank, where previously Islamic banks are only defined as banks that are able to conduct profit-loss sharing activities. Prospects of Islamic Banks in East Java getting brighter is expected will strengthen the stability of the national financial system.

Currently, Islamic Banks and Islamic Business Units of conventional banks are market leaders in the field of Islamic finance in Indonesia, with 11 Islamic Banks and 23 Islamic business units, and they have 2,564 office networks throughout Indonesia (Islamic Banking Statistics, 2014). However, financing produced by Islamic Banks and Sharia Business Unit is focused on financing on the medium and large scales. Meanwhile, to serve the whole society, especially micro, small, and medium entrepreneurs optimally, Rural Islamic Banks (Bank Pembiayaan Rakyat Syariah/BPRS) appear as Islamic financial institution to serve those segments. The distribution of BPRS’ funds in East Java province based on classes to small and medium enterprises (SMEs) experienced a rising trend from year to year.

Since 1998, SMEs in East Java have focused their efforts not only to fulfill domestic needs only, but also to serve demand in overseas markets. This is due to the establishment of the Department of Cooperatives and SMEs, The government has focused it’s attention on the performance of SMEs to produce good output, because the vision of the Department of Cooperatives and SMEs is the Leader in Empowerment of Cooperatives, Micro, Small and Medium Enterprises (MSMEs) that is independent and competitive in East Java. In this case, each region in East Java that has a superior product will maximize the quality and quantity of their typical output/commodity which will greatly affect the growth and increase the number of SMEs in East Java.

East Java contributes to the national economy quite significantly, reaching 14.8 percent of the total economy of Indonesia. East Java is also the economic center for Eastern Indonesia. East Java has a large number of industries, among which is the largest shipbuilding yard in Indonesia namely PT PAL in Surabaya, the largest railway industry in Southeast Asia, PT INKA in Madiun is along with paper mills, cigarettes, and cement plants. GDP growth in East Java province based on nine fields of business and is as follows:



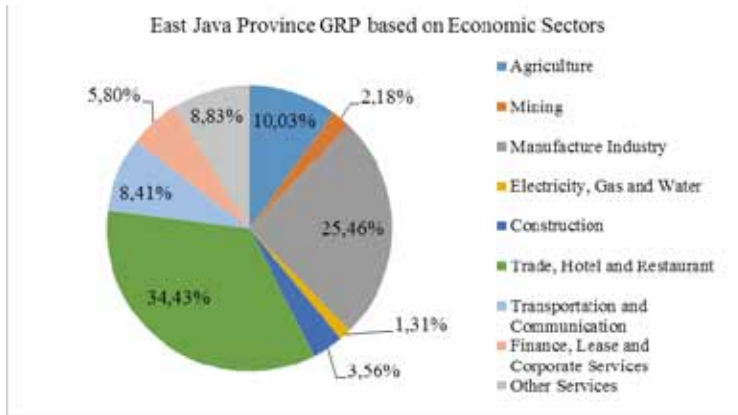


Figure 2. East Java Province’s Economic Sectors’ Contribution to GRP in 2014

The economic structure of East Java, according to economic sectors in Q4 of 2014 was dominated by the three main economic sectors. They are: Trade, hotels and restaurants (34.43%); manufacturing (25.46%); and agriculture (10.03%). In contrast, three sectors with least contribution to the GDP of East Java are electricity, gas and water (1.31%); mining sector (2.18%); and construction sector (3.56%).

**DATA ANALYSIS**

*Outer Model Test*

The outer model defines how each indicator relates to its respective latent variable. The formative indicator construct is a regression relationship of indicators to the construct, it is conducted by looking at the value of the regression coefficient and its significance value. By looking at the value of T-statistics, it can be concluded that an indicator with a statistical T value > T table (1.96) is a valid indicator to measure the construct of latent variables.

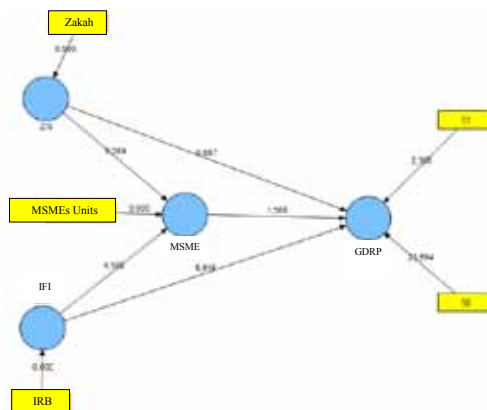


Figure 3. 4<sup>th</sup> Stage Bootstrap



Each exogenous and endogenous variable has an invalid indicator so they must be eliminated or dropped from the model. In 4<sup>th</sup> stage outer model data analysis, a valid structural model will be obtained

### Inner Model Test

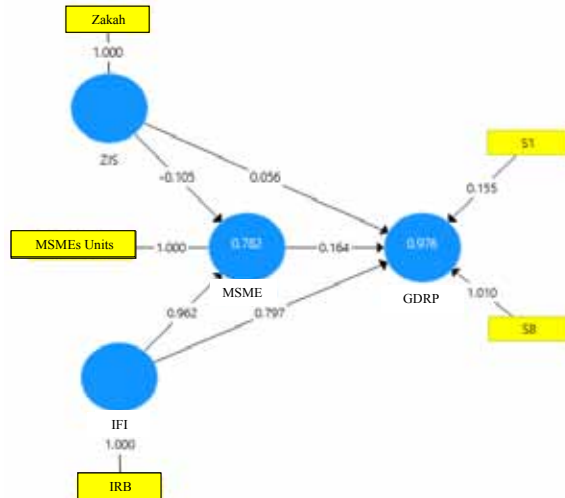


Figure 4. PLS Algorithm Result

The purpose of the structural model test is to see the correlation of measured constructs which is obtained from t-test of partial least square (PLS) itself. Is structural / inner model can be measured in two ways. They are:

1. The R-square model table shows how much influence there is between main variables in the model. Test on the structural model conducted by looking at the value of R-square is a test for model's goodness-fit.

Table 2. R Square

	R square
MSMEs	0,782
GRP	0,976

The R-Square value on the table above is used to measure the Q-Square predictive relevance for the structural model, which measures how well the observed values are generated by the model and estimate parameters.

Q square calculation is as follows:

$$\begin{aligned} \text{Q square} &= 1 - (1 - 0.976) (1 - 0.782) \\ &= 1 - (0.024 \times 0.218) = 1 - 0.005232 \\ &= 0.9948 \end{aligned}$$

Q square value of this research is 0.9948. This means that the model has predictive relevance. If Q square value is closer to 1 (one), the model is considered better.



## 2. Hypothesis Testing

The next step is testing the hypothesis and the relationship between these variables path that will answer the hypothesis in this study. Answer of a hypothesis can be obtained by observing the following table that consists of results of the bootstrapping test.

Table 3. Bootstrapping Test - Path Coefficient

	Original Sample (O)	Standard Error (STERR)	T Statistics ( O/STERR )	Description
ZIS→MSMEs	-0.105	0.324	0.323	Non-significant
IFIs→MSMEs	0.962	0.286	3.365	Significant
ZIS →GRP	0.056	0.160	0.352	Non-significant
IFIs→GRP	0.797	0.162	4.924	Significant
MSMEs→GRP	0.164	0.132	1.239	Non-significant

The result from the above table can be interpreted as follows:

- a. H1: there is negative and no significant relationship between ZIS fund distribution to the growth of MSMEs number.

The test result shows that the distribution of ZIS funds to the growth of MSMEs units have a negative relationship and no significant effect directly on the growth of MSMEs units. This conclusion is obtained from estimation in path analysis model is that is worth 0.323 (T- statistics score <T table  $\diamond$  0.323 <1.96).

- b. H2: there is a positive and significant relationship between IFIs funds distribution to the growth of MSMEs units.

The test result shows that the relation between IFIs funds distribution to the growth of MSMEs units is a positive relationship and significantly effects directly the growth of MSMEs units. This conclusion is obtained from estimation in path analysis model that is worth 3.365 (T- statistics score > T table  $\diamond$  3.365 > 1.96).

- c. H3: There is a positive and nonsignificant relationship between ZIS funds distribution to GRP.

The test result shows that the relation between the distribution of ZIS funds to GRP is a positive relationship, but the ZIS funds distribution has no significant effect directly to GRP. This conclusion is obtained from estimation in path analysis model that is worth 0.352 (T- statistics score <T table  $\diamond$  0.352 <1.96).

- d. H4: there is a positive and significant relationship between the distribution of IFIs funds to GRP.

The test result shows that the distribution of IFIs funds to GRP has a positive relationship and significant effect directly to the GDP. This conclusion is obtained from estimation in path analysis model that is worth 4.924 (T- statistics score > T table  $\diamond$  4.924 > 1.96).

- e. H5: There is a positive and no significant relationship between the growth of MSMEs units to the GRP.

The test result indicates that growth of MSMEs units to GRP has a positive relationship, but growth MSMEs units do not have a significant effect directly on GRP. This conclusion is obtained from estimation in path analysis model that is worth 1.239 (T- statistics score <T table  $\diamond$  1.239 <1.96).



Table 4. Model Test Results Summary

Hypothesis	Connection	Effect
ZIS àMSMEs	Negative	Not significant
IFIsàMSMEs	Positive	Significant
ZIS àGRP	Positive	Not significant
IFIsàGRP	Positive	Significant
MSMEsàGRP	Positive	Not significant

3. Estimated path coefficients which represent the estimated values for the connection lines in the structural model obtained by bootstrapping procedure will be considered significant if the value of T is statistically greater than T table ( $> 1.96$ ) for each relationship track. The path coefficient estimation is aimed to see how significant the relationship is between the variables and the direction of the relationship.

ZIS fund distribution has a direct and insignificant effect to GRP with a coefficient of 0.056 and growth of MSMEs units with a coefficient of -0.105. Meanwhile, the growth of MSMEs units has be the direct and insignificant effects on GRP with coefficient of 0.164. It can be concluded that the distribution of ZIS funds has both direct and indirect effects on GRP through the growth of MSMEs units. The amount of direct and indirect effect is calculated as follows:

- a. The direct effect of distribution of ZIS funds to GRP is equal to 0.056.
- b. Indirect effect of distribution of ZIS funds to GRP through growth of MSMEs units =  $(-0.105 \times 0.164) = -0.0172$

It can be concluded that the direct effect ZIS fund distribution to GRP is greater than the indirect effect through the growth of MSMEs units.

IFIs fund's distribution directly and significantly influence GRP, with a coefficient of 0.797 and also has a significant and direct effect to the growth of MSMEs units with a coefficient of 0.962. However, the growth of MSMEs units has a direct and insignificant effect on GRP with coefficient of 0.164. From above the data, it can be concluded that the distribution of IFIs funds has direct effect on GRP and indirect effect to GRP through the growth of MSMEs units. The amount of direct and indirect effect is calculated as follows:

- a. The direct effect of distribution of IFIs funds to GRP is equal to 0.797.
- b. Indirect effect of distribution of IFIs funds to GRP through the growth of MSMEs units =  $(0.962 \times 0.164) = 0.1578$

It can be concluded that the direct effect of IFIs funds distribution to GRP is greater than the indirect effect through the growth of MSMEs units.

## CONCLUSION

Based on the value from data analysis and hypotheses test, there are several conclusions as follow:

1. The first hypothesis, the distribution of ZIS funds has a significant effect on the growth of MSMEs units in East Java is rejected. From the research results, distribution of ZIS funds has the negative and insignificant influence on the growth of MSMEs units in East Java with the T-statistic value of  $0.323 < 1.96$  (5% significance level T-table score = 1.96). The reason for the rejection of Hypothesis 1 is BAZ Jatim distribution of zakah in East Java only to certain beneficiaries or mustahiq, especially for the poor and needy (Rahmah, 2014: 66-67). Based on the Act Number 38 of 1999



- on Zakat Management article 1, paragraph 2, the definition of zakat is that certain wealth must be set aside by a Muslim or business owned by Muslims in accordance with the provisions from the religion to be given to those who deserve it (mustahiq) (Ryandono, 2012: 40). It can be seen that the distribution of zakah fund on BAZ Jatim is only in form of compensation or consumptive ones, so it has less influence on the productive sector such as the growth of MSMEs in East Java.
2. The second hypothesis, the distribution of IFIs funds has a significant effect on the growth of MSMEs units in East Java is approved. From the research results, fund distribution from Islamic Financial Institutions (IFIs) has the significant and positive effect on the growth of MSMEs units in East Java with the T-statistic value of  $3.365 > 1.96$ . This result is consistent with a study from Kara (2013: 318) which stated that Islamic Financial Institutions (IFIs) financing to MSMEs through smaller financial institutions, such as the Islamic Rural Banks. It is conducted because the Islamic banks have not reach micro and small businesses yet. So, in other words, Islamic Rural Banks act as intermediaries between Islamic banks with MSMEs.
  3. The third hypothesis, the distribution of ZIS funds has the significant effect on the GRP of East Java is rejected. From the research results, the distribution of ZIS funds has a positive but insignificant effect to GRP of East Java with a T-statistic value of  $0.352 < 1.96$ . The result of this study is not parallel with the result from Rahmah (2014: 76), which concluded that zakah has great influence on people's lives in many sectors, including the effect on the economy. The reason for the rejection of this hypothesis is the concept of zakah as a mechanism of economic development that cannot be seen only on the level of East Java's GRP growth. As expressed by Firmawati (2015), in a more macro concept, the concepts of zakah, sadaqa and infaq are believed to have a tremendous impact on social problems such as poverty, unemployment, social inequality, and also they can erode greedy attitudes.
  4. The fourth hypothesis, distribution of IFIs funds has a significant effect on GRP of East Java is approved. From the research results, IFIs funds distribution has a significant and positive effect on GRP of East Java with T-statistic value of  $4.924 > 1.96$ . The result above is parallel with the study from Rama (2013: 2) which stated that growth and positive performance of the financial sector would be positively correlated with economic performance. In the long term, Islamic banking sector represented by their total financing is positively and significantly associated with economic growth and real output in Indonesia (Rama, 2013: 24). This result shows that empirically, the presence of Islamic banking and other Islamic financial institutions can contribute to real economic activities.
  5. The fifth hypothesis, the growth of MSMEs units has a significant effect on the GDP of East Java is rejected. The result shows that the growth of MSMEs units has a positive effect but insignificant to GRP of East Java with a T-statistic value of  $1.239 < 1.96$ . This result is in line with research conducted by Hapsari (2014), which stated that there is no partial and significant influence from the large numbers of MSMEs to economic growth. The reason behind the insignificant influence of numbers of MSMEs to economic growth is because other factors are more dominant, such as the capital of MSMEs and MSME profit to Gross Domestic Product (GDP). This study concluded that a large number of MSMEs units in East Java is not necessarily a significant contribution to GRP of East Java.

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