



Contents lists available at: <https://e-journal.unair.ac.id>

AJIM (Airlangga Journal of Innovation Management)

Journal homepage: <https://e-journal.unair.ac.id/AJIM>

Does Islamic Finance Matter for Poverty Development in Indonesia?

Rachmania Nurul Fitri Amijaya^{1*}, Andika Eko Prasetyo², Rensia Yuliati Pratama³, Intan Wardah Kharisma⁴

^{1,2,3,4} Sharia Economics Program, Faculty of Economics and Business, Universitas Jember, Indonesia

ARTICLE INFO

Paper Type:

Research Paper

Keywords:

Mudharabah Financing, Zakat, Inflation, Poverty Level

Article History

Received: 15 September 2023

Revised: 3 December 2023

Accepted: 7 December 2023

Available online: 8 December 2023

This is an open access article under the CC BY-NC-SA license

<https://creativecommons.org/licenses/by-nc-sa/4.0/>

ABSTRACT

Poverty remains a multifaceted economic challenge that necessitates a variety of solutions. The method that must be pursued focuses on enhancing economic, social wellbeing, and equalizing people's purchasing power to satisfy life's requirements rather than only economic growth. The purpose of this study is to discover and assess the impact of mudharabah finance, zakat, and inflation on poverty alleviation in Indonesia, both individually and collectively. The data utilized is secondary data from associated agencies such as the Financial Services Authority (OJK), the National Zakat Amil Agency (BAZNAS), Bank Indonesia (BI), and the Central Agency of Statistics (BPS) for 2006-2022 period. The study employed a multiple linear regression model and hypothesis testing utilizing E-Views 12 Software, with mudharabah funding, zakat, and inflation serving as independent factors and poverty level serving as the dependent variable. The findings of the regression tests show that mudharabah and zakat finance have a considerable negative influence on poverty, but the inflation rate has a negligible positive effect on poverty. The government, as a policymaker, can maximize the distribution of mudharabah and zakat finance for poverty alleviation initiatives; nevertheless, government must continue to pay attention to the inflation rate in order to regulate and distribute people's buying power in a balanced manner.

*Corresponding author: rachmania.feb@unej.ac.id

Cite this article as: Amijaya, R. N. F., Prasetyo, A. E., Pratama, R. Y. and Kharisma, I. W. (2023). Does Islamic Finance Matter for Poverty Development in Indonesia? *Airlangga Journal of Innovation Management*, 4(2), 185-197. <https://doi.org/10.20473/ajim.v4i2.49756>

Introduction

Poverty is defined as the inability of a person to achieve their basic necessities (Zainuri, 2022). For many nations in the world, especially developing nations like Indonesia, poverty is a serious issue (Priseptian & Primandhana, 2022). This is due to the fact that poverty is a complex economic issue that calls for a variety of solutions. According to the World Bank, economic growth is the most important tool for alleviating poverty in developing countries (Santoso & Nurzaman, 2020). However, whether economic growth can significantly reduce poverty is still being debated. As a result, policymakers must choose between identifying growth priorities and identifying growth that is used to alleviate poverty (Balasubramanian et al., 2023). It demonstrates that reducing poverty involves more than just boosting economic development and it also entails empowering social welfare and the economy, as well as equating people's buying power to fulfill basic requirements. The values of every religion, which include directing its followers toward prosperity, state that alleviating poverty is an attempt to achieve wealth. *Falah*, or the satisfaction of fundamental requirements for happiness in this world and the hereafter, is how Islam defines welfare (Hany & Islamiyati, 2020). It explains why reducing poverty is essential for development in order to promote genuine wellbeing and prevent inequality between the rich and the poor (Ridlo & Muthohar, 2020).

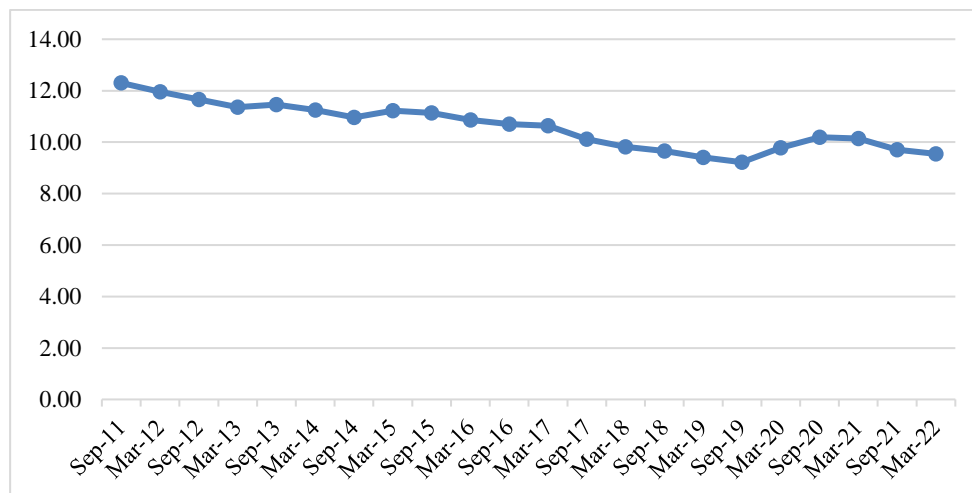


Figure 1. Development of Poverty in Indonesia
Source: Badan Pusat Statistik (2022)

Figure 1 demonstrates that the rate of poverty in Indonesia has been declining for the past ten years, but will begin to rise again in 2020. Between 2015 and 2019, there is a drop in poverty that tends to settle at or above 9.00%, and in March 2020, it grows once again. However, poverty in Indonesia is expected to decline again between 2021 and 2022.

A comprehensive approach to the issue of poverty that focuses on the growth of empowerment (Nengsih et al., 2021). Although they depict the shared distribution of direct deprivation for individuals or households, multidimensional poverty indicators have been proven to be complementary to monetary measures of poverty in recent years (Vollmer & Alkire, 2022). One illustration is to contrast home consumption per capita with the national poverty line (Gong et al., 2022). This explains why it would be important to give the economy the tools it needs to boost consumption, which could then be put toward investment projects.

The empowerment development is linked to completing investments to boost economically dependent populations. In order to prevent the spread of poverty, Islam has provided financial tools in the form of sharia financing, a *mudharabah* contract is used by one of them. *Mudharabah* financing is one type of financing that

can be employed in the early phases of enhancing individual productivity. According to Nengsih et al. (2021), sharia financing has a negative and considerable impact on Indonesia's poverty rate. Ridlo & Muthohar's research (2020), which indicated that sharia financing has a detrimental but less significant impact on poverty in Indonesia, revealed a modest difference. This could be because not most Islamic financing contracts can be used by people or clients who do not have capital.

In addition to sharia funding, Islam has established obligatory mechanisms that can be utilized as productive or consumptive cash, zakat. This is due to the fact that zakat can be used as a source of funds and resources to support economic development, which is expected to make a significant contribution to reducing poverty in the economy (Rasyid & Hannase, 2021). In practice, zakat is a major socioeconomic weapon for reducing inequality in income distribution, as well as the primary function in modern public finance that provides social rights and grants in a welfare state (Bin-Nashwan et al., 2020). However, Firmansyah et al. (2022) highlighted that Zakat, Infaq, Shadaqah has a relatively insignificant effect on economic growth as an indicator of welfare to reduce poverty.

Zakat institutions have several challenges in the process of gathering and allocating zakat, impeding the optimal distribution of zakat and perhaps leading to more severe poverty (Wulansari & Hendratmi, 2021). The following are the issues at hand, namely: a) Internal issues include exorbitant promotional expenses, ineffective zakat usage programs, a lack of cooperation among zakat stakeholders, and a shortage of zakat human resources; b) The public's lack of confidence in the stability of zakat distribution is caused by external issues with accountability in the less transparent handling of zakat resources, and c) Systemic issues come from the absence of governmental backing for the enactment of the zakat law. On the other hand, the ability to provide fundamental necessities in order to eliminate poverty is determined by the pricing of these needs. Price increases for basic necessities (inflation) can make it difficult for people to meet their needs if income levels do not rise (Zainuri, 2022). The community will stay trapped in a cycle of poverty as a result of the rising inflation rate making it more difficult for them to achieve their basic necessities (Kasim et al., 2021).

According to Wahyuningsih et al. (2020), inflation has a significant and positive impact on poverty. In contrast to Hany and Islamiyati's (2020) research, which argues that inflation has a fewer substantial influence on poverty. Every component of inflation in the Euro region increased post-pandemic inflation. Core inflation has decreased since the middle of 2021 and is expected to approach 3% in 2022. The primary risks to price stability at the moment are cyclical and residual inflation linked to unconventional supply networks, energy markets, and geopolitical concerns. Even if there are many stabilization cycles in progress, stagflation and a general deterioration of financial circumstances might materialize (Morana, 2023). This will undoubtedly have an impact on the rise in poverty. Furthermore, inflation data from the Central Bank is used by the inflation variable instead of the Consumer Price Index (CPI) as a parameter.

Based on some of the information presented above, the objective of this research is to evaluate and analyze the impact of *mudharabah* financing, zakat, and inflation on poverty alleviation in Indonesia. In order to effectively lessen the severity of poverty, the research phenomena that will be studied is how Islamic finance may fulfill people's consumption demands with optimal purchasing power and enhance economic independence in a productive way. The influence of sharia finance tools, particularly *mudharabah* contracts, on poverty at the national level is examined in this research.

Literature Review

Poverty

Poverty is a multidimensional problem that must be addressed in various steps. According to Obaidullah in (Ascarya & Sakti, 2022), Islam has numerous approaches to poverty reduction, including charity, economic

empowerment, debt avoidance, family cohesiveness, sharia-compliant contracts, Islamic principles in microfinance activities, cooperation, and solidarity.

The government has taken various initiatives to combat poverty development, but they are not optimal, even though poverty remains a global concern despite fast industrialization and technological breakthroughs (Hany & Islamiyati, 2020). According to Michael Sherraden in (Latief et al., 2022), there are two contradictory types of poverty, those related to social structure and conduct (behavioral), and there are even perspectives that are not in favor of the two categories, including poor culture. According to behavioral theory, unproductive individual attitudes have led to poverty. This is because the theory's emphasis is on expectation, choice, motivation, attitude, and human capital. In addition, functionalist sociology theory explains that inequality is an unavoidable need (Latief et al., 2022). In contrast to the behavioral theory, the structural theory emphasizes that inequality in opportunity is produced by systematic structural barriers, which result in capitalist oppression of the poor. Meanwhile, Oscar Lewis and Edward Banfield's poor culture theory explains the culture of the lower class's group that does not delay individual fulfillment, which can cause poverty to persist for the following generation (Latief et al., 2022).

The "cycle of poverty" theory, put forth by Nurkse, is explained by Hany and Islamiyati (2020). According to this theory, every person with a high income can save and invest so they can maintain their status, but every person with a low income cannot invest, making it difficult to escape the cycle of poverty. Nurkse, however, suggests a personalized development paradigm to break the cycle of conflicting interests. The professionals hired for the various initiatives will purchase one another's goods and promote one another if multiple organizations invest at the same time. Equitable development, or synchronous interests in many different companies, drives common interests (Sarmah, 2022). These beliefs lead one to believe that poverty is a multifaceted issue that requires efforts from all fronts to be resolved. Meeting fundamental needs is intimately tied to poverty alleviation. The term "*Dharuriyat*" refers to the aims of Islamic Sharia, which are to maintain religion, life, mind, lineage, and property.

***Mudharabah* Financing**

Financing, according to Banking Act No. 10 of 1998, is the provision of cash or similar claims based on an agreement between the bank and the parties being funded to repay the funds after a set length of time in exchange for profit sharing (Hanifah et al., 2018). Financing has the potential to promote the utilization of capital, goods, money flow, community spirit, and as a way of economic stabilization in the broader economic system (Nengsih et al., 2021). Financing can be an excellent investment instrument for individuals who are just establishing a business in order to improve their economic situation and break free from the cycle of poverty.

According to Harrod-investment Domar's theory, one of the benefits of investment is the development of production capacity, which is intended to expand employment prospects for the community, hence overcoming unemployment and reducing poverty (Ain', 2021). Sharia financing with a *mudharabah* contract is one type of funding for productive investment facilities. *Mudharabah* is a financing agreement between two parties in which the first is the provider of capital (*shahibul maal*) and the second is the manager of capital (*mudharib*) with a certain profit ratio and the financial risk is borne by the provider of capital if it occurs due to the manager's negligence (Hanifah et al., 2018). It can be argued that *mudharabah* financing is a possibility for those in need of funds to enhance their living conditions and get out of poverty.

Zakat

Zakat is one of the pillars of Islam that every Muslim must perform in order to serve Allah SWT, and it has an impact on the economic and socioeconomic spheres of society. Zakat is generally applied to activities

such as social initiatives, empowerment, the economy, and activism (Rasyid & Hannase, 2021). Zakat is a social and economic instrument used by Muslims to help *mustahiq*. According to studies from many nations, while zakat can be integrated into a country's financial system, specifically to eradicate inequality, zakat must adapt to modern financial transactions and investment opportunities (Khalifah et al., 2022). This illustrates how the zakat system would undoubtedly improve with technology advancements in order to fulfill its mandate of ensuring the welfare of the community (Mohd Nor et al., 2021).

By boosting the supply and demand for goods and services, increasing the distribution of zakat payments can advance economic development by, among other things, lowering poverty rates. This is brought on by an increase in *mustahik* revenue from businesses funded by zakat, and as a result, those who were previously considered *mustahik* are now expected to change their status to *muzakki* (Rasyid & Hannase, 2021). In addition to personal zakat, businesses that have complied are also expected to pay zakat. Because business enterprise zakat has a large scale and offers good space to implement large social projects with good governance, it is thought of as a tool that can be used to alleviate poverty. This means that in the end, it can benefit society and bring prosperity to those who are less fortunate (Hoque, 2022). According to Rizkiningsih et al. (2019) in (Hudaefi & Beik, 2021), at the micro level, zakat can enhance the average *mustahik's* income by taking into account many welfare indices. This demonstrates the importance of zakat in increasing people's income. The distribution theory proposed by Baqir Al-Sadr, which describes how the zakat system can be used to enhance the fair distribution of income in the Islamic economy (Zakariya & Arifin, 2020).

Inflation

A generalized and ongoing tendency to raise prices that are quite high leads to higher costs for other commodities when there is inflation (Hany & Islamiyati, 2020). One of the causes of this growth is that, according to the quantity theory of money, there is an imbalance between the amount of money in circulation and the amounts of available products (Susanto & Pangesti, 2020). Natural inflation and human error inflation are the two categories into which inflation may be separated. Natural inflation is the result of a mismatch between aggregate demand and supply, which happens as a result of natural forces beyond human control. In the meanwhile, Human Error Human errors lead to variances that result in price hikes and inflation. The act of hoarding commodities, or *ihtikar*, is one of the in question aberrations (Parakkasi, 2017). During inflation, there will be shortages in the supply of products, requiring consumers to pay more for the same items (Zahara & Munifatussa'idah, 2022).

A decline in the monetary worth of goods and services due to inflation or rising prices would also lower people's buying power (Fitri & Zaimsyah, 2022). The economy may experience the following issues as a result of these price increases (Ningsih & Andiny, 2018): a) A rise in the cost of products will cause panic in the community, resulting in excessive expenditure to obtain these goods, b) People will spend their savings to purchase these items, resulting in a low level of investment, c) Producers will monopolize in order to enhance profits by taking advantage of the price increase opportunity, d) The distribution of products is often unequal because it focuses on goods close to the source of production and those with a lot of money.

Hypothesis Formulation

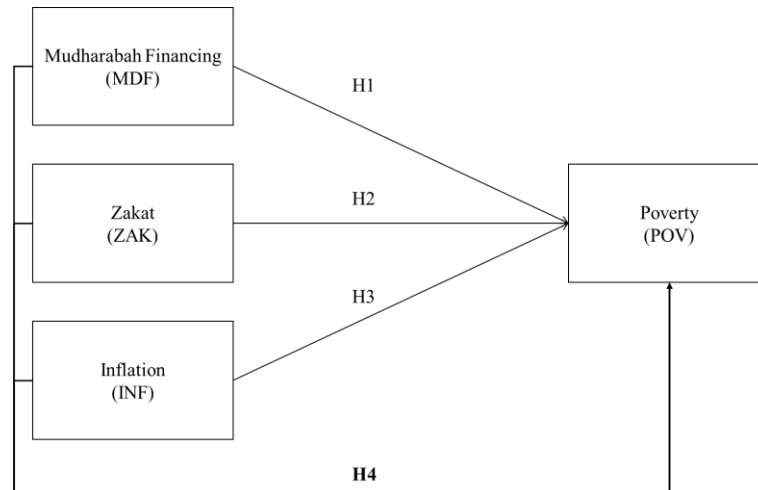


Figure 2. Conceptual Framework

Figure 2 indicates that the following hypothesis will be used to investigate how zakat, inflation, and *mudharabah* finance factors affect the emergence of poverty:

Mudharabah Financing's Impact on Poverty Level

Financing can be an excellent investment instrument for individuals who are just establishing a business in order to improve their economic situation and break free from the cycle of poverty. According to Nengsih et al. (2021), sharia financing has a considerable negative influence on poverty, which suggests that increasing sharia financing can lower the poverty rate. Fadly et al., (2021) explain, sharia finance has a negative correlation with the rise of poverty.

H1: *Mudharabah* financing has a significant negative effect on the level of poverty

Zakat's Impact on Poverty Level

At the micro level, zakat can enhance the average *mustahik's* income by taking into account many welfare indices (Hudaefi & Beik, 2021). This demonstrates the importance of zakat in increasing people's income. The distribution theory proposed by Baqir Al-Sadr, which describes how the zakat system can be used to enhance the fair distribution of income in the Islamic economy (Zakariya & Arifin, 2020). According to Rasyid and Hannase (2021), the distribution of zakat has a negative and significant effect on poverty, implying that increasing the distribution of zakat can lower the poverty rate. The existence of zakat, infaq, and alms giving, according to Hany and Islamiyati (2020), has a major detrimental influence on poverty.

H2: Zakat has a significant negative effect on the level of poverty

Inflation's Impact on Poverty Level

As to Al-Maqrizi's explanation, inflation is a socio-economic phenomenon that arises from a consistent rise in the overall prices of products and services over a specific duration (Zahara & Munifatussa'idah, 2022). This impact demonstrates that price increases will intensify the poor's incapacity to meet their demands. According to Ningsih and Andiny (2018), inflation has a positive and significant effect on poverty, which means that as inflation rises, so will the poverty rate. Zainuri (2022) also states that inflation has a significant impact on poverty.

H3: Inflation has a significant positive effect on the level of poverty

Methods

Using multiple linear regression models and the Ordinary Least Square (OLS) technique, this study employs quantitative methodologies. To test a hypothesis or assess the effectiveness of a strategy, a multiple linear regression model is a model constructed using numerous factors to explain the dependent variable (Wooldridge, 2013). The Financial Services Authority (OJK), the Central Agency of Statistics (BPS), Bank Indonesia (BI), and the National Zakat Amil Agency (BAZNAS) provided the secondary data that was utilized. The data was collected between 2006 and 2022. The dependent variable in this study is poverty level (POV), whereas the independent variables are mudharabah finance (MDF), zakat (ZAK), and inflation (INF). From an operational standpoint, every research variable is defined as a data parameter that describes it. Each variable's operational definition is as follows:

Table 1. Variable Explanation

Variable	Definition	Sources
Poverty (POV)	Poverty is defined as the amount of people in society who are unable to achieve their fundamental necessities.	Central Agency of Statistics
<i>Mudharabah</i> Financing (MDF)	<i>Mudharabah</i> financing is the amount of mudharabah financing offered by Islamic banking to customers.	Financial Services Authority
Zakat (ZAK)	Zakat is the distribution of some assets to those who qualify for them in accordance with the nishab.	National Zakat Amil Agency
Inflation (INF)	Inflasi adalah kenaikan harga-harga barang dan jasa secara terus menerus dalam jangka waktu tertentu	Bank Indonesia

Classical assumption tests, such as the autocorrelation, heteroscedasticity, multicollinearity, and normality tests, were performed in this study. Furthermore, using the following model, a multiple linear regression test was performed:

$$POV = \alpha + \beta_1MDF + \beta_2ZAK + \beta_3INF + \varepsilon \quad (1)$$

Using the F and T tests, a hypothesis test will be conducted using this model to ascertain the significance of the independent variable's effect on the dependent variable. E-Views 12 Student Version software is used for all testing of research data.

Results

Normality Test

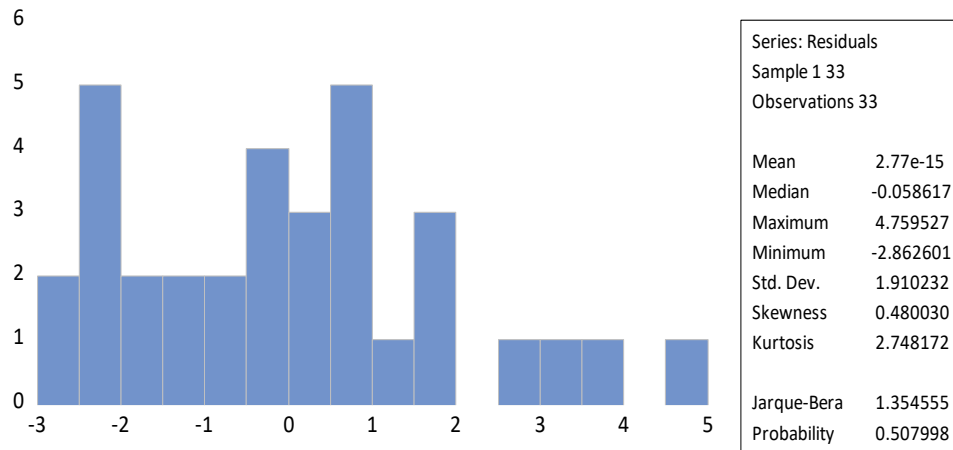


Figure 3. Normality Test

To determine if the data distribution in the data group is regularly distributed or not, the normality test is run. Figure 3 shows that the probability value is 0.507998, which is greater than 0.05 and demonstrates that the regression model satisfies the normality/normal distribution condition.

Multicollinearity Test

Table 2. Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1.941.222	1.590980	NA
MDF	0.00000000994	1.061225	1.035.301
ZAK	0.00000000116	1.629656	1.097.177
INF	0.01401	3.858933	1.122.085

The existence of a linear relationship between exogenous variables is examined using the multicollinearity test. According to Table 2, the values for the centered VIF for X1 are 1.035301, 1.097177, and 1.122085. Because the centered VIF value is less than 5 or less than 10, these findings demonstrate that there is no direct linear relationship between the independent variables and this regression model.

Heteroscedasticity Test

Table 3. Heteroscedasticity Tes

F-statistic	2.479957	Prob. F(3,29)	0.0809
Obs*R-squared	6.737559	Prob. Chi-Square (3)	0.0808
Scaled explained SS	6.548046	Prob. Chi-Square (3)	0.2080

The heteroscedasticity test is used to determine whether there is a variance inequality from one observation to the next in the regression model. According to Table 3, the Chi-Square probability value is 0.2080, which is greater than 0.05, indicating that there are no signs of heteroscedasticity.

Autocorrelation Test

Table 4. Autocorrelation Test

F-statistic	2.787.850	Prob. F(2,27)	0.0793
Obs*R-squared	5.648.323	Prob. Chi-Square (2)	0.0594

The autocorrelation test is used to determine whether there are autocorrelation issues or correlations between study variables. The value of prob. The Chi-Square is 0.0594, which indicates it is still greater than 0.05, indicating that there is no autocorrelation problem in this study.

Multiple Regression Test

Table 5. Multiple Regression Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.044511	1.393278	2.902875	0.0000
MDF	-0.000942	0.0000997	-9.453712	0.0000
ZAK	-0.000115	0.0000341	-3.379124	0.0021
INF	0.148667	0.118365	1.256.009	0.2191
R-squared	0.806511	Mean dependent var		3.009030
Adjusted R-squared	0.786495	S.D. dependent var		4.342685
S.E. of regression	2.006606	Akaike info criterion		4.343979
Sum squared resid	1.167676	Schwarz criterion		4.525374
Log likelihood	-6.767566	Hannan-Quinn criter.		4.405013
F-statistic	4.029317	Durbin-Watson stat		1.064037
Prob(F-statistic)	0.00000			

The following are the results of the regression equation in this investigation based on the model in Table 5:

$$POV = 40,44511 - 0,000942 MDF - 0,000115 ZAK + 0,148667 INF + e.....(2)$$

This equation illustrates that a constant of 40.44511 means that if all independent variables are zero, the poverty rate will rise by 40.44511%. The MDF coefficient is 0.000942 with a negative value, indicating that increasing mudharabah finance by 1% reduces poverty by 0.000942%. The ZAK coefficient of 0.000115 with a negative value explains that increasing zakat by 1% reduces poverty by 0.000115%. The INF coefficient is 0.148667, and a positive result indicates that if inflation rises by 1%, the poverty rate rises by 0.148667%.

Table 5 offers a coefficient of determination of 0.806511, indicating that the financial variables for mudharabah, zakat, and inflation can affect poverty by 80.65%, while other factors influence the remaining 19.35%. According to Table 5, the F-statistic has a probability value of 0.000000, which is less than 0.05. This explains why the financing factors mudharabah, zakat, and inflation have such a significant impact on poverty. The T test results in Table 5 show that the mudharabah finance variable has a T-statistic value of -9.453712 with a probability of 0.0000, indicating that mudharabah financing has a substantial negative effect on poverty. The zakat variable has a T-statistic value of -3.379124 and a probability of 0.0021, indicating that zakat has a substantial negative effect on poverty. The inflation variable has a T-statistic value of 1.256009 with a probability of 0.2191, demonstrating that inflation has no significant positive effect on poverty.

Discussion

***Mudharabah* Financing's Impact on Poverty Levels**

According to the data processing used in this study, *mudharabah* financing has a large and negative impact on poverty. This indicates that a 1% increase in *mudharabah* financing through sharia banking will result in a 0.000942% decrease in poverty. The T test results show that the *mudharabah* finance variable has a T-statistic value of -9.453712 with a probability of 0.0000, indicating that *mudharabah* financing has a substantial negative effect on poverty.

The findings of this study are consistent with the assumptions given by Nengsih et al. (2021) that financing plays an essential function in the economy in general, including one of economic stabilization. Furthermore, investment will expand the capital stock, increasing production capacity and reducing unemployment through increased employment prospects (Ain', 2021). With a *mudharabah* contract, it is possible to screen out those who require funding to manage a business in order to minimize unemployment and lift themselves out of poverty. The findings of this study are similarly consistent with those of Fadly, Inat, Iryanto, and Quilim (2021), who discovered a negative association between sharia financing and poverty, implying that sharia financing can reduce poverty while hindering its development. Furthermore, Nengsih et al. (2021) found that sharia financing has a negative and significant effect on poverty. Hence, it is implying that the development of sharia financing is urgently needed for poverty alleviation efforts.

Zakat's Impact on Poverty Levels

Based on the data processing for this study, the findings indicated that zakat has a substantial and negative impact on poverty. This implies that a 1% increase in zakat distribution, as implemented by BAZNAS, will result in a 0.000115% reduction in poverty. The T test results show that The zakat variable has a T-statistic value of -3.379124 and a probability of 0.0021, indicating that zakat has a substantial negative effect on poverty.

Moreover, this study support Baqir Al-distribution Sadr's theory, which states that zakat is actually highly relevant to be utilized in the economy for equitable distribution (Zakariya & Arifin, 2020). The existence of zakat will enhance *Mustahik's* income, allowing *Mustahik* to begin a business or meet their requirements, so improving their economic situation (Rasyid & Hannase, 2021). Furthermore, this study are consistent with those of Hany and Islamiyati (2020), who discovered that zakat, infaq, and almsgiving can greatly alleviate poverty. Rasyid and Hannase's (2021) research found that zakat has a negative and significant influence on poverty, implying that increasing zakat will reduce poverty. Thus, it demonstrates that zakat is a cornerstone of Islam that is used not just to worship Allah SWT, but also to improve social and economic welfare, one of which is poverty reduction.

Inflation's Impact on Poverty Levels

An rise of 1% in inflation will result in a 0.148667% reduction in poverty, according to the data processing used in this study, which indicated that inflation had a negligible beneficial effect on poverty. The T test results show that The inflation variable has a T-statistic value of 1.256009 with a probability of 0.2191, demonstrating that inflation has no significant positive effect on poverty.

According to Putong, one of the negative effects of inflation on the economy is inequity in the distribution of commodities that are only available to those with a lot of money (Ningsih & Andiny, 2018). However, the findings of this study show that there is a positive but not statistically significant effect, which differs from research conducted by Zainuri (2022), which shows that inflation has a significant effect on poverty, and research conducted by Ningsih and Andiny (2018), which suggests that inflation has a positive and statistically significant effect on poverty. The same findings were found from Hany and Islamiyati's (2020) study, which explained that inflation has no influence on poverty. This is attributable to low inflation and the reality of

income distribution gaps in Indonesia. According to Segoro and Pou (2016) in (Hany & Islamiyati, 2020), income inequality causes the impoverished in rural areas to be unaffected by inflation. As a result, it may be inferred that inflation has no significant effect on the impoverished in rural villages, who are not harmed by this inflation.

Conclusion

In conclusion, the funding of *zakat* and *mudharabah* significantly lowers the rate of poverty. Improving the way *zakat* and *mudharabah* funds are distributed will be crucial to lowering poverty in Indonesia. Fund recipients will become more productive thanks to *mudharabah* finance, which will help them progressively escape the cycle of poverty. When *zakat* is distributed optimally, inequality will rise and poverty will decline. Unlike this, inflation has a negligible beneficial impact on the rate of poverty. Constant price hikes would weaken poverty by decreasing buying power and making it more difficult to buy essentials owing to inflation. In addition to balancing aggregate supply and demand, controlling inflation also entails minimizing its sources, particularly inflation brought on by human mistake. These ramifications clarify that regulating aggregate pricing levels and allocating *mudharabah* and *zakat* finance optimally would both contribute to the reduction of poverty.

In order to minimize poverty, it is necessary for all parties to work together to optimize the distribution of *mudharabah* and *zakat* finance as well as to manage price levels. It is imperative that the Financial Services Authority guarantees the best distribution of sharia finance statistics, particularly *mudharabah*, by the pertinent financial institutions. Better processes are required by BAZNAS to achieve the goal of delivering *zakat* in an equitable and uniform manner. Bank Indonesia needs to keep inflation in check in order to prevent a subsequent rise in the poverty rate. There remain restrictions and flaws in doing research. The author suggests including other different variables, such population, minimum wage, local culture, and others, in future research. In addition, you have the option of adding data by tracking the most recent relevant data or using a wider range of data indicators when measuring variables.

Author's Contribution

Rachmania Nurul Fitri Amijaya: Conceived and designed the experiments; Analyzed and interpreted the data; Wrote the paper. Andika Eko Prasetyo: Conceived and designed the experiments; Analyzed and interpreted the data; Wrote the paper. Rensia Yulianti Pratama; Intan Wardah Kharisma: Performed the experiments; Contributed reagents, materials; Wrote the paper.

Acknowledgements

Regarding the impact of inflation, *zakat*, and *mudharabah* financing on poverty levels in Indonesia, the author would like to extend his sincere gratitude to the Financial Services Authority (OJK), the National Zakat Amil Agency (BAZNAS), Bank Indonesia (BI), and the Central Agency of Statistics (BPS) for their support and assistance in publishing and making our research's statistical data available.

Declaration of Competing Interest

The author declares that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

References

Ain', N. N. (2021). Pengaruh Investasi Terhadap Pertumbuhan dan Pembangunan Ekonomi. *Jurnal Al-Tsaman*, 3(1), 162–169.

- Ascarya, A., & Sakti, A. (2022). Designing micro-fintech models for Islamic micro financial institutions in Indonesia. *International Journal of Islamic and Middle Eastern Finance and Management*, 15(2), 236–254. <https://doi.org/10.1108/IMEFM-05-2020-0233>
- Balasubramanian, P., Burchi, F., & Malerba, D. (2023). Does economic growth reduce multidimensional poverty? Evidence from low- and middle-income countries. *World Development*, 161, 106119. <https://doi.org/10.1016/j.worlddev.2022.106119>
- Bin-Nashwan, S. A., Abdul-Jabbar, H., Aziz, S. A., & Sarea, A. (2020). Zakah compliance in Muslim countries: an economic and socio-psychological perspective. *Journal of Financial Reporting and Accounting*, 19(3), 392–411. <https://doi.org/10.1108/JFRA-03-2020-0057>
- Fadly, Inat, F., Iryanto, M., & Quilim, C. A. (2021). Analisis Pengaruh Pembiayaan Bank Syariah, Belanja Pemerintah dan Pertumbuhan Ekonomi terhadap Tingkat Kemiskinan di Kota Ternate. *Jurnal Ilmiah Ekonomi Islam (JIEI)*, 7(1), 123–129. <https://doi.org/10.29040/jiei.v7i1.1858>
- Firmansyah, H., Anjani, A. N., Nurdianti, D., Miharja, L. N. A. D., Agustina, N., & Hariadi, H. (2022). Pengaruh Pendapatan Asli Daerah, Belanja Daerah dan Zakat Terhadap Pertumbuhan Ekonomi di Jawa Barat. *El-Ecosy: Jurnal Ekonomi Dan Keuangan Islam*, 2(1), 43–61. <https://doi.org/https://doi.org/10.35194/eeki.v2i1.2013>
- Fitri, M., & Zaimsyah, A. M. (2022). Macroeconomic Factors Influence the Distribution of MSME Financing in Indonesian Islamic Banks. *Airlangga Journal of Innovation Management*, 3(2), 165–174. <https://doi.org/10.20473/ajim.v3i1.40161>
- Gong, J., Wang, G., Wang, Y., & Zhao, Y. (2022). Consumption and poverty of older Chinese: 2011–2020. *Journal of the Economics of Ageing*, 23(September), 100410. <https://doi.org/10.1016/j.jeoa.2022.100410>
- Hanifah, H. I., Rusmiyati, K., & Rakhmat, M. (2018). Penerapan Sistem Pembiayaan Mudharabah Terhadap Risiko Gagal Bayar di Koperasi Jasa Keuangan Syariah (KJKS) An-Nur Jatitujuh Majalengka. *Maro: Jurnal Ekonomi Syariah Dan Bisnis*, 1(1), 45–55.
- Hany, I. H., & Islamiyati, D. (2020). Pengaruh ZIS dan Faktor Makro Ekonomi Terhadap Tingkat Kemiskinan di Indonesia. *Jurnal Ekonomi*, 25(1), 118–131. <https://doi.org/10.24912/je.v25i1.631>
- Hoque, N. (2022). Promoting business zakah as a product of Islamic finance to fund social causes for well-being of the underprivileged: evidence from Bangladesh. *Journal of Islamic Marketing*. <https://doi.org/10.1108/JIMA-10-2021-0337>
- Hudaefi, F. A., & Beik, I. S. (2021). Digital Zakāh Campaign in Time of Covid-19 Pandemic in Indonesia: A Netnographic Study. *Journal of Islamic Marketing*, 12(3), 498–517. <https://doi.org/10.1108/JIMA-09-2020-0299>
- Kasim, R., Engka, D. S. M., & Siwu, H. D. (2021). Analisis Pengaruh Inflasi, Pengangguran Dan Belanja Pemerintah Terhadap Kemiskinan Di Kota Manado. *Jurnal EMBA: Jurnal Riset Ekonomi, Manajemen, Bisnis Dan Akuntansi*, 9(1), 953–963. <https://doi.org/10.35794/emba.v9i1.32645>
- Khalifah, M. H., Kasri, R. A., & Aslan, H. (2022). Mapping The Evolution of Zakah Theme Publications Years 1964-2021: A Bibliometric Analysis. *Journal of Islamic Accounting and Business Research*. <https://doi.org/10.1108/JIABR-10-2021-0281>
- Latief, M. I., Yunus, R., Sultan, H., & Genda, A. (2022). Problematika Akselerasi Penanganan Kemiskinan Nelayan Di Masa Pandemi Covid-19 Di Kota Makassar. *Jurnal Pembangunan Manusia*, 3(1), 1–6. <https://doi.org/10.7454/jpm.v3i1.1026>
- Mohd Nor, S., Abdul-Majid, M., & Esrati, S. N. (2021). The role of blockchain technology in enhancing Islamic social finance: the case of Zakah management in Malaysia. *Foresight*, 23(5), 509–527. <https://doi.org/10.1108/FS-06-2020-0058>

- Morana, C. (2023). Euro area inflation and a new measure of core inflation. *Research in Globalization*, 7(October), 100159. <https://doi.org/10.1016/j.resglo.2023.100159>
- Nengsih, T. A., Kurniawan, B., & Harsanti, E. F. (2021). Analisis Keterhubungan Tingkat Kemiskinan Dan Pembiayaan Syariah Di Indonesia Tahun 2005-2020. *Iltizam: Journal of Shariah Economic Research*, 5(2), 223–229. <https://doi.org/10.30631/iltizam.v5i2.1022>
- Ningsih, D., & Andiny, P. (2018). Analisis Pengaruh Inflasi Dan Pertumbuhan Ekonomi Terhadap Kemiskinan Di Indonesia. *Jurnal Samudra Ekonomika*, 2(1), 53–61. <https://doi.org/10.1234/jse.v2i1.777>
- Parakkasi, I. (2017). Inflasi Dalam Perspektif Islam. *Laa Maisyir: Jurnal Ekonomi Islam*, 4(2). <https://doi.org/10.24252/lamaisyir.v4i2.4420>
- Priseptian, L., & Primandhana, W. P. (2022). Analisis Faktor-Faktor yang Mempengaruhi Kemiskinan di Indonesia. *Forum Ekonomi: Jurnal Ekonomi, Manajemen Dan Akuntansi*, 24(1), 45–53. <https://doi.org/10.15408/ess.v4i2.1966>
- Rasyid, A. M. I., & Hannase, M. (2021). Dampak Zakat Terhadap Kesejahteraan Sosial dan Ekonomi Nasional. *Jurnal Sosial Sains*, 1(9), 957–967. <https://doi.org/10.36418/sosains.v1i9.193>
- Ridlo, M., & Muthohar, A. M. (2020). Pengaruh Zakat, Pembiayaan Syariah Dan APBN Terhadap Pengentasan Kemiskinan Di Indonesia Dan Malaysia. *Jurnal Dinamika Ekonomi & Bisnis*, 17(2), 123–130. <https://doi.org/10.34001/jdeb.v17i2.1101>
- Santoso, M. H. E., & Nurzaman, M. S. (2020). Asesmen Kontribusi Keuangan Syariah Terhadap Pertumbuhan Ekonomi di Indonesia. *Al-Mashrafiyah: Jurnal Ekonomi, Keuangan Dan Perbankan Syariah*, 4(1), 1–15. <https://doi.org/https://doi.org/10.24252/al-mashrafiyah.v4i1.12304>
- Sarmah, P. (2022). The Vicious Cycle of Poverty Implies that Poverty is the Cause of Poverty. *International Journal of Law Management & Humanities*, 5(4), 794–807. <https://doi.org/10.1000/IJLMH.113401>
- Susanto, R., & Pangesti, I. (2020). Pengaruh Inflasi dan Pertumbuhan Ekonomi Terhadap Tingkat Kemiskinan di Indonesia. *Journal of Applied Business and Economics (JABE)*, 7(2), 271–278. <https://doi.org/10.30998/jabe.v7i2.7653>
- Vollmer, F., & Alkire, S. (2022). Consolidating and improving the assets indicator in the global Multidimensional Poverty Index. *World Development*, 158, 105997. <https://doi.org/10.1016/j.worlddev.2022.105997>
- Wahyuningsih, D., Yunaningsih, A., Priadana, M. S., Darma, D. C., & Purwadi. (2020). Why are Unemployment and Poverty Still Happening in Borneo Island, Indonesia? *International Journal of Economics and Financial Issues*, 10(2), 235–241. <https://doi.org/10.32479/ijefi.9214>
- Wooldridge, J. M. (2013). *Introductory Econometrics: A Modern Approach* (5th ed.). Cengage Learning.
- Wulansari, U., & Hendratmi, A. (2021). the Role of Crowdfunding Based Donation Mechanism in Al-Qur'an Education Development. *Airlangga Journal of Innovation Management*, 2(1), 38. <https://doi.org/10.20473/ajim.v2i1.26630>
- Zahara, J. N., & Munifatussa'idah, A. (2022). How Do Trade, Inflation, Exchange Rate, And Information Technology Influence International Tourist Visits In Indonesia? *Airlangga Journal of Innovation Managements*, 3(1), 1–17. <https://doi.org/10.20473/ajim.v3i1.36922>
- Zainuri. (2022). Islamic Economic Indocator and Poverty Problem: Case Study in Indonesia. *International Journal of Education and Social Science Research*, 5(5), 256–268. <https://doi.org/10.37500/IJESSR.2022.5514>
- Zakariya, N. A., & Arifin, S. (2020). Distribusi dalam Perspektif Muhammad Baqir Al-Sadr. *Equilibrium: Jurnal Ekonomi Syariah*, 8(1), 143. <https://doi.org/10.21043/equilibrium.v8i1.6870>