



# Islamic Social Finance for Sustainable Economic Growth in Bangladesh

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## Abstract

Islamic social finance (ISF) instruments such as *Zakat*, *Waqf*, *Sadaqah*, and Islamic Microfinance play a vital role in enhancing the standard of living and addressing financial difficulties the impacted community faces during challenging times. This paper attempts to analyze the role of Islamic social finance in sustainable economic growth in Bangladesh; specifically, it examines the role of *Zakat* and Islamic Microfinance. *Zakat* and Islamic microfinance are crucial in achieving sustainable economic growth in Bangladesh by offering targeted financial solutions for the underprivileged. This study used a quantitative research method, and data was collected from the capital city of Bangladesh. Data collection used a questionnaire containing 20 questions that utilized a Likert scale and aimed to assess independent and dependent variables. The research used SmartPLS version 4 and SPSS version 25 for extensive data analysis. The findings of this study illustrate that *Zakat* and Islamic microfinance are significantly positive in terms of sustainable economic growth in Bangladesh. Data sampling is one of this study's research limitations because it only collected data from Bangladesh's capital city. To conduct the rigorous analysis, data should come from other sources.

*Keywords:* Islamic social finance, zakat, Islamic microfinance, Sustainable Economic Growth, poverty

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## 1. Introduction

According to Bangladesh Bureau of Statistics (BBS) food security statistics 2023, 26.5 percent of households dependent on agriculture in the country suffer from food insecurity. Due to deprivation and discriminatory state policies, this rate is only 11.45 percent in the city. However, in the village where farmers live, this rate is 24.12 percent. Similarly, division-wise, the highest food insecurity prevails in Haor-Baor and agricultural land-locked divisions (Sylhet division). Because of this, agriculture is becoming the most dangerous profession. This depression of family's dependent on agriculture can impact the entire agriculture sector. As a result, Bangladesh may fall into food insecurity (Hossain, 2024; Roy, 2024).

However, according to the World Food Programme (WFP) report in August 2023, 24% of people in Bangladesh are suffering from food insecurity, which is increasing yearly. The WFP investigation exposed that 47 percent of the food insecure were in low-income households, compared to nine percent in medium-income households and less than three percent in high-income households (Raihan, 2023).

The economy of Bangladesh is supposed to grow rapidly, but there is still an issue of unequal wealth across the country. Extreme inequality is a major threat to fairness, social stability, and justice, especially for disadvantaged groups that are having a harder time meeting their regular needs. To make sure that economic growth in Bangladesh is secure and benefits everyone, it is essential to fix the issues of unfair wealth sharing between the rich and the poor (Siddiqui, 2024).

Islamic social finance (ISF) notably accelerates socioeconomic advancement by effectively using *Zakat*,

*Waqf*, *Sadaqah*, Islamic Microfinance, and *Qard-Hasan*. The use and adoption of these social well-being tools have been seen since the prophet Muhammad's time in Muslim communities and cultures outside the Islamic world (Hossain et al., 2024).

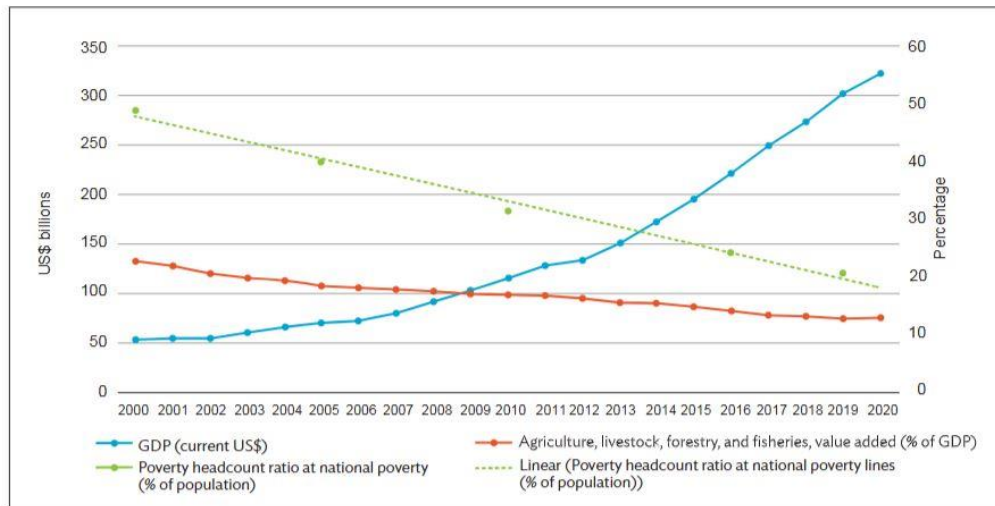
This paper examines an intensive segment of ISF, specifically *Zakat* and Islamic microfinance, to assess their potential role in fostering sustainable economic growth in Bangladesh. Islamic social finance, which adheres to equity, compassion, and community welfare principles, offers unique opportunities for addressing poverty and financial exclusion. This study investigates *Zakat*, the mandatory almsgiving for Muslims, and Islamic microfinance, a form of financial support based on Islamic principles, as tools for social empowerment and economic development. The study aims to evaluate the impact of these tools in Bangladesh's context, where significant segments of the population remain underbanked. By leveraging *Zakat* and Islamic microfinance, this paper argues that Bangladesh could make strides toward reducing poverty and advancing sustainable economic growth. Additionally, the findings may have broader implications, potentially guiding policy frameworks and financial strategies in other Muslim-majority countries seeking to harness Islamic social finance for development objectives.

## 2. Literature Review and Hypothesis Development

Bangladesh constitutes a portion of the South Asian subcontinent. It is situated on the eastern shore of the Bay of Bengal, next to India to the north and east, and Myanmar to the southeast. It has an area of 147,570 square kilometers and a population of 167.6 million (as of 2020), 61.8% of which live in rural areas. It is the most populous and the largest of the 10 most densely populated countries in the world. The country is located within the floodplains of the rivers Ganges, Brahmaputra, and Meghna and is vulnerable to natural hazards such as seasonal flooding, droughts, and cyclones. The Global Climate Risk Index ranked Bangladesh as the seventh most susceptible to natural hazards between 1999 and 2018. Despite these challenges, Bangladesh possesses a year-round favorable environment for agriculture with fertile soils, flat topography, and ample water resources (Asian Development Bank, 2023).

Bangladesh has made significant strides in poverty reduction, decreasing the poverty rate from 48.9% in 2000 to 20.5% in 2019. This achievement can be attributed to an increase in per capita income, enhanced agricultural productivity, improvements in the quality of education and healthcare services, and advancements in information and communication technology (ICT). As a result of these developments, Bangladesh attained the status of a lower middle-income country in 2015. The nation aims to sustain this growth trajectory, aspiring to achieve upper middle-income country status by 2031 and high-income country status by 2041. However, it is essential to note that the poverty headcount in rural areas, which stands at 17.4% of the rural population, is more than double that of urban areas at 6.2% of the urban population. The manufacturing and services sectors have primarily propelled recent substantial growth in gross domestic product (GDP). The contribution of agriculture to GDP has consistently declined since Bangladesh's independence in 1971, dropping from 58.4% in the fiscal year 1973-1974 to 12.6% of total GDP in the most recent figures (Figure 01). Despite the reduction in agriculture's contribution to GDP over the past two decades, the agriculture and natural resources (ANR) sector remains pivotal. The country has achieved a significant level of self-sufficiency in staple food production, particularly rice, due to increased agricultural output. Notably, the sector employs approximately 40% of the labor force and plays a crucial role in poverty alleviation and food security through its extensive forward and backward linkages to the broader economy. Therefore, the economic implications of the ANR sector extend far beyond what is indicated solely by its share of GDP (Hamadeh, 2021; Rahman, 2017).

Figure 1: Bangladesh's Gross Domestic Product, Agriculture, and Poverty, 2000-2020



GDP = gross domestic product, US = United States.

Source: World Bank (2020)

Bangladesh remains a least developed, overpopulated, and economically disadvantaged country. The government and non-government organizations are employing diverse strategies and approaches to uplift the country and cut poverty by 50 percent by 2019 (Raquib, 2020).

Unlike traditional poverty alleviation programs, institutionalized ISF programs have recently emerged globally and in Bangladesh. However, the lack of adequate policy support and private sector investment has hindered the ability of Islamic social finance to scale and operate efficiently. Consequently, innovative anti-poverty programs in Bangladesh, such as social enterprises (e.g., BRAC) and microfinance institutions (e.g., Grameen Bank), present significant competition for Islamic social finance. Despite existing since the inception of Islam, Islamic social finance instruments continue to play a vital role across the Muslim world, including in Bangladesh. Unfortunately, comprehensive database records on the number and scale of Islamic social finance institutions in Bangladesh are currently unavailable (Uddin and Mohiuddin, 2020).

The Center for Zakat Management (CZM) in Bangladesh was established on 14th September 2008, previously known as 'Zakat Forum' (ZF). It originated on 21st March 1993 with the active support of Rahim Afroz Bangladesh Ltd., aiming to utilize Zakat as a significant tool for improving the lives of the disadvantaged in Bangladesh. Initially, the forum collected Zakat funds and distributed them based on the guidance and principles of the Holy Qur'an. The CZM has started some projects to mitigate the humanitarian crisis; Jeebika is a Zakat-based program focused on livelihood and human development. The primary objective is to enable sustainable community development utilizing Zakat funds. The program aims to enhance the living conditions of the poor and needy by providing economic opportunities through livelihood strengthening, marketing access, and various Income Generating Activities (IGA). It also prioritizes improving mental and physical health, enhancing access to education, and reducing disaster risks, particularly for vulnerable households, including women and girls. The approach involves savings accumulation, access to business capital, healthcare, education, water, sanitation, training, and moral education. The project encompasses a series of initiatives designed to uplift the living standards of impoverished communities (Mohammad Osmani and Al Masud, 2021).

The Baitul Mukarram complex, situated in Bangladesh, consists of a national mosque and a shopping mall spread over 8.3 acres of Waqf land. The Waqf administrator earns rental income from the shopping complex to support the mosque's maintenance and various non-mosque activities, which include an auditorium, and a publishing house focused on Islamic teachings and job opportunities. Maximum income is directed to the state-supported Islamic Foundation to assist social welfare projects. These projects include providing Qard Hassan

loans, medical care, literacy programs, vocational training for unemployed youth, and aid for the underprivileged and orphans (MDEC, 2020).

### 2.1. The role of Islamic social finance in sustainable economic growth

Islamic social finance has the potential to significantly contribute to the development of social well-being and sustainable environments. This study measured the contribution of ISF in Malaysia and Pakistan. Comparing *Zakat*, *Sadaqa*, and *Waqf* features in these countries revealed similarities and differences in their practices. Indonesia had the highest population of 285 million in 2017, followed by Pakistan with 204.9 million and Malaysia with 31.3 million. Indonesia boasts the world's largest Muslim population, estimated at 224.5 million individuals. In contrast, Malaysia and Pakistan have populations of approximately 19.3 million and 197.5 million Muslims, respectively. Regarding gross national product (GNP), Indonesia leads the region with a reported GNP of US\$1,015.4 billion for the year 2017, followed by Malaysia at US\$314.7 billion and Pakistan at US\$304.9 billion. Notably, Malaysia outperforms its regional counterparts in total *Zakat* collection, amassing around US\$547 million in 2011. In the same year, Indonesia and Pakistan collected US\$231.6 million and US\$105 million in *Zakat*, respectively. In Indonesia, *Zakat* and *Sadaqa* were managed by the BAZNAS, private agencies, and other institutions. In Pakistan, government and private organizations administered the mobilization of *Zakat* and *Sadaqa*, while governmental institutions collected compulsory *Sadaqa* or *Zakat*. In Malaysia, *Zakat* management falls under the jurisdiction of each state's Islamic Religious Council. In terms of innovative Islamic instruments, Indonesia used Baitul Maal wat Tamwil (BMT), which collected funds from various sources, such as members' deposits and Islamic charities. Government subsidies primarily funded Amanah Ikhtiar Malaysia, while donations and Islamic charities supported Akhuwat Pakistan (Hamed, 2020; Razak and Dawami, 2020; World Bank, 2019).

### 2.2. Practices of ISF in Selected Countries

The ISF instruments, including *Zakat*, *Waqf*, and *Sadaqa*, are crucial in addressing social crises such as poverty, education, and health. Effective fund management is essential for ISF institutions to achieve their goals. This section will analyze the operational mechanisms of ISF institutions in particular countries, specifically Indonesia, Malaysia, and Pakistan.

#### 2.2.1. Indonesia

Indonesia, recognized as the most populous nation in Southeast Asia, had an estimated population of around 258 million in 2017, with nearly 224.5 million Muslims constituting 87 percent of the overall populace. Boasting a Gross Domestic Product (GDP) of US \$1015.4 billion in 2017, it ranks as the preeminent island nation globally (World Bank, 2019). The administration of *Zakat*, *Infq*, and *Sadaqa* (ZIS) in Indonesia employs a dual institutional framework, incorporating both governmental entities such as BAZNAS and private organizations including LAZ, Dompot Dhuafa Republika, and Rumah Zakat Indonesia in its governance (Razak and Dawami, 2020).

The management of *Zakat* in Indonesia has shown significant growth, with total *Zakat* collections increasing by 32 times over the past decade, reaching nearly US\$ 0.2316 billion in 2012. BAZNAS distributes *Zakat* funds across four primary programs: education, philanthropic aid, health, and economic initiatives. The efficacy of *Zakat* administration in Indonesia can be credited to Dompot Dhuafa Republika. This charitable organization leverages contributed resources to aid economically disadvantaged individuals through initiatives such as *Zakat*-based microfinance and community enhancement projects. As a predominantly Muslim nation, Indonesia significantly plays a role in achieving the *Waqf* potentiality, which is managed by Badan Wakaf Indonesia (BWI). The allocation of *Waqf* resources supports *Ibadah* (worship) and societal welfare initiatives, encompassing religious activities, educational and health services, assistance for the impoverished and orphans, scholarships, and economic and communal development by Shariah guidelines (Musa et al., 2020).

Baitul Maal wat Tamwil (BMT) is a leading Islamic Microfinance Institution (MFI) in Indonesia, operating under the Islamic cooperative system. It consists of Baitul Maal, which oversees social funds, and Baitul Tamwil, which handles business operations. Internal and external operational challenges currently hinder BMT's impact on social welfare. BAZNAS partnered with UNDP 2017 to implement a social enhancement program in Jambi to optimize the distribution of Islamic charities, focusing on renewable projects benefiting around five thousand people in eight hundred three households across four villages in Jambi province.

Moreover, the value of Waqf land and property in Indonesia is estimated to be nearly US\$27 billion, suggesting significant potential for supporting the government's social objectives, including poverty reduction and inequality mitigation (Mod  er, 2019).

### 2.2.2. Malaysia

Malaysia is a federal constitutional monarchy consisting of 13 states and the federal territories of Kuala Lumpur, Putrajaya, and Labuan. The estimated population of Malaysia was 31.1 million in 2017, with approximately 19.3 million Muslims. Over the past 20 years, Zakat mobilization and management in Malaysia have increased significantly, reaching 28 times the initial amount of US\$ 0.547 billion in 2011. Malaysia is also a newly industrialized market economy, with a Gross Domestic Product of US\$314.7 billion in 2017 (Ali, 2023).

The State Islamic Religious Council (SIRC) oversees the management of *Zakat* institutions, including offices such as Baitul Maal, the *Zakat* department, and the Zakat Committee. The governance of *Waqf* and *Sadaqa* is overseen by the State Islamic Religious Council (SIRC) in each state. This is done to uphold Islamic law and regulations regarding the administration of *Waqf* and *Sadaqa* and enhance the effectiveness of Islamic religious programs. Furthermore, Amanah Ikhtiar Malaysia (AIM) is the most prominent Islamic microfinance institution, founded in 1987 as a clone of Grameen Bank. Its primary source of finance is government subsidies. The SIRC effectively used *Zakat*, *Waqf*, and *Sadaqa* money to address social and welfare concerns. For example, the Johor Islamic Council has partnered with *Waqf* An-Nur Corporation Berhad (WANCorp) to enhance the impact of *Waqf* in several important initiatives, such as Mosque Management, Healthcare, Providing start-up financing for small businesses, and Disaster assistance. Malaysia is widely recognized as the global hub for Islamic finance. Therefore, the progress of Islamic social finance in this nation has been noteworthy in recent years. The milestone event occurred in July 2017 when Tadau Energy in Malaysia became the first entity in the world to issue SRI sukuk. In April 2018, five green sukuk issuances took place, amounting to about RM3.7 billion. Of this sum, RM2.4 billion has been allocated to support renewable energy projects and green construction initiatives. HSBC Amanah Malaysia is the first private bank in the world to issue a large sum of \$120 million in sukuk connected to social finance. The monies will be allocated towards poverty alleviation and implementing sustainable energy solutions for eligible communities (Dinar Standard, 2022; Ismail et al., 2020; The Twelfth Malaysia Plan and The Twelfth Malaysia Plan 2021-2025, 2021).

### 2.2.3. Pakistan

The rising tide of *Zakat* collection in Pakistan is showcasing a positive trajectory, surging nearly 40 percent over three years, equating to an increase of US\$105 million in 2011. Furthermore, the MoRA in Pakistan disclosed that the *Zakat* is earmarked for various initiatives, including treatment and welfare nets, societal well-being, education, and ensuring expertise in the respective sector, healthcare, and managerial costs. *Waqf* organizations across Pakistan operate under separate *Waqf* management in each province, namely Punjab, Sindh, Baluchistan, and Khyber-Pakhtunkhwa. A chief *Waqf* administrator leads each of these four administrations, collectively called the Central Waqf Council (Razak and Dawami, 2020).

### 2.2.4. Achieving Economic Empowerment Through Zakat and Islamic Microfinance

Economic empowerment means managing, allocating, and controlling one's financial resources. It paves the way for people to participate in the economy, be charitable with money, and participate in possibilities that improve their lives. When people oversee their finances, they may make well-informed decisions that reflect their beliefs and ambitions. Economic empowerment often leads to increased financial security, self-assurance, and the ability to support one's family and community. In addition, it helps alleviate poverty, promotes equality, and adds to considerable societal benefits. Empowered individuals can advocate for their financial interests, leading to a multiplier effect that benefits everyone (Golla et al., 2011).

According to the Oxford English Dictionary, "empowerment" is developing confidence in one's judgment and capacity to advocate for one's values and principles. Economic empowerment enables people to enhance their enterprises, raise their income, and achieve financial independence through *zakat* and Islamic Microfinance. By being financially self-sufficient, *Mustahiq* can enhance their quality of life and lessen economic stress (Mahadi et al., 2021).

The monetary institutions emphasized that there are two aspects in direct method financing: supply and

demand. For supply, *Zakat* functions in financing production aspects of developing activity through its fair and impartial allotment. It provides dependability and security, which is considered required to commence developmental activity, a requirement for its accomplishment and stability (Eletrebi et al., 2019)

Muslim nations can use their *Zakat* fund to build factories, estates, trade institutions, etc. People with low incomes can then use these to generate revenue, but they don't have the right to sell the instruments or have any ownership stake in them, just like endowment properties. Therefore, the *Zakat* fund is seen to ensure continuous sufficiency and improve its utilization (Hossain et al., 2023).

The distribution of productive *zakat*, *infaq*, *alms*, and *waqf* (ZISWAF) is a key part of boosting the agricultural economy and has big benefits for communities and national food security efforts. A portion of ZISWAF funds should be distributed consumptively; a strategy focused entirely on consumptive distribution is insufficient. It is imperative that a segment of these funds be allocated for investment purposes, fostering economic initiatives that empower recipients and enhance future economic prospects (Mohamed and Shafiai, 2021).

Numerous empirical investigations highlight the role of ISF tools in preventing scarcity. For instance, (Anis and Kassim, 2016) Evaluated the success of the CZM in Bangladesh, focusing on how *Zakat* funds fostered entrepreneurship and empowered impoverished women in rural communities. Their findings indicated a notable rise in nominal and real monthly income, fixed assets, and average household spending among *Zakat* recipients. Additionally, (Nashir and Nurzaman, 2019) explored a *Zakat*-driven poverty alleviation initiative launched by BAZNAS Serang Regency in Indonesia. Their research demonstrated that the initiative significantly empowered beneficiaries between 2016 and 2017. Likewise, (Sumai et al., 2019) studied *Zakat*'s role in eradicating poverty and enhancing food security in Indonesia. Their results revealed that *Zakat* funds provided essential capital to struggling households, thus making a positive impact on poverty reduction and food stability in the nation. (Suprayitno, 2020) conducted an ECM analysis to evaluate how *Zakat* distribution influenced economic growth across five Indonesian regions. Their study confirmed a significant positive correlation between *Zakat* distribution and the economic development of these regions. (Bouanani and Belhadj, 2019), employed a fuzzy methodology to assess the potential impact of *Zakat* on poverty alleviation using data from individual well-being surveys in Tunisia from 2010. The simulation outcomes indicated a substantial decrease in the poverty index across seven nationwide regions. According to the above literature review, we propose our first hypothesis as follows:

*Hypothesis-01: Zakat has a positive impact on sustainable economic growth in Bangladesh.*

A dedication to promoting economic progress and thriving socio-political frameworks based on Islamic principles is the source of Islamic microfinance. Trade, business, investment, and finance are all fundamental to Muslim communities. Microfinance concepts are in perfect harmony with Islamic ideals of fair opportunity, encouragement of entrepreneurship, shared risk, giving loans without collateral, and including the least fortunate (Saad and Anuar, 2009).

The efficacy of Islamic microfinance has been notably encouraging. The performance of the RDS (Rural Development Scheme) of IBBL surpassed that of three conventional microfinance leaders—Grameen Bank, ASA (Association for Social Advancement), and BRAC (Bangladesh Rural Advancement Committee)—in terms of growth (12.5%), drop -out rate (5%), and operational efficiency. Imposing a reduced rate of return (10% with a 2.5% rebate for timely payments) compared to other microfinance options (16-22.5% interest) provides a benefit to the impoverished. Additionally, this type of microfinance provides an active spiritual development program that enhances members' understanding of social rights and obligations, fostering stronger connections with others (Riwajanti and Asutay, 2015).

Akhwat is an interest-free Islamic microfinance organization in Pakistan, based on the Islamic concept of *Qard Hassan*. Akhwat's primary mission is to raise the living standards of those economically disadvantaged and ignored by society as a whole. Living standards, per capita income, ethical values, profitability, infrastructural position, employment level, society's capacity to regulate inflation, and wealth inequality are all areas where Akhwat is making a significant impact. Consideration of these elements is directly involved in alleviating poverty (Silva Afonso and Khan, 2019).

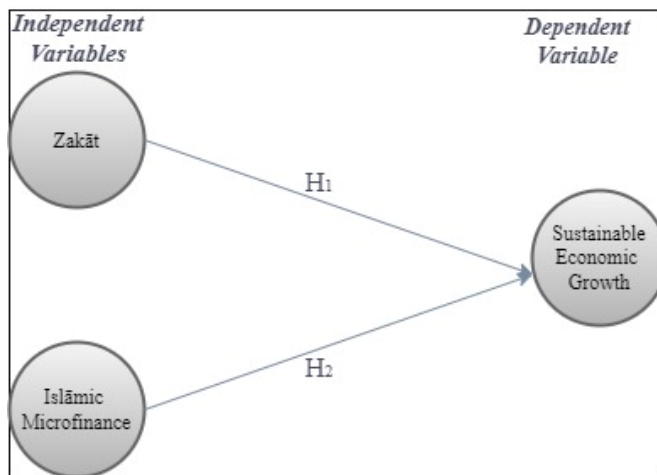
An idealistic microfinance system founded in Indonesia, BMT seeks to relieve socio-economic restrictions and the complex challenges of poverty by incorporating the moral teachings and principles of a heavenly religion, local cultures and values, and a unique financial technique.

It is comparable to the income of low-income people before and after receiving the financing plan from Baitul Maal wat Tamwil (BMT) to evaluate the program's effectiveness in assisting people experiencing poverty. Those with a monthly per capita income of around Rp211,726 are considered inadequate. Many kinds of funding are available from BMTs. Typically, they promote various forms of finance, such as Mudarabah, Musharaka, murabahah, bai'bitsamanil Ajil, and qard hasan, as social intermediaries (Anwar et al., 2023).

Amanah Ikhtiar Malaysia (AIM) was established on September 17, 1987, as a revised version of the Trust (Incorporation) Act 1952. It's an Islamic microfinancing institution whose primary mission is to alleviate rural poverty through a microcredit program for low-income families. AIM's primary goal is to provide microcredit facilities to societies that are very impoverished. Most traditional banks won't give loans to people in this category since they do not have the collateral or guarantors that these institutions typically demand. AIM works on research and consulting projects with several nearby institutions. To end poverty, AIM has assisted several nations in establishing microcredit organizations. AIM, an Islamic microfinance organization, dedicates itself to eradicating poverty. AIM's distinctive delivery method, appropriate human resources, sufficient service benefits, and good work environment have positively impacted its entire success (Aziz et al., 2022). According to the above literature review, we propose our second hypothesis as follows:

Hypothesis-02: Islamic Microfinance has a positive impact on sustainable economic growth in Bangladesh.

Figure 2: Conceptual framework, drawn by Authors



### 3. Data Source and Methodology

This study used a quantitative research method, and data was collected from the capital city of Bangladesh. Data collection used a questionnaire containing 20 questions that utilized a Likert scale and aimed to assess independent and dependent variables. The question was distributed through Google Forms to different types of people who had expertise in their respective areas. The researchers chose 350 respondents and received 210 responses out of that. The research used SmartPLS version 4 and SPSS version 25 for extensive data analysis. Using SPSS, we could do early descriptive and inferential statistical analyses, allowing us to closely examine the data distribution, core patterns, and variability. The study also accomplished variable correlations and hypothesis testing using SmartPLS.

### 4. Results and Discussion

#### 4.1. Normality Test

When data following a normal distribution forms a bell curve, with the mean, mode, and median being equally distributed. We say that distribution is symmetric when none of the three measures are skewed; we say that it is asymmetric and skewed to one side when any one of the three is skewed. Skewness may have positive or

adverse effects. Assume that the range of the skewness is -1.96 to 1.96 (Jammalamadaka *et al.*, 2021). Most entries classified as variables demonstrate consistent distribution, as depicted in Table 1. Figures 3 and 4 show the Effects of Zakat, Islamic Microfinance, and Sustainable Economic Growth.

Table 1: Normality Tests: Skewness and Kurtosis

| Item                        | Mean  | Median | Standard deviation | kurtosis | Skewness |
|-----------------------------|-------|--------|--------------------|----------|----------|
| ZKT1                        | 3.138 | 3      | 1.311              | -1.165   | -0.041   |
| ZKT2                        | 4.095 | 4      | 1.005              | 1.986    | -1.383   |
| ZKT3                        | 4.067 | 4      | 0.778              | -0.799   | -0.3     |
| ZKT4                        | 4.086 | 4      | 0.852              | 1.962    | -0.91    |
| ZKT5                        | 4.114 | 4      | 0.892              | 1.964    | -1.199   |
| IMF1                        | 3.89  | 4      | 0.977              | -0.414   | -0.827   |
| IMF2                        | 3.924 | 4      | 0.968              | 1.974    | 1.956    |
| IMF3                        | 3.971 | 4      | 0.946              | 1.967    | -0.895   |
| IMF4                        | 4.162 | 4      | 0.847              | 1.977    | -1.960   |
| IMF5                        | 4.129 | 4      | 0.925              | -0.337   | -0.914   |
| SEG1                        | 3.771 | 4      | 1.102              | -0.127   | -0.826   |
| SEG2                        | 3.8   | 4      | 0.994              | -0.552   | -0.789   |
| SEG3                        | 3.995 | 4      | 0.865              | -0.301   | -0.659   |
| SEG4                        | 4.071 | 4      | 0.828              | -0.54    | 1.49     |
| SEG5                        | 3.981 | 4      | 1                  | -0.483   | -0.566   |
| Zakat                       | 3.9   | 4      | 0.607              | -0.98    | -0.83    |
| Islamic Microfinance        | 4.015 | 4.2    | 0.589              | 1.975    | -1.209   |
| Sustainable Economic Growth | 3.922 | 4      | 0.616              | 2.085    | -1.143   |

Figure 3: Effects of Zakat and Sustainable Economic Growth

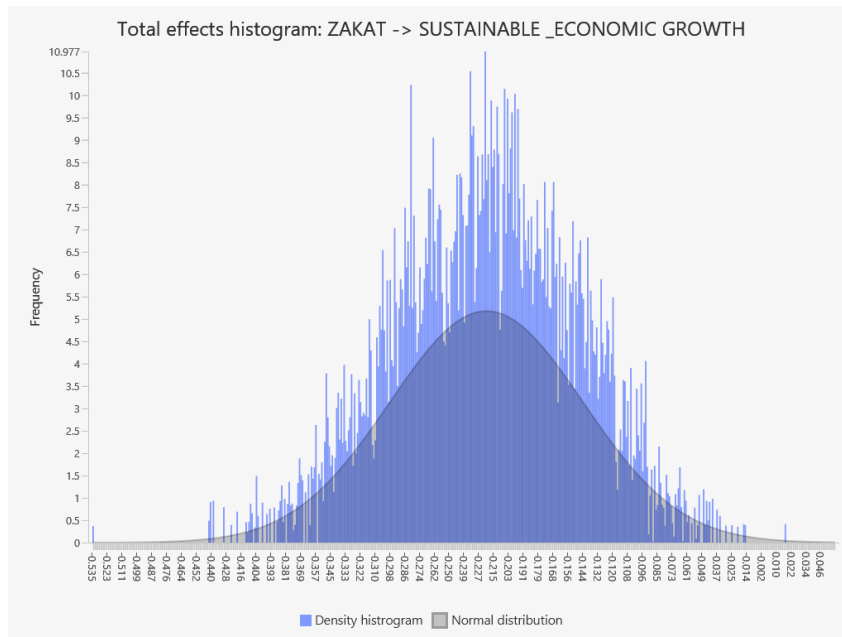
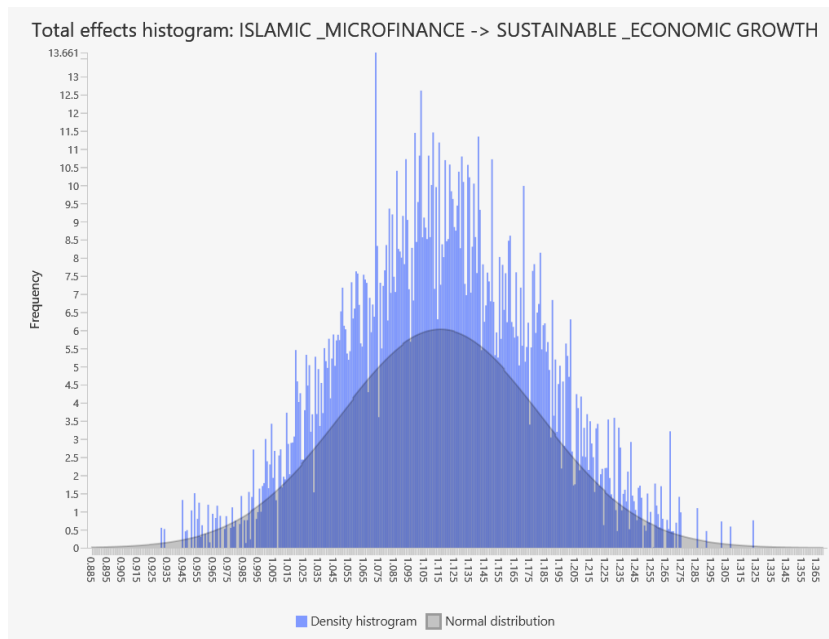


Figure 4: Effects of Islamic Microfinance and Sustainable Economic Growth



#### 4.2. Reliability and validity analysis

The researcher mainly uses the SEM model to measure cause and effect. The SEM model is divided into two models: the Measurement model and the Structural model. The measurement model is used for analyzing Reliability and Validity, and the structural model is used for Hypothesis testing. Composite dependability (CR) and Cronbach's Alpha confirmed the construct's dependability. Table 2 displays the specific construct reliability and convergent validity. According to (Sarstedt et al., 2021; Wasko and Faraj, 2005;) the desired values of Cronbach's alpha, rho\_A, Average Variance Extraction (AVE), and Composite reliability are respectively greater than or equal to 0.70, 0.70, 0.70, and 0.50. The outcomes of our three constructs meet the minimum values and make the significance of our study.

Table 2: Reliability and validity analysis

| Construct                   | Cronbach's alpha | rho_A | CR    | AVE   |
|-----------------------------|------------------|-------|-------|-------|
| Zakat                       | 0.732            | 0.780 | 0.867 | 0.512 |
| Islamic Microfinance        | 0.720            | 0.756 | 0.762 | 0.599 |
| Sustainable Economic Growth | 0.737            | 0.749 | 0.775 | 0.611 |

#### 4.3 Hypothesis Test

The 'P' value is a statistical measure that evaluates the likelihood of obtaining a result equal to or greater than the observed outcome, assuming that the null hypothesis of no effect or difference holds. In this context, the variable 'P' represents probability, indicating the chance that an observed difference between groups arises from random variation. The T-value suggests the degree of deviation in the variability present in the sample data. 'T' is the computed contrast expressed in units of standard error. As the size of 'T' increases, the strength of the evidence against the null hypothesis also grows (Russo and Stol, 2021).

The model's efficacy is assessed by the robustness of each structural route, shown by the 'R' and 'R<sup>2</sup>' values for the dependent variable; these values should be at least **0.70** and **0.10**, respectively (Sahibzada et al., 2022).

Table 3: Path coefficients

|  | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics ( O/STDEV ) | P values |
|--|---------------------|-----------------|----------------------------|--------------------------|----------|
| Zakat > Sustainable Economic Growth                | -0.237              | -0.221          | 0.077                      | 3.078                    | 0.002    |
| Islamic Microfinance > Sustainable Economic Growth | 0.136               | 1.116           | 0.066                      | 2.061                    | 0.000    |

**Hypothesis-01:**

Zakat has a positive impact on sustainable economic growth in Bangladesh.

Table 4: Regression Analysis (Zakat)

| Model Summary |                   |          |                   |                            |
|---------------|-------------------|----------|-------------------|----------------------------|
| Model         | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1             | .705 <sup>a</sup> | .497     | .494              | .43903                     |

a. Predictors: (Constant), Zakat

Table 4 illustrates the correlation between *Zakat* and sustainable economic growth in Bangladesh. The analysis reveals that the R value is 0.705, with an R-squared value of 0.497, indicating that Zakat accounts for 49.4% of the sustainable economic growth in the country. Additionally, the SmartPLS analysis report presented in Table 3 indicates a 'P' value of 0.002 and a 'T' value of 3.078. The hypothesis is deemed supported and significant when the 'P' value is less than 0.05 and the T-value exceeds 1.96. Therefore, the first hypothesis posits that *Zakat* has a significant impact on sustainable economic growth in Bangladesh.

**Hypothesis-02:**

Islamic Microfinance has a positive impact on sustainable economic growth in Bangladesh.

Table 5: Regression Analysis (Islamic Microfinance)

| Model Summary |                   |          |                   |                            |
|---------------|-------------------|----------|-------------------|----------------------------|
| Model         | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1             | .898 <sup>a</sup> | .806     | .805              | .27221                     |

a. Predictors: (Constant), Islamic Microfinance

Table 5 presents the correlation between Islamic Microfinance and sustainable economic growth in Bangladesh. The analysis reveals a correlation coefficient (R) of 0.898 and a coefficient of determination (R<sup>2</sup>) of 0.806, indicating that Islamic Microfinance accounts for approximately 80.6% of the variance in sustainable economic growth within the region. According to the SmartPLS analysis outlined in Table 2, the p-value is 0.00, and the t-value is 2.061. These findings provide strong support for our hypothesis, as the statistical significance is affirmed by the p-value being less than 0.05 and the t-value exceeding 1.96. Ultimately, the results substantiate the assertion that Islamic Microfinance exerts a significant influence on sustainable economic growth in Bangladesh.

**5. Conclusion**

*Zakat* and Islamic microfinance are crucial in achieving sustainable economic growth in Bangladesh by offering targeted financial solutions for the underprivileged. *Zakat*, a form of obligatory almsgiving, provides a steady flow of resources that can fund welfare programs, healthcare, and education, directly supporting low-income communities. Islamic microfinance, adhering to *Shariah*-compliant principles, provides interest-free loans, empowering entrepreneurs and small businesses. Together, they address poverty, reduce inequality, and support financial inclusion, which is essential for long-term economic stability. These programs enhance social welfare,

foster self-sufficiency, and contribute significantly to Bangladesh's financial resilience by aligning with sustainable development goals. The results of this study revealed a statistically significant relationship between the factors influencing sustainable economic growth in Bangladesh. This study has limitations concerning data issues because data was collected from the capital city of Bangladesh. Still, to ensure a rigorous analysis, data should come from the various cities. Secondly, Bangladesh's Islamic social finance authority is impersonal in assisting the researchers in achieving a significant outcome. This study will influence the conduct of more research in the field of Islamic Social Finance in Bangladesh.

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