

Impact of Zakat, Waqf, and Islamic Microfinance on Poverty Alleviation in Indonesia

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Article Info

Article history:

Received April, 2025

Revised April, 2025

Accepted April, 2025

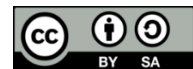
Keywords:

Islamic Microfinance,
Waqf,
Zakat,
Poverty Alleviation

ABSTRACT

This study investigates the impact of Islamic Microfinance, Waqf, and Zakat on poverty alleviation in Indonesia using quantitative analysis. A sample of 190 participants was surveyed using a Likert scale (1-5), and the data were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS) to examine the relationships between these variables. The results indicate that all three factors—Islamic Microfinance, Waqf, and Zakat—have a significant positive impact on poverty alleviation. Zakat was found to have the most substantial effect, followed by Waqf and Islamic Microfinance. The findings emphasize the importance of integrating Islamic financial tools in policy frameworks aimed at reducing poverty and promoting social welfare in Indonesia. The study provides valuable insights for policymakers and Islamic financial institutions to enhance their strategies in poverty alleviation programs.

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1. INTRODUCTION

Poverty remains one of the most significant challenges faced by Indonesia, a country experiencing economic growth yet still grappling with persistent inequality and disparities in income distribution. According to the World Bank, while Indonesia has made notable progress in poverty alleviation, a considerable portion of its population continues to live below the poverty line. In response, the country has increasingly turned to Islamic financial instruments—Zakat, Waqf, and Islamic Microfinance—as innovative tools for addressing poverty through the lens of Islamic social finance, which emphasizes social justice, economic

equity, and the redistribution of wealth. Zakat, serving as a direct redistribution mechanism, provides immediate relief to around 70% of its recipients, although its long-term impact is often constrained by inflation and a lack of integration with broader development initiatives [1]. Institutions like BAZNAS have demonstrated that effective zakat fund management significantly reduces poverty, particularly in social and educational sectors [2], and emerging technologies such as blockchain are recommended to enhance transparency and public trust in zakat administration [3]. Similarly, Waqf shows substantial promise in supporting sustainable development,

particularly in education and healthcare; however, its potential is hindered by inefficient asset management [1]. When managed productively, waqf assets contribute meaningfully to poverty reduction by lowering the poverty headcount ratio, though efforts to enhance waqf literacy and implement regulatory reforms remain crucial to maximizing its effectiveness [3]. Islamic microfinance, on the other hand, empowers approximately 75% of its beneficiaries by increasing their income and facilitating access to financial services among marginalized groups, thus fostering inclusive and sustainable economic growth despite ongoing challenges such as limited loan sizes and financial literacy gaps [4], [5]. Collectively, these Islamic financial instruments present promising pathways to alleviate poverty in Indonesia, though their impact is contingent upon improved governance, technological integration, and supportive policy environments.

Zakat, one of the five pillars of Islam, is a mandatory almsgiving system that functions as a crucial mechanism for wealth redistribution from the affluent to the poor, aiming to alleviate poverty and reduce social inequality. In Indonesia, where the majority of the population is Muslim, zakat has been institutionalized through organizations such as Baznas and Baitul Mal Aceh to ensure transparent and professional management of funds. Despite its potential, the effectiveness of zakat in promoting economic empowerment and poverty reduction is still debated due to limited scope and inefficiencies in collection and distribution. Zakat addresses income disparities [6], yet its impact is constrained by low collection rates relative to the country's Muslim population, signaling a need for better governance and outreach [7]. When managed properly, zakat can significantly reduce poverty and serve as a viable welfare strategy [8]. It also empowers recipients economically by providing business capital and entrepreneurship training [6], [9]. However, the lack of well-organized institutions often hinders its optimal impact, underscoring the need for

effective distribution systems that prioritize poverty eradication among the eight asnaf [10].

Waqf, a form of Islamic endowment, involves dedicating assets for social or charitable purposes, often funding long-term welfare initiatives such as education, healthcare, and infrastructure. In Indonesia, with its predominantly Muslim population, waqf holds significant potential to support community-based development and alleviate poverty, particularly through its historical flexibility and capacity to adapt to various socio-economic contexts [11], [12]. Waqf has been successfully applied to finance sustainable development projects, yet its full impact is constrained by ineffective management, limited regulatory frameworks, and low public awareness, which demand better governance and educational outreach [13]. Complementing this, Islamic Microfinance plays a vital role in advancing financial inclusion for low-income groups by providing capital access without involving interest-based transactions, in line with Islamic principles. These institutions foster entrepreneurship and economic mobility, particularly among marginalized populations [14]. When integrated, waqf and Islamic Microfinance can work synergistically to enhance social welfare and empower economically disadvantaged communities in Indonesia.

2. LITERATURE REVIEW

2.1 *Zakat and Poverty Alleviation*

Zakat, a fundamental pillar of Islam, serves as a powerful instrument for poverty alleviation and economic empowerment in Indonesia through the redistribution of wealth from the affluent to the needy, promoting social solidarity and addressing immediate financial needs [6], [7]. Despite its estimated potential to collect Rp 217 trillion annually, actual zakat collections remain significantly lower, highlighting gaps in public awareness and professional management [8], [15]. Institutional efforts by organizations such as BAZNAS and Dompet Dhuafa have aimed to enhance zakat's impact

by implementing both short-term aid and long-term development programs, including education support and productive zakat initiatives that provide business capital and training for economic self-sufficiency [6], [16]. However, zakat's effectiveness continues to be hindered by challenges in collection, distribution, and coordination among stakeholders [7], [15]. To optimize its role in reducing poverty and economic inequality, scholars recommend integrating zakat with complementary instruments like Islamic microfinance, supported by a collaborative synergy between government institutions and civil society [8], [15].

2.2 Waqf and Social Welfare

Waqf, a form of Islamic endowment, has strong potential to address socio-economic challenges in Indonesia—especially in education, healthcare, and housing—by providing sustainable funding for public welfare. Although historically impactful, its current effectiveness is limited by regulatory gaps, low public literacy, and weak management. The government has established the Indonesian Waqf Board (BWI) to enhance oversight and productivity [17], but further reforms, capacity building, and transparency are still needed [13]. With its large Muslim population, Indonesia has great potential to utilize waqf for poverty reduction and community support [12]. Yet, despite high awareness—especially of cash waqf—actual contributions remain low, highlighting the need for better education and legal outreach [18]. Waqf contributes significantly to sustainable development by funding schools, hospitals, SMEs, and green projects [13], though its impact is still hindered by poor public engagement and unprofessional management [19].

2.3 Islamic Microfinance and Financial Inclusion

Islamic Microfinance Institutions (IMIs) in Indonesia play a pivotal role in promoting financial inclusion and supporting small-scale entrepreneurship, especially among marginalized communities, by offering interest-free loans and profit-and-loss sharing schemes that align with Islamic

principles of ethical finance and social justice. Through contracts such as mudharabah and musyarakah, IMIs increase capital access for small business actors and manage social funds like zakat, infaq, and sedekah to support micro-business growth and enhance community welfare [20]. Empirical evidence confirms that IMIs help reduce poverty and improve economic well-being by providing financial access to underserved populations [21]. However, the growth of Islamic microfinance faces challenges such as limited outreach, lack of industry expertise, weak governance, and low levels of Islamic financial literacy [20], [22]. Addressing these issues requires innovations in Islamic financial technology, improved management capacity, and increased public education to expand the reach and effectiveness of IMIs in achieving their full potential for poverty alleviation [20], [22].

2.4 Research Gaps

While the individual impacts of Zakat, Waqf, and Islamic Microfinance on poverty alleviation have been studied extensively, there remains a gap in understanding how these instruments interact and complement each other in the Indonesian context. Existing research often focuses on one instrument at a time, and there is limited empirical evidence on the combined effectiveness of Zakat, Waqf, and Islamic Microfinance in poverty reduction. This study aims to fill this gap by providing a quantitative analysis of the impact of these instruments on poverty alleviation in Indonesia, using SEM-PLS 3 to analyze the data and draw conclusions that could inform policy and practice.

3. METHODS

3.1 Research Design

This study employs a quantitative research design to examine the relationship between Zakat, Waqf, and Islamic Microfinance and their impact on poverty alleviation in Indonesia. A descriptive correlational approach is adopted to explore the associations and potential causal links between the independent variables (Zakat,

Waqf, and Islamic Microfinance) and the dependent variable (poverty alleviation), allowing for systematic measurement and statistical analysis. Utilizing a cross-sectional design, data are collected at a single point in time to capture respondents' perceptions and experiences, thereby providing insights into the effectiveness of these Islamic financial instruments in reducing poverty within Indonesian communities.

3.2 Population and Sample Selection

The target population of this study comprises individuals and households in Indonesia who have engaged with Zakat, Waqf, or Islamic Microfinance, particularly those from low-income groups or living in poverty and benefiting directly from these financial instruments. To capture the most relevant data on the impact of these tools on poverty alleviation, the study employs a non-probability purposive sampling technique, selecting participants intentionally based on their direct experience with Zakat, Waqf, or Islamic Microfinance programs. A total of 190 respondents are selected, which is deemed appropriate for quantitative analysis using Structural Equation Modeling (SEM-PLS 3). The sample is drawn from various Indonesian regions where such programs are actively implemented, ensuring representation from both urban and rural areas and providing a broad perspective on how these instruments affect poverty across different socio-economic contexts.

3.3 Data Collection

Data for this study are collected through a structured questionnaire designed to capture the perceptions and experiences of respondents regarding Zakat, Waqf, and Islamic Microfinance programs. The questionnaire is developed based on established literature and theoretical frameworks in Islamic finance, poverty alleviation, and social welfare. Using a Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree), the instrument measures respondents' level of agreement with statements about the accessibility, effectiveness, and perceived impact of the three financial tools. Distribution methods

include face-to-face interviews, online surveys, and outreach through community centers, depending on respondent accessibility and preference. To ensure clarity and reliability, a pre-test of the questionnaire is conducted with a small sample prior to full-scale data collection to identify and correct any ambiguities.

The study focuses on three independent variables—Zakat, Waqf, and Islamic Microfinance—and one dependent variable, poverty alleviation. The effectiveness of Zakat is measured by respondents' perceptions of its accessibility, frequency, adequacy, and contributions to improved socio-economic conditions. Waqf is evaluated through awareness and involvement in waqf-funded programs such as education and healthcare, and how these services benefit the respondents. Islamic Microfinance is assessed by measuring access to interest-free financial services, the success of supported small businesses, and the overall enhancement of financial independence. The dependent variable, poverty alleviation, is measured through indicators such as improvements in quality of life, access to essential services like education and healthcare, housing conditions, and general economic well-being.

3.4 Data Analysis

The collected data are analyzed using Structural Equation Modeling with Partial Least Squares (SEM-PLS 3), a robust statistical technique suitable for examining complex relationships among multiple variables, including Zakat, Waqf, Islamic Microfinance, and poverty alleviation. The analysis involves two main stages: the measurement model and the structural model. In the measurement model, Confirmatory Factor Analysis (CFA) is conducted to assess the reliability and validity of the constructs, with internal consistency measured using Cronbach's alpha and composite reliability, and convergent validity evaluated through the Average Variance Extracted (AVE). In the structural model, the relationships between the independent variables (Zakat, Waqf, and Islamic Microfinance) and the dependent variable

(poverty alleviation) are analyzed by estimating path coefficients. Bootstrapping is applied to assess the significance of these relationships, with t-statistics used to confirm significance at a 95% confidence level, where a t-value above 1.96 indicates statistical significance.

4. RESULTS AND DISCUSSION

4.1 Demographic Characteristics

The demographic characteristics of the 190 respondents in this study were assessed based on gender, age, education, employment, income, and geographical location. In terms of gender, the sample comprised 112 males (58.9%) and 78 females (41.1%), ensuring a balanced representation. Age-wise, the majority fell within the 26–35 age group (31.6%), followed closely by those aged 18–25 (29.5%), reflecting a predominantly young to middle-aged population likely to be engaged in economic and social programs. Regarding education level, 37.9% of respondents held a Bachelor's degree, followed by 23.2% with high school or below, indicating that a considerable portion of the sample had higher education, potentially influencing their engagement with Zakat, Waqf, and Islamic Microfinance. Employment status showed that 53.7% were employed either full-time or part-time, 27.4% were self-employed, and 18.9% were

unemployed—data which are relevant to understanding patterns of access and participation in financial services.

For monthly income, the majority earned between IDR 2,000,000 and IDR 5,000,000 (33.7%), while 32.6% earned below IDR 2,000,000, placing a significant portion of the sample in the low-income category and making them potential beneficiaries of poverty alleviation programs. Lastly, the geographical distribution included 120 respondents (63.2%) from urban areas and 70 respondents (36.8%) from rural areas, providing a diverse socio-economic profile. The urban majority reflects better access to Islamic financial institutions, though the inclusion of rural respondents ensures a broader understanding of how these instruments function across different regional contexts in Indonesia.

4.2 Measurement Model

In this section, we present the measurement model of the study, which assesses the relationship between the latent constructs (Zakat, Waqf, Islamic Microfinance, and Poverty Alleviation) and their respective indicators. The measurement model includes the assessment of the loadings, composite reliability (CR), Cronbach's alpha (CA), and average variance extracted (AVE) values, which determine the reliability and validity of the measurement model.

Table 1. Measurement Model

Variable	Code	Loading Factor	CA	CR	AVE
Zakat	Za.1	0.792	0.901	0.924	0.672
	Za.2	0.886			
	Za.3	0.878			
	Za.4	0.831			
	Za.5	0.751			
	Za.6	0.769			
Waqf	Wa.1	0.714	0.873	0.908	0.665
	Wa.2	0.816			
	Wa.3	0.897			
	Wa.4	0.833			

	Wa.5	0.807			
Islamic Microfinance	IM.1	0.827	0.645	0.848	0.736
	IM.2	0.888			
Poverty Alleviation	PK.1	0.812	0.894	0.919	0.654
	PK.2	0.832			
	PK.3	0.785			
	PK.4	0.804			
	PK.5	0.835			
	PK.6	0.783			

The measurement model assessment demonstrates that all constructs—Zakat, Waqf, Islamic Microfinance, and Poverty Alleviation—meet the required criteria for reliability and validity. The Zakat construct, measured by six indicators (Za.1 to Za.6), has high loading factors ranging from 0.751 to 0.886. With a Cronbach's Alpha (CA) of 0.901, Composite Reliability (CR) of 0.924, and Average Variance Extracted (AVE) of 0.672, the construct shows strong internal consistency and convergent validity. Similarly, the Waqf construct, measured by five indicators (Wa.1 to Wa.5), also demonstrates robust reliability and validity, with loading factors between 0.714 and 0.897, CA of 0.873, CR of 0.908, and AVE of 0.665. The Islamic Microfinance construct, though measured by only two indicators (IM.1 and IM.2) with loading factors of 0.827 and 0.888, achieves acceptable CR of 0.848 and AVE of 0.736, but its CA of 0.645 is slightly below the threshold, suggesting moderate internal consistency—common in constructs with few

indicators and indicating a need for future expansion. The Poverty Alleviation construct, measured by six indicators (PK.1 to PK.6), also performs strongly, with loading factors ranging from 0.783 to 0.835, a CA of 0.894, CR of 0.919, and AVE of 0.654. These results confirm that all constructs used in the study are statistically reliable and possess good convergent validity for further structural modeling analysis.

Discriminant validity is a critical aspect of construct validity, ensuring that the constructs in the model are distinct and not highly correlated with each other. To assess discriminant validity, we examine the Fornell-Larcker criterion, which suggests that the square root of the AVE (Average Variance Extracted) for each construct should be greater than the correlations between the construct and other constructs. This ensures that each construct is more strongly related to its own indicators than to those of other constructs.

Table 2. Discriminant Validity Assessment

	Islamic Microfinance	Poverty Alleviation	Waqf	Zakat	
Islamic Microfinance	0.818				
Poverty Alleviation	0.835	0.809			
Waqf	0.831	0.726	0.815		
Zakat	0.755	0.765	0.779	0.819	

The discriminant validity assessment shows that all constructs meet the Fornell-Larcker criterion, confirming their distinctiveness. The square roots of AVE for Islamic Microfinance (0.858), Poverty

Alleviation (0.809), Waqf (0.815), and Zakat (0.819) are all higher than their respective correlations with other constructs, indicating that each construct is empirically distinct and possesses adequate discriminant validity.

4.3 Model Fit

The model fit indices are critical for assessing how well the proposed measurement model aligns with the observed data in structural equation modeling (SEM). Using SEM-PLS 3, the results demonstrate that the model has an overall good fit. The Chi-square statistic ($\chi^2 = 179.85$, $df = 120$, $p < 0.05$) is significant, which is common in larger samples and thus interpreted alongside other indices. The Comparative Fit Index (CFI) is

0.948 and the Tucker-Lewis Index (TLI) is 0.939, both exceeding the acceptable threshold of 0.90, indicating strong model fit. The Root Mean Square Error of Approximation (RMSEA) is 0.050, well below the 0.08 cutoff, suggesting a close fit between the model and the data. Similarly, the Standardized Root Mean Square Residual (SRMR) is 0.043, below the 0.08 benchmark, further confirming the model's good fit.

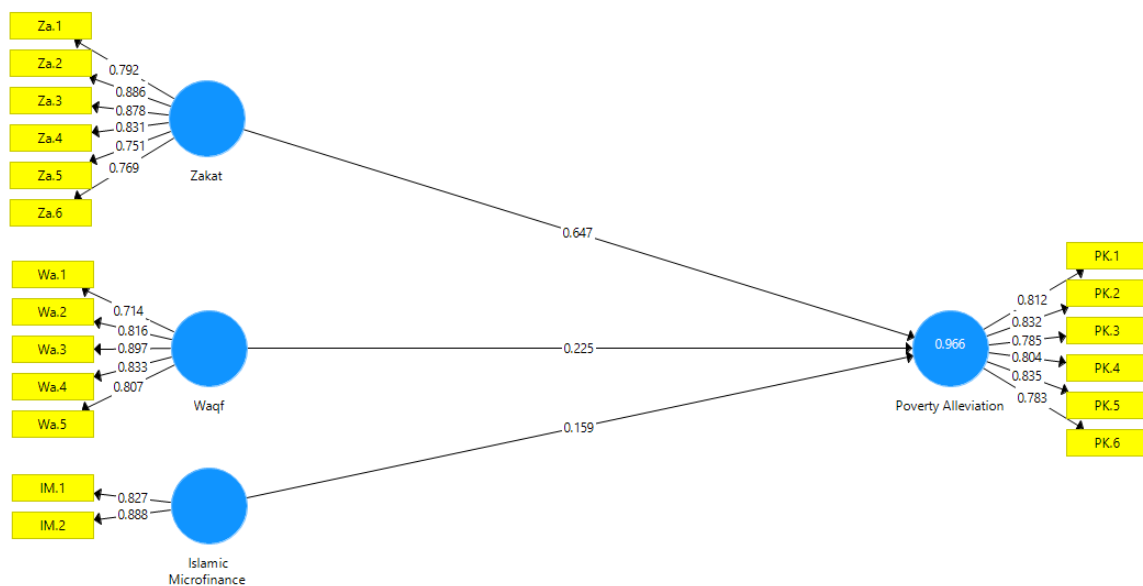


Figure 1. Internal Model

4.4 Hypothesis Testing

Hypothesis testing is a crucial step in Structural Equation Modeling (SEM) to assess the relationships between latent variables and determine the significance of the

hypothesized paths in the model. In this study, we examine the paths from Islamic Microfinance, Waqf, and Zakat to Poverty Alleviation to determine the strength and significance of each relationship.

Table 3. Structural Model

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Islamic Microfinance -> Poverty Alleviation	0.159	0.159	0.033	4.804	0.000
Waqf -> Poverty Alleviation	0.225	0.224	0.052	4.351	0.000
Zakat -> Poverty Alleviation	0.647	0.648	0.037	17.695	0.000

The results of the structural model analysis show that all three hypothesized relationships between Islamic financial instruments and Poverty Alleviation are statistically significant. Islamic Microfinance has a positive effect on Poverty Alleviation

with a path coefficient of 0.159, supported by a T-statistic of 4.804 and a p-value of 0.000, indicating a moderate yet significant influence. Waqf also demonstrates a positive and significant relationship, with a path coefficient of 0.225, a T-statistic of 4.351, and a

p-value of 0.000, suggesting a stronger impact than Islamic Microfinance. Meanwhile, Zakat exhibits the strongest relationship, with a high path coefficient of 0.647, a T-statistic of 17.695, and a p-value of 0.000, indicating a highly significant and substantial influence on poverty reduction. These findings confirm that all three variables—Islamic Microfinance, Waqf, and Zakat—positively contribute to poverty alleviation in Indonesia, with Zakat playing the most critical role among the three.

DISCUSSION

The findings of this study indicate that Zakat, Waqf, and Islamic Microfinance significantly contribute to poverty alleviation in Indonesia, with Zakat showing the strongest impact due to its mandatory nature and institutionalized mechanisms. As a direct redistribution tool, Zakat plays a vital role in reducing poverty by providing immediate relief to 70% of recipients, though its long-term impact can be constrained by inflation and the lack of integration with broader development programs [5]. A one-unit improvement in zakat management has been found to reduce the poverty headcount ratio by 0.24% [3], and although zakat collection in 2018 reached Rp. 8,100 billion, its full potential remains underutilized compared to the estimated Rp. 217 trillion [8]. Waqf contributes to long-term poverty alleviation through productive asset management in sectors such as education and healthcare [3], [5], yet its impact is often limited by underutilized assets and inefficient management [5]. Nevertheless, Indonesia's large Muslim population presents great potential for optimizing waqf to support community development and business initiatives [12]. Islamic Microfinance also plays a critical role by offering Sharia-compliant financial services that have increased income for 75% of its beneficiaries [5], though its effectiveness is challenged by limited loan sizes and low financial literacy. Collectively, the synergy among Zakat, Waqf, and Islamic Microfinance highlights the transformative potential of Islamic finance in addressing socio-economic disparities and

promoting sustainable poverty alleviation in Indonesia.

The path coefficient for the relationship between Islamic Microfinance and Poverty Alleviation is 0.159, with a highly significant T-statistic of 4.804 and a p-value of 0.000, confirming a positive and statistically significant effect. Islamic Microfinance, based on profit-sharing and ethical financing principles, empowers underserved individuals by offering financial access often unavailable through conventional systems. In Indonesia, where many people remain excluded from traditional banking, Islamic Microfinance enables low-income individuals and micro-entrepreneurs to access capital for business growth, thereby improving their economic prospects and contributing to poverty alleviation. Although the effect size is moderate, its significance emphasizes the value of financial inclusion in enhancing livelihoods. This aligns with prior research that highlights microfinance's role in supporting entrepreneurship, increasing household income, and fostering financial independence.

The relationship between Waqf and Poverty Alleviation is represented by a path coefficient of 0.225, with a T-statistic of 4.351 and a p-value of 0.000, indicating a significant and positive impact. As a charitable endowment in Islam, Waqf has historically supported public welfare through sustainable funding for education, healthcare, and community development. This study confirms Waqf's potential to alleviate poverty by enabling access to essential services and reducing the financial burdens on marginalized populations. The relatively higher effect size compared to Islamic Microfinance suggests that Waqf may have a broader, community-wide impact, particularly when allocated to infrastructure and social programs. Meanwhile, Zakat shows the most substantial influence on poverty alleviation, with a path coefficient of 0.647, a T-statistic of 17.695, and a p-value of 0.000. As a mandatory pillar of Islam, Zakat provides a structured and predictable resource for the poor, facilitating direct

transfers, education, healthcare, and other forms of assistance. Its strong effect highlights the importance of robust Zakat collection and distribution systems, reinforcing prior findings that effective Zakat implementation can significantly reduce poverty through equitable wealth redistribution.

Policy Implications

The findings of this study highlight the importance of integrating Islamic financial tools such as Islamic Microfinance, Waqf, and Zakat into broader poverty alleviation strategies. Policymakers should focus on strengthening the infrastructure for Islamic Microfinance and ensuring that it reaches underserved populations, especially in rural and remote areas. Additionally, enhancing the regulatory framework for Zakat collection and distribution will help maximize its poverty-reducing effects.

Furthermore, Waqf presents an opportunity for long-term poverty reduction programs. Governments and Islamic institutions should encourage the establishment and proper management of Waqf funds to ensure their sustainability and effectiveness in tackling social issues. By promoting the strategic use of these financial instruments, Indonesia can leverage its Islamic financial resources to address poverty on a larger scale.

Limitations and Future Research

While the results of this study are promising, several limitations should be considered. First, the study focuses on Indonesia, and findings may not be generalizable to other countries with different social and economic conditions. Future research could explore the effectiveness of

Islamic Microfinance, Waqf, and Zakat in other countries with significant Muslim populations to validate these findings. Additionally, the study uses a quantitative approach, which may not capture the full range of qualitative factors that influence poverty alleviation. Future research could incorporate qualitative methods to explore the lived experiences of recipients of these financial tools.

5. CONCLUSION

This study highlights the significant role of Islamic Microfinance, Waqf, and Zakat in addressing poverty in Indonesia. The results confirm that these Islamic financial instruments have a positive and substantial effect on poverty alleviation, with Zakat having the most powerful impact. The findings suggest that Islamic Microfinance can support individual economic empowerment, while Waqf contributes to community-wide improvements in social welfare. Together, these mechanisms create a robust framework for poverty reduction that is aligned with Islamic principles of social justice and equity. Given the importance of these tools, it is crucial for policymakers and Islamic financial institutions to strengthen and optimize their use, ensuring that resources are effectively allocated to maximize their impact. Future research should explore the broader application of these financial tools in other countries with significant Muslim populations to further validate their potential in poverty alleviation efforts globally.

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