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Determinants of Poverty Reduction in Indonesia: Evidence from Islamic Social Finance, Islamic Microfinance Institutions, and Government Interventions

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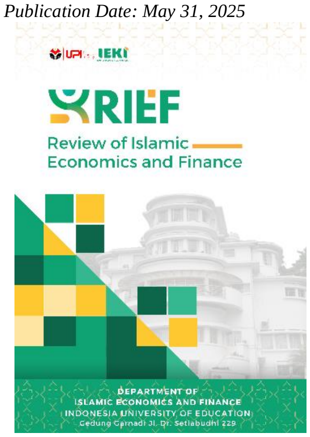

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Abstract

Purpose – *This study aims to examine the effects of the distribution of Islamic social finance (Zakat, Infaq Sadaqah, and Other Religious Social Funds (ZIS-DSKL funds)), Islamic Microfinance (IMFIs) financing, social assistance (Bansos), and subsidies on poverty reduction in Indonesia, both individually and collectively. The study explores how each variable influence poverty levels in Indonesia and the combined impact of these factors on alleviating poverty across various provinces.*

Methodology - *A quantitative approach is employed in this research, utilizing secondary data collected from 20 provinces in Indonesia between 2019- 2023. Data analysis is performed using panel data regression techniques with the EViews 12 application. Purposive sampling is used to select the sample, ensuring that provinces with active Islamic microfinance institutions and relevant data on social assistance and subsidies are included in the study.*

Findings - *The distribution of ZIS-DSKL funds significantly reduces poverty in Indonesia, while MFIS financing, social assistance, and subsidies have no significant impact when considered individually. However, together, these variables have a collective effect on poverty alleviation. Based on these findings, the study recommends optimizing the ZIS-DSKL distribution, enhancing MFIS financing with better business support, reevaluating social assistance programs to focus on long-term self-sufficiency, and improving subsidy distribution to ensure better targeting and efficiency. These actions aim to create a more effective integrated policy model for poverty reduction.*

Keywords: *Poverty; Islamic Social Finance; ZIS-DSKL; Islamic Microfinance; Social Assistance; Subsidies; Indonesia*.

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1. INTRODUCTION

One of the unresolved issues in Indonesia to this day is poverty. According to data from BPS in March 2023, the number of poor people in Indonesia was 25.90 million (9.36%) of the total population (BPS, 2024). The high poverty rate directly correlates with the inability of poor communities to meet their basic needs, particularly clothing, food, shelter, education, and healthcare. This condition not only hampers individual development but also obstructs macroeconomic growth and reduces global competitiveness. Therefore, addressing poverty is a crucial national task for achieving social welfare in Indonesia.

The government has made efforts to alleviate poverty in Indonesia through various programs, including the distribution of social assistance (bansos). The social assistance program implemented by the government aims to improve the welfare of the poor, particularly by helping them meet their basic needs, such as food, education, and healthcare. According to Winarta et al., (2020), social assistance helps reduce the financial burden of daily necessities. If the basic needs of the poor can be met, this effort will enhance their economic empowerment, ultimately leading to a decline in poverty rates. Additionally, the government has introduced another policy subsidy distribution to further reduce poverty. The distribution of subsidies is intended to lower production costs, make essential goods more affordable for the poor (Carolina, 2022; Hotimah & Suprayogi, 2023), stabilize prices, strengthen purchasing power, and ensure food security (Ginn & Pourroy, 2022).

In addition to these efforts, Islamic Microfinance Institutions (MFIs) operate in Indonesia based on the regulations outlined in Law Number 1 of 2013. The establishment of MFI and MFIs is not solely aimed at generating profit but also at providing financial access services to support business development through microfinance. MFIs financing helps low-income communities expand their businesses, enabling them to achieve greater financial independence and create employment opportunities. This initiative serves as a concrete step in reducing poverty. Moreover, another alternative to reducing poverty in Indonesia is optimizing Islamic financial resources, namely Zakat, Infak, Sadaqah, and Other Religious Social Funds (ZIS-DSKL), which also focus on key sectors such as education, economy, healthcare, humanitarian aid, as well as da’wah and advocacy. The distribution of ZIS-DSKL funds across different regions is expected to enhance the livelihood and empowerment of the poor, ensuring their well-being not only in economic terms but also in other, more complex aspects (Herianingrum et al., 2024). Therefore, this study aims to analyze the relationship between the distribution of ZIS-DSKL, MFIs financing, social assistance funds, and subsidies in alleviating poverty in Indonesia.

This study is based on previous research, including Surury et al (2024) analyzed the relationship between ZIS-DSKL funds and GDP on poverty levels in Indonesia. Carolina (2022), in her research, examined the impact of government spending on subsidies, education, and healthcare in reducing poverty rates. Ridha et al (2021) focused on analyzing the influence of social assistance and community empowerment through Micro, Small, and Medium Enterprises (MSMEs) on poverty alleviation in Parepare City. Melati & Burhany (2021)studied the effect of education spending, healthcare spending, and social assistance spending on poverty in regencies and cities in West Java. Furthermore, Harsono et al (2024) investigated the relationship between education spending, healthcare spending and social assistance spending on the Human Development Index in West Nusa Tenggara (2013–2022).

Based on previous studies, the analysis has been limited to certain provinces, and no prior research has comprehensively examined additional variables. In this study, the researcher also tests the impact of MFIs financing on poverty levels, focusing on 20 provinces in Indonesia. Therefore, this study aims to fill the research gap by analyzing the role of MFIs financing in poverty alleviation on a broader scale, considering various provinces. Additionally, this study will propose an integrated policy model to optimize the analyzed variables, ensuring a significant and universal contribution to poverty reduction across all regions of Indonesia.

Based on the background, the main research questions to be addressed in this study are:

1. What is the impact of the distribution of ZIS-DSKL funds, MFIs financing, social assistance funds, and subsidies on poverty in Indonesia, both individually and collectively?
2. Which of these variables has the most significant effect on poverty alleviation in Indonesia?

Based on the research questions, the hypotheses are formulated as follows:

1. Hypothesis 1 (H1) : The distribution of ZIS-DSKL funds has a significant negative effect on poverty in Indonesia.
2. Hypothesis 2 (H2) : MFIs financing has a significant negative effect on poverty in Indonesia.
3. Hypothesis 3 (H3) : The distribution of social assistance has a significant negative effect on poverty in Indonesia.
4. Hypothesis 4 (H4) : The distribution of subsidies has a significant negative effect on poverty in Indonesia.
5. Hypothesis 5 (H5) : When considered together, the distribution of ZIS-DSKL, MFIs financing, social assistance, and subsidies significantly impacts poverty in Indonesia.

2. LITERATURE REVIEW

2.1 Poverty

Poverty, as defined by BPS, is a condition where individuals are unable to fulfill their basic necessities, encompassing both food and non-food needs (BPS, 2024). This definition reflects the multidimensional nature of poverty, emphasizing that it is not merely an economic condition but a broader societal issue. According to Hailat et al (2025), poverty is measured based on the ability to meet basic needs, including sufficient nutrition to maintain health and productivity, as well as access to housing, education, healthcare, and other factors essential for a dignified quality of life. These components align with the "basic needs approach," which views poverty as a comprehensive issue impacting all aspects of life, from health to social opportunities.

Poverty is inherently cyclical, and its effects are far-reaching, influencing not only economic capabilities but also social aspects like access to education and healthcare. This cycle of deprivation is often self-perpetuating, as limited access to education and healthcare reduces individuals' ability to escape poverty in the long term. The basic needs approach thus provides a more holistic view of poverty, extending beyond income to include the fundamental aspects that support well-being. For instance, inadequate housing and poor healthcare can undermine an individual's ability to participate fully in the economy, perpetuating a cycle of poverty that is difficult to break.

Several scholars have built on this conceptualization of poverty to argue that alleviation strategies must go beyond merely addressing income. As noted by (Hailat et al., 2025) poverty cannot be understood solely as a lack of financial resources but as a complex issue involving barriers to basic services and opportunities. This necessitates a comprehensive approach to poverty alleviation, one that focuses on fulfilling citizens' basic needs, improving access to essential services like education and healthcare, and fostering sustainable economic empowerment.

This approach is reinforced by the idea that poverty alleviation requires integrated strategies that tackle multiple dimensions of poverty simultaneously. Economic empowerment, for example, is not just about income generation but also about ensuring that individuals have the tools, resources, and opportunities to improve their lives. By combining efforts to address both the economic and social dimensions of poverty, policies can create a more resilient population capable of withstanding economic shocks (Monoarfa et al., 2023). As such, poverty alleviation must involve not just immediate relief but also long-term investments in social infrastructure, such as education, healthcare, and affordable housing, which can break the cycle of poverty over time.

In conclusion, poverty is a multifaceted challenge that requires a comprehensive, integrated strategy for effective alleviation. The basic needs approach underscores the importance of addressing both economic and social dimensions of poverty to create sustainable solutions. This synthesis of the economic, social, and policy perspectives on poverty highlights the complexity of the issue and the need for multifaceted interventions to reduce poverty in a meaningful and lasting way.

2.2 Zakat, Infaq, Sadaqah, and Other Religious Social Funds (ZIS-DSKL)

Zakat, Infaq, Sadaqah, and Other Religious Social Funds (ZIS-DSKL) represent critical instruments in Islamic social finance, designed to promote social welfare and economic justice. Zakat, an obligatory contribution, must be paid by individual Muslims or business entities (muzakki) to eligible recipients (mustahik) in accordance with Islamic law. Infaq refers to voluntary contributions that extend beyond zakat, while sadaqah includes both monetary and non-monetary forms of charity for public benefit. DSKL encompasses a broader range of religious social funds, including qurban (sacrificial donations), fidyah (compensation for missed fasting), nazar (vows), and other religious obligations, thus playing a flexible and multifaceted role in addressing specific community needs (BAZNAS, 2018).

The flexibility of ZIS-DSKL funds allows them to be adapted to a variety of emergency situations, making them vital tools for poverty alleviation. Aghustin & Cahyono (2020) highlight how optimizing the management of these funds can enhance economic equity within the Muslim community, providing critical resources to support both social objectives and sustainable economic development. This aligns with the broader goals of Islamic social finance, which aims to balance financial inclusion with ethical distribution.

The effective management of ZIS-DSKL is key to ensuring their impact on poverty reduction. Research by Aini & Mundir (2020) demonstrates that productive zakat management can increase the economic income of Micro, Small, and Medium Enterprises (MSMEs), which play a pivotal role in alleviating poverty in Indonesia. This highlights the potential of zakat not just as a charitable tool but as an instrument for sustainable economic development. However, to realize this potential, transparent and accountable management is critical. Without such oversight, funds may not reach the most vulnerable, undermining the effectiveness of poverty alleviation efforts.

Moreover, zakat plays an important role in encouraging economic independence, especially within disadvantaged communities (Batari et al., 2024). Haikal (2023) and Ahmad et al., (2024) argues that zakat can empower communities by providing economic opportunities, thus reducing dependence on social assistance. This is supported by Suherman (2020) and Setiyadi et al., (2025), who stresses the importance of zakat management institutions not only providing charity but also empowering mustahik through training and business capital support. Such initiatives can promote self-sufficiency, helping individuals escape the cycle of poverty.

In synthesizing these perspectives, it is clear that the role of ZIS-DSKL extends beyond fulfilling social obligations. When managed effectively, these funds contribute to long-term poverty alleviation by fostering economic independence and social empowerment. The participatory and comprehensive approach to managing ZIS-DSKL ensures that these resources are utilized optimally, addressing both immediate needs and contributing to sustainable community development. Therefore, the integration of zakat management policies with broader social and economic strategies is essential to maximizing its impact on poverty reduction and community welfare.

2.3 Islamic Microfinance Institution (MFIs)

Islamic Microfinance Institutions (MFIs) are small-scale financial service providers that operate based on Islamic principles, offering an alternative to conventional financial services by avoiding interest and unjust profits. These institutions aim to serve communities that are excluded from formal financial systems, thereby providing equitable access to financial resources (Qadri & Ali, 2024). At the heart of the MFIs mission is the concept of *maqasid shariah*, which not only seeks to ensure financial inclusion but also contributes to broader social objectives, such as poverty alleviation, economic empowerment, and the equitable distribution of wealth (Alkhan & Hassan, 2021).

The role of MFIs in fostering business development within marginalized communities has been highlighted by various studies. Suhartono & Selamet (2022) show that the financing provided by MFIs has a significant positive impact on the performance of micro, small, and medium enterprises (MSMEs), particularly when used for working capital. This finding underscores the importance of providing MSMEs with the financial resources they need to grow, as they are often the backbone of local economies, particularly in low-income areas. Moreover, financing based on cooperative principles, such as *musharakah* and *mudarabah*, has proven more effective in stimulating sustainable business growth than conventional, sales-based financing, which tends to be more consumptive and less growth-oriented (Suhartono & Selamet, 2022). This distinction emphasizes that the IMF serves not just as a financial provider but as a strategic partner, helping to build long-term economic resilience within communities.

Furthermore, Iltiham (2020) draws attention to the role of the IMF in providing financial services to underserved areas that are typically ignored by formal financial institutions. By expanding access to finance, the MFIs helps reduce economic disparities, particularly in rural or low-income regions, and empowers local entrepreneurs. This inclusivity not only stimulates business development but also contributes to broader social welfare, creating a more equitable society. The ability of the MFIs to bridge the financial inclusion gap is critical in addressing systemic poverty and fostering sustainable economic growth.

In synthesizing these insights, it becomes clear that the MFIs role in poverty alleviation extends beyond merely providing financial resources. By embedding Sharia principles into their operations, these institutions align financial services with ethical, social, and economic goals, thereby contributing to a more just and prosperous society. MFIs can be seen as part of a broader strategy for inclusive development that prioritizes ethical finance, social justice, and long-term economic empowerment. However, the effectiveness of the MFIs depends on factors such as the scale of outreach, the quality of financial products, and the support for business development that accompanies the financial services offered.

In conclusion, Sharia Microfinance Institutions are essential in promoting financial inclusion and poverty alleviation. Their impact is not limited to providing capital but extends to enhancing business opportunities, reducing economic inequalities, and fostering social and economic empowerment in underserved communities. The combination of financial access, ethical financing models, and strategic business support positions IMF as a powerful tool for sustainable development.

2.4 Social Assistance (Bansos)

Social assistance is a key government tool designed to protect vulnerable populations from social risks and improve their overall welfare, particularly through the distribution of money, goods, or services. According to the Regulation of the Minister of Finance of the Republic of Indonesia Number 254/PMK.05/2015, social assistance aims to enhance the economy by alleviating the burden on the poor. This is further supported by BPS Jateng (2023), which defines social assistance as a government allocation directed at specific communities, with a set of criteria, to mitigate social risks or prevent the deterioration of welfare.

The importance of social assistance becomes particularly evident during crises, such as the COVID-19 pandemic, where many individuals lost their livelihoods and urgently needed support to survive. As highlighted by Rahmansyah et al (2020) social assistance not only serves as a safety net but also acts as a mechanism to improve the quality of life for recipients, particularly in times of economic downturn. This dual function providing immediate relief while fostering longer-term welfare improvements underscores the integral role of social assistance in poverty alleviation strategies.

However, while the intent behind social assistance programs is clear, their effectiveness is often undermined by practical challenges. Research by Noerkaisar (2021) emphasizes that targeting errors and uneven distribution are persistent issues that hinder the equitable reach of social assistance. For example, in her study Noerkaisar (2021) identifies how such misallocations can result in funds not reaching the most vulnerable populations, thus diminishing the potential impact of the programs. This issue is echoed research from Mufida (2021), which discusses how cash transfers during the COVID-19 pandemic helped many families maintain their purchasing power, yet the broader, systemic issues in distribution and targeting persisted.

A key challenge, therefore, is ensuring transparency and accountability in managing these funds. Noerkaisar (2021) further argues that without robust systems to prevent misuse, the effectiveness of social assistance programs is compromised. The need for an integrated, transparent, and accountable distribution system is critical to overcoming these barriers. This not only improves the reliability of aid but also ensures that the assistance reaches those who need it most, maximizing the impact on poverty reduction.

In conclusion, while social assistance plays a vital role in supporting the welfare of the poor, its success is contingent on addressing structural issues in targeting, distribution, and fund management. The integration of transparent systems and better targeting mechanisms, as suggested by existing research, will be crucial to enhancing the effectiveness of these programs in reducing poverty and promoting long-term economic stability.

2.5 Subsidies

Subsidies, as a form of government assistance, play a significant role in economic stability by supporting businesses and low-income households, particularly in maintaining price stability and boosting production levels. These subsidies, often provided in the form of cash or commodities, aim to improve the purchasing power of the poor, ensuring essential goods remain affordable (Soen et al., 2022). BPS Jateng (2023) further elaborates on subsidy spending, which is allocated by local governments to maintain the affordability of goods and services, making them accessible to the economically disadvantaged.

The effectiveness of subsidies in poverty alleviation is especially crucial in sectors like agriculture and food, where price volatility can drastically affect the livelihoods of low-income communities. Subsidies help mitigate these price fluctuations, offering a buffer that reduces the economic vulnerability of farmers. For instance, Januardi (2023) highlights that agricultural subsidies can stabilize farmers' income, particularly for products prone to price volatility or spoilage. By offering this financial support, subsidies not only stabilize income but also encourage increased investment in agricultural production, which can lead to greater food security and a more resilient agricultural sector.

However, the broader impact of subsidies on poverty reduction remains a topic of debate. While subsidies have the potential to improve the purchasing power of low-income households, their effectiveness can be limited by misallocation and inefficiencies in targeting the most vulnerable populations. Some studies suggest that subsidies may disproportionately benefit the middle class or urban areas, leaving the poorest households with limited access (A. A. Yusuf, 2018). Thus, the design and implementation of subsidies need careful consideration to ensure they are directed at the most needy populations and contribute effectively to reducing poverty. Moreover, the integration of subsidies with other poverty alleviation programs, such as social assistance and microfinance initiatives, could amplify their impact by addressing the multifaceted nature of poverty. This understanding suggests that while subsidies play an important role in economic stabilization, their long-term success in poverty alleviation depends on targeting mechanisms, efficiency in distribution, and coordination with other poverty reduction strategies.

Based on the literature review, the following conceptual framework diagram visualizes the relationships between ZIS-DSKL, MFIS, Bansos, Subsidies, and Poverty, highlighting how these financial mechanisms are interconnected and their potential impact on poverty alleviation.

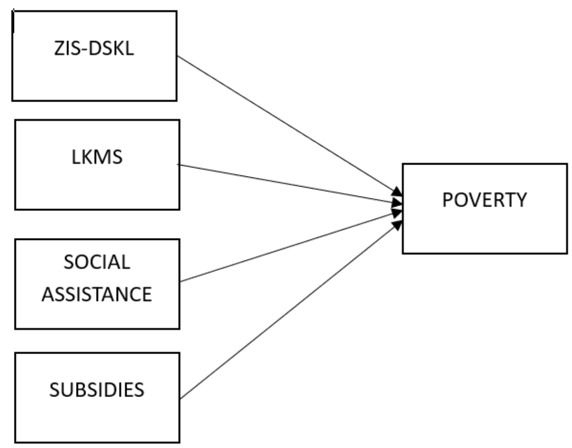

Figure 1. Conceptual Framework of the Relationship Between ZIS-DSKL, MFIs, Social Assistance, Subsidies, and Poverty Reduction
Source: Developed by the Authors based on Literature Review

3. METHODOLOGY

This study uses a quantitative research design with secondary data obtained from the Ministry of Finance, Badan Amil Zakat Nasional (BAZNAS), Badan Pusat Statistik (BPS), and Otoritas Jasa Keuangan (OJK). The sampling process uses purposive sampling, which involves selecting samples based on specific criteria. The selection of provinces is determined by the presence of Sharia cooperative financing distribution, accessed from OJK data. This study applies the use of time series data, which is annual data from 2019 to 2023, and the cross-sectional data in this research is from 20 provinces. Data analysis uses Eviews 12, with panel data regression techniques to model the relationship and analyze the effects of ZIS-DSKL, Sharia Microfinance Institutions, Social Assistance, and government Subsidies on poverty alleviation, as follows:

$$POV_{it}= \alpha+\beta_1 \cdot ZIS-DSKL_{it}+ \beta_2 \cdot MFIs_{it} + \beta_3 \cdot SA_{it} + \beta_4 \cdot SUB_{it} +\varepsilon_{it}$$

Explanation:
POV = Poverty
ZIS-DSKL = Zakat, Infaq, Shadaqah, Other Religious Social Funds
MFIS = Islamic Microfinance Institutions
SA = Social Assistance
SUB = Subsidies
α = Intercepts (constant)
β = Slope
ε = Error

The application of the regression above forms the basis for mapping the appropriate estimation model in this study. Next, the testing phase is carried out to identify the optimal model by applying testing methods in the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) (Bell et al., 2019; Bollen, Kenneth A.; Brand, 2010). After determining the best model, the next steps involve testing classical assumptions, model estimation, and hypothesis testing. Finally, the theoretical support representation, conclusions, and recommendations developed by the researcher in this study are presented.

4. RESULTS AND DISCUSSION

4.1 Research Analysis

Before conducting panel data analysis, the researcher carried out a model selection test to determine the most appropriate model among the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM). The first step was to perform the Chow Test (CEM vs. FEM), followed by the Hausman Test (FEM vs. REM). If there is a discrepancy between the results of these two tests, the Lagrange Multiplier Test (CEM vs. REM) is then conducted. The result of the model selection test indicated the best-fitting model as follows:

Table 1. Model Selesction Test

Variable	Chow Test	Hausman Test	Lagrange Multiplier Test	Best Model
Zakat, Infaq, Shadaqah, Other Religious Social Funds (ZIS-DSKL), Islamic Microfinance Institutions (MFIs), Social Assistance (Bansos), and Subsidies for poverty	0.0000	0.0006	-	FEM

Source: Eviews V.12 Data processed (2024)

Based on the results of the Chow Test in the table above, the probability value of the Cross-Section F is 0.0000, which is less than 0.05, indicating that the selected model is the Fixed Effect Model (FEM). Meanwhile, the Hausman Test shows a probability value for the Cross-Section Random of 0.0006, which is also less than 0.05, meaning that the chosen model is FEM. Therefore, this study does not need to perform the Lagrange Multiplier Test, as the best-fitting model has already been determined to be FEM.

4.2 Classical Assumption Tests

The optimal model determination requires classical assumption testing, which includes tests for heteroscedasticity, autocorrelation, normality, and multicollinearity, as follows:

Table 2. Classical Assumption Test

No	Variable	Heteroscedasticity (Obs*R-Square)	Autocorrelation (Durbin-Watson)	Normality Jarque-Bera (Probability)	Multicollinearity Test		
					Coefficient Variance	**Uncentered VIF**	Centered VIF
1	ZIS-DSKL → POV	0.1633	1.889565	4.477376 (0.106598)	0.376500	265.5248	1.354911
2	MFIs → POV				0.047056	20.89443	1.064772
3	SA → POV				0.686718	490.3912	1.544253
4	SUB → POV				0.028761	15.62545	1.356028

Source: EViews V.12 Data processed (2024)

Based on the contents of Table 2, the following classical assumption tests were conducted. First, the heteroscedasticity test was carried out using the Glejser test, which aims to analyze whether there is variance inequality or residual inconsistency across observations. If the probability significance value between the independent variables and the absolute residuals is greater than 0.05, it indicates no heteroscedasticity problem (Napitupulu et al., 2021; Nureni Olawale & Dawud Adebayo, 2022; Xiao et al., 2023). Based on the Heteroscedasticity Test, the result is 0.1633 > 0.05, which means there are no signs of heteroscedasticity in the variables studied.

Second, the autocorrelation test used the Durbin-Watson (DW) method. If the DW statistic is around 2, it indicates no autocorrelation. A DW value much lower than 2 suggests positive autocorrelation, whereas a value much higher than 2 (up to a maximum of 4) indicates negative autocorrelation (Chen, 2016). The test results in this study show a DW value of 1.889565 (close to 2), indicating no autocorrelation. Third, the normality test aims to assess whether the residuals are normally distributed. If the probability value is greater than 0.05, the model passes the normality test (Horváth et al., 2020). Based on the test result, the value is 0.106598 > 0.05, which means the residuals in the regression model are normally distributed.

Fourth, the multicollinearity test evaluates whether there is any correlation among the independent variables, as measured by the Centered Variance Inflation Factor (VIF). If the VIF value is greater than 10, multicollinearity is indicated; if the value is less than 10, no signs of multicollinearity are present (Assaf & Tsionas, 2021; Kim, 2019). Based on the results in Table 2, the Centered VIF values are all below 10, indicating that there is no multicollinearity issue among the independent variables in this study.

4.3 Regression Analysis

The hypothesis testing analysis is used to determine the partial and simultaneous effects of the independent variables on the dependent variable by employing the T-test (partial), F-test (simultaneous), and the Coefficient of Determination test. The results of the hypothesis testing are presented as follows:

Table 3. Regression Analysis (Hypothesis Test)

	Variable	Coefficient	T-statistic	Probability	F-statistic (Prob)	Adjusted R-Square
1	ZIS-DSKL → POV	-0.393175	-3.364.628	0.0012	579.7317 (0.000000)	0.992617
2	MFIS → POV	0.025703	0.792888	0.4303		
3	SA → POV	0.300039	1.112.260	0.2695		
4	SUB → POV	0.054572	1.812.703	0.0738		

Source: EViews V.12 Data processed (2024)

Explanation, the T-Test is used to determine the effect of an independent variable on the dependent variable, referring to previous research by Widarjono (2010), as follows:

H_0 : $\beta k = 0$, meaning the variable (x) has no effect on the variable (Y)
H_1 : $\beta k \neq 0$, meaning the variable (x) has an effect on the variable (Y)
Decision Rule : Reject H_0 at a significance level of $\leq 5\%$

Based on the results in Table 3, the hypothesis testing reveals the following. First, the analysis of ZIS-DSKL (Zakat, Infaq, Sadaqah – DSKL) on poverty shows a T-statistic value of 3.364628, which is greater than the T-table value of 1.984467455, and a significance value of 0.0012, which is less than 0.005 (H_1 accepted and H_0 rejected). The coefficient result is -0.393175 (-39.31%), indicating that the distribution of ZIS-DSKL in the 20 provinces has a negative and significant effect on reducing poverty from 2019 to 2023.

Second, the analysis of MFIs financing on poverty results in a T-statistic of 0.792888, which is smaller than the T-table value of 1.984467455, and a significance value of 0.4303, which is greater than 0.005 (H_1 rejected and H_0 accepted). The coefficient value is 0.025703 (2.57%), meaning that the distribution of MFIs financing in the 20 provinces does not have a significant effect on reducing poverty from 2019 to 2023.

Third, the analysis of social assistance distribution on poverty yields a T-statistic of 1.112260, which is less than the T-table value of 1.984467455, and a significance value of 0.2695, which is greater than 0.005 (H_1 rejected and H_0 accepted). The coefficient is 0.300039 (30%), indicating that the distribution of social assistance in these 20 provinces does not significantly affect poverty reduction from 2019 to 2023.

Fourth, the analysis of subsidy distribution on poverty produces a T-statistic of 1.812703, which is lower than the T-table value of 1.984467455, and a significance value of 0.0738, which is greater than 0.005 (H_1 rejected and H_0 accepted). The coefficient is 0.054572 (5.45%), meaning that the distribution of subsidies in the 20 provinces does not significantly affect poverty reduction from 2019 to 2023.

Furthermore, the F-test is used to determine whether the variables ZIS-DSKL distribution, MFIS, social assistance (Bansos), and subsidies simultaneously produce a significant effect on poverty (Carolina, 2022). Based on Table 3, the F-statistic value is 579.7317, which is greater than the F-table value of 2.4674, and the significance value is 0.00000, which is less than 0.05 (H_0 rejected and H_1 accepted). This means that the distribution of ZIS-DSKL, MFIs financing, social assistance, and subsidies simultaneously has a significant effect on poverty in the 20 provinces from 2019 to 2023. Finally, the Coefficient of Determination (R-Square) test is used to assess the extent to which the independent variables can explain the dependent variable. Table 3 shows an R-square value of 0.99 (99%), indicating that the independent variables explain 99% of the variation in the dependent variable, while the remaining 1% is explained by other variables not included in this study.

4.4 The Effect of ZIS-DSKL Distribution on Poverty in Indonesia

Based on the analysis of 20 provinces from 2019 to 2023 using the selected Fixed Effect Model (FEM), the results show that the T-statistic value is greater than the T-table value (3.364628 > 1.984467455), and the significance value is less than 0.05 (0.0012 < 0.05). This indicates that the distribution of ZIS-DSKL has a significant impact on poverty alleviation. This finding aligns with several previous studies, such as those by Herianingrum et al (2024); Mawardi et al (2023); Surury et al (2024) which analyzed the implementation of ZIS-DSKL as an instrument for poverty alleviation and economic growth in Indonesia through effective empowerment programs and business mentoring for *mustahiq* (eligible recipients).

This study also supports research by Zauro et al (2020), which highlights the importance of encouraging participation among lower-middle-class communities to utilize zakat, sadaqah, and *qardhul hasan* as instruments that can enhance the efficiency and effectiveness of wealth distribution from *muzakki* (donors) to *mustahiq*. These instruments contribute to improving the quality of education, promoting sustainability-oriented public spending, reducing budget deficits, minimizing government borrowing, and prioritizing ethical and sustainable sources of financing (Muhammad & Al-Shaghdari, 2024). Furthermore, these instruments serve as social safety nets during economic crises (Mutmainah et al., 2024), emphasizing social norms and the empathetic impact of *infaq* (Abd Jalil et al., 2022). Moreover, Islamic social finance, particularly zakat distributed through fintech platforms has become a means of poverty alleviation and promoting sustainable financial inclusion.

4.5 The Effect of Islamic Microfinance Institution (MFIs) Financing Distribution on Poverty

Based on the analysis of 20 provinces from 2019 to 2023 using the selected Fixed Effect Model (FEM), the T-statistic value is lower than the T-table value (0.792888 < 1.984467455), and the significance value is higher than 0.05 (0.4303 > 0.05), indicating that the distribution of financing by MFIs does not have a significant effect on poverty alleviation. This finding aligns with previous studies regarding the challenges faced by the MFIs. First, Mulyaningsih (2016) found that MFIs financing had no significant effect on poverty reduction because poverty is a multidimensional issue that cannot be resolved solely through loans or financing. Second, (Wulandari & Pramesti, 2021) identified four key challenges faced by IMF particularly Baitul Maal wat Tamwil (BMT) in implementing sustainable microfinance: loan amount limitations, high costs imposed on borrowers, the implementation of the BMT APEX program, and the optimization of funds for productive activities. The implementation of an appreciative approach model is crucial to improve loan access for poor communities across regions.

Third, the limited reach of MFIs branches in remote areas poses another challenge, as most MFIs operate in urban or already developed regions (Akbar & Siti-Nabiha, 2022). Another issue impacting the effectiveness of MFIs financing is the low level of financial literacy among the public. A survey conducted in Jakarta, Yogyakarta, South Sulawesi, and West Nusa Tenggara (Lubis, 2021) supports this. According to the 2024 National Survey on Financial Literacy and Inclusion, the Islamic financial literacy index stands at 39.11%, while the Islamic financial inclusion index is even lower at 12.88%, indicating that public understanding and access to Islamic financial services remain very limited.

Additionally, factors such as age, gender, and income are key determinants of rural households' access to MFIs financing services (Fianto et al., 2019). Moreover, the outreach programs of BMT or medium-sized cooperatives remain ineffective, warranting further evaluation by IMF and stakeholders. Fitriasari (2019) evaluated the effectiveness of the MFIs in reaching the poor and whether financing leads to measurable impact. Wulandari (2019) emphasized the need for a structured approach and clear regulatory roles for MFIs or BMT at each financing stage to ensure poverty alleviation objectives are achieved effectively.

The first recommendation to the government concerns operational limitations faced by BMTs, as governed by Law No. 1 of 2013 on Islamic Microfinance Institutions (IMF). Under this law, if a BMT wishes to expand its services, including capital distribution to city/district/provincial levels, it must transform into a bank (Khairudin, 2022). The second recommendation is directed at the Financial Services Authority (OJK) and Bank Indonesia to assess the operational challenges BMT face at branch levels, especially in competing with other financial institutions, evaluate programs, and expand access to poor communities in rural areas (Wasiaturrahma et al., 2020).

The evaluation of BMT structure and specific roles can be effectively carried out, such as the assessment of separating the functions of Baitul Maal from Baitul Tamwil for the distribution of *qardhul hasan* financing to poor communities (Wulandari, 2019). Second, the evaluation of the characteristics of low-income communities in each BMT operational area, who are eligible to receive BMT financing products such as *qardhul hasan* derived from social funds (Zakat, Infaq, Wakaf), should consider the demographic and economic potential of the area, with most occupations being aimed at productive purposes. For example, research by Alam et al (2021) highlights that MFIs, particularly BMT should focus on empowering low-income fishermen by providing them with productive funds to manage as additional income.

Similarly, the operation of MFIs in agribusiness areas, such as financing schemes for farmers, is essential. According to research by M. Y. Yusuf et al (2025), the management of farmers' finances should be tailored through Islamic financial contracts at both central and regional levels. This would ensure that financing is appropriately structured for agricultural enterprises. Additionally, the vulnerability of capital management in small businesses, especially among poor communities, must be addressed. It requires support through mentoring and sound business management practices to minimize the risk of failure and enhance the sustainability of these small enterprises.

4.6 The Impact of Social Assistance Distribution on Poverty

Based on the analysis of 20 provinces from 2019–2023 using the selected FEM model, the results showed that the T-statistic value was smaller than the T-table value (1.112260 < 1.984467455), and the significance value was greater than 0.05 (0.2695 > 0.05). The conclusion of this part of the study is that the distribution of social assistance (bansos) did not significantly impact poverty alleviation in these 20 provinces. This finding aligns with previous studies by Melati & Burhany (2021); Ridha et al (2021); Sari & Marissa (2023) which statistically show that social assistance has not significantly reduced poverty.

During the Covid-19 pandemic, government social assistance (bansos) was considered ineffective in ensuring social justice for low-income informal workers who were not registered in the social security program (Retnaningsih, 2020). This situation contradicts the primary goal of social assistance, which is to reduce poverty and improve the social welfare of citizens. Several factors contributing to this issue are discussed in the study, drawing on previous research. First, research by A. A. Yusuf (2018) found that social assistance, being consumptive in nature, reduces the motivation of the poor to build economic independence. Second, research by Susanto et al (2021) indicated that the distribution of social assistance has not effectively targeted the truly poor population, due to inaccurate and incomplete data.

This study provides input for the government, particularly the Ministry of Population and Family Planning (National Population and Family Planning Agency of Indonesia), and other ministries responsible for addressing poverty in each region. It suggests that accurate data collection at the village level is crucial to facilitate the Ministry of Social Affairs in further verifying recipients of assistance. The role of the local government, especially village governments, is critical in providing information, data collection, and distributing social assistance (Nurlinah et al., 2024). Research by Hudang & Setyarini (2024) the importance of local government monitoring to ensure that social assistance recipients truly benefit from the program. If implemented, this approach can strengthen the recipients' awareness of the program and ensure the availability of necessary infrastructure.

Moreover, it is deemed essential for all parties involved in the program's data collection to not only interact with the beneficiaries but also to equip those implementing the program with skills to manage data, calculate the allocation of funds per family accurately and efficiently, and evaluate the program's impact using statistical analysis to monitor the progress of beneficiaries more accurately (Hidayat et al., 2025).

The other hand, input for the Ministry of Social Affairs and related agencies regarding the distribution of social assistance includes improving the implementation of the Program Keluarga Harapan (PKH), increasing budget allocation and support for integrated economic empowerment activities, enhancing the productive structure of small-scale household businesses, and supporting better distribution of non-cash food assistance or BPNT program, direct cash assistance or BLT program, and the pre-employment card program. These programs should receive better distribution and more integrated supervision, with a stronger focus on food assistance to maximize long-term poverty reduction in social assistance distribution (Ciptawaty et al., 2025).

Another suggestion for policymakers is to focus on designing specific and integrated interventions by considering socio-demographic factors such as education and location, which are important for creating empowerment programs for the population through social assistance. Providing infrastructure and facilities tailored to the needs of each region is also key. For example, research by Fitrinitia & Matsuyuki (2023) identified that the key factor in the PKH program for small farmers in Indonesia to tackle climate disasters was the provision of intensive counseling or workshops between PKH facilitators and beneficiaries. This collective approach had an impact on livelihood capital and coping strategies.

4.7 The Impact of Subsidy Distribution on Poverty

Based on the research analysis of 20 provinces from 2019–2023 using the selected FEM model, the results showed that the T-statistic value was lower than the T-table value (1.812703 < 1.984467455), and the significance value was greater than 0.05 (0.0738 > 0.05). The conclusion of this part of the study is that the distribution of subsidies did not significantly impact poverty reduction in these 20 provinces, because subsidies have primarily been designed to assist households in the short term, such as increasing the purchasing power of the population. It was found that both low-income and high-income households could buy and enjoy subsidized commodities (Nugroho et al., 2021), leading to the result that most of the subsidies were enjoyed by the middle class, which made it less effective in reducing poverty. Although the provision of subsidies was seen to have a direct impact on the national economy, it has caused dependency without providing long-term solutions (A. A. Yusuf, 2018). This often makes subsidies just temporary assistance without encouraging the development of citizens' economic capacities.

This part of the study suggests that the government should not only focus on addressing the social assistance program schemes (conditional cash transfers, education assistance for poor students, health insurance for the poor, and food assistance) but also needs to focus on the implementation of subsidy distribution policies, such as LPG subsidies, electricity subsidies, and fuel subsidies to regional areas to reduce inequality and unemployment (Nugroho et al., 2021). Survey by the Indonesian Political Indicators (IPI) found that the majority of respondents agreed that the fuel subsidy was misdirected, as discussed in the study (Astuti et al., 2023), which then proposed a recommendation for clustering the fuel subsidy program to make it more effective. Among them, Cluster 1 should prioritize provinces or areas that must receive fuel subsidies, Cluster 2 includes areas that are less prioritized to receive fuel subsidies, Cluster 3 should prioritize areas that need subsidies, and Cluster 4 should focus on areas that are not the main target for fuel subsidy distribution.

The government needs to reduce distortionary subsidies, especially fuel subsidies, change the subsidy paradigm, create risk mitigation strategies, and reallocate funds to government spending that benefits the poor. Research by Dartanto (2013) found that 30% of the wealthiest population enjoyed fuel subsidies, consuming around 63.8% of the subsidy distribution between 1998 and 2013. The role of the government is crucial in reallocating public spending policies and other subsidies that have the potential to reduce poverty. Research by (Sambodo & Novandra, 2019) suggested that subsidies for public transportation should be prioritized over energy subsidies, as the latter has been found to cause more problems. Furthermore, the research by (de Menezes Fraga & Alves, 2025) recommended that subsidy targeting should focus more on water and sanitation services.

4.8 Integrated Policy Model for Poverty Alleviation

The overall findings of this research analysis are relevant in supporting the achievement of the SDGs. This study aligns with research by Harahap et al (2023); Kusnan et al (2022), which state that the primary goal of sustainable development is poverty alleviation across all regions, including its connection with maqasid shariah. The implementation of maqasid shariah as the guiding philosophy for sustainable finance combines the essence of Islamic financial ethics and emphasizes the concept of justice to achieve faith, life, intellect, lineage, and wealth (Tlemsani et al., 2023). Therefore, this study seeks to provide a solution in the form of an integrated policy model for poverty alleviation by optimizing the distribution of ZIS-DSKL funds, MFIs financing, social assistance, and government subsidy distribution that aligns with the SDGs and maqasid shariah as follows:

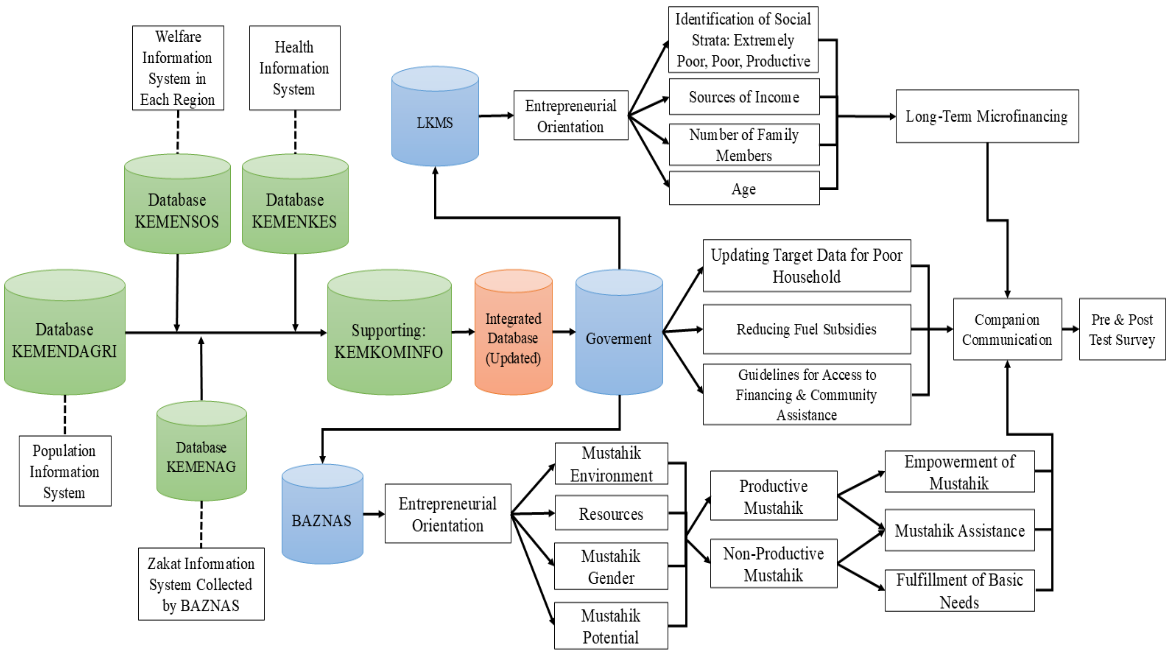

Figure 1. Integrated Model of Poverty Alleviation Policy
Source: Author's Illustration

Based on the visualization in Figure 1 from this research analysis, an integrated policy model framework for poverty alleviation is proposed, involving multiple ministries. Referring to the study by Widiastuti et al (2021), it suggests tracking the number of poor households through data updates from the RT/RW (neighborhood/village), sub-district, and district levels, which will serve as the database for each ministry, primarily the Ministry of Home Affairs, Ministry of Social Affairs, Ministry of Health, and Ministry of Religious Affairs, at both the regional and national levels. Additionally, collaboration with the Ministry of Communication and Information will produce a unified database that can serve as a reference for the relevant ministries in making program decisions and distribution schemes.

Furthermore, the policy implications regarding the social assistance program and subsidy distribution need to be reconsidered by the government, as the current social assistance programs in Indonesia do not always help poor households prevent child labor, do not have a significant long-term impact on household consumption spending, and may even encourage increased fertility behaviors among recipients of the PKH program, leading to larger family sizes. As a result, the effectiveness of the PKH program has yet to significantly reduce poverty, and a reevaluation is necessary to ensure the program aligns with its intended goals (Bano et al., 2021; Utami & Iskandar, 2024). Moreover, updating the data on poor households with accurate targeting (Hudang & Setyarini, 2024) and transforming cash transfer programs into institutionalized social entrepreneurship programs are crucial (Yuda et al., 2023).

Regarding the implications for MFIs, especially in designing long-term social microfinance programs oriented towards entrepreneurship, Islamic social finance has the potential to contribute to 11 out of 17 Sustainable Development Goals (SDGs) (Dirie et al., 2023). Research by Hendrik et al (2024) shows that an entrepreneurial orientation has a significant impact on the social and financial performance of microfinance institutions (MFIs). Policymakers (government) should revise regulations intensively and provide clear guidance to MFIs on financial inclusion and operational effectiveness for poverty alleviation in each operational area (Shikur & Akkas, 2024). One example of long-term Islamic microfinance is the IKSAR Qardhul Hasan program, which has proven to increase income and expenditures for poor communities (Ulev, 2022). This program already exists in Islamic banking, but to improve its effectiveness, cooperation between social institutions and resources to distribute Qardhul Hasan funds is required. Another example from research by Nugraheni & Muhammad (2024) suggests that MFIS can focus on the application of mudarabah financing for micro-enterprises that employ individuals with specific skills.

The policy implications for BAZNAS regarding zakat transformation, especially from environmental, resource, and historical perspectives, need to be revisited (Saad et al., 2023). Based on research by Ayuniyyah et al (2022), it is suggested that zakat distribution programs consider gender status as a determinant for measuring poverty and income inequality, as these factors are important in program implementation. The program should be based on priority scales and the potential of the mustahik (beneficiaries) (Herianingrum et al., 2024). Furthermore, social assistance programs, MFIs financing distribution, and BAZNAS require the involvement of communication facilitators (mentors) (Noegroho et al., 2024). Mapping the structure and defining specific roles at each stage is crucial to ensure the effectiveness of poverty alleviation efforts.

5. CONCLUSION

This study finds that the distribution of Zakat, Infaq, Sadaqah, and Other Religious Social Funds (ZIS-DSKL) has a significant negative effect on poverty in Indonesia, indicating that increased disbursement of ZIS-DSKL funds correlates with lower poverty levels. Conversely, the distribution of Islamic Microfinance Institution (MFIS) financing, social assistance (bansos), and government subsidies did not exhibit a significant individual effect on poverty, although collectively these variables do influence poverty alleviation. These findings suggest that integrated financial mechanisms can contribute to poverty reduction when implemented through targeted, transparent, and accountable management strategies, coupled with sustained mentoring for beneficiaries.

Theoretically, this research affirms the relevance of the Maqashid Shariah framework in shaping inclusive and ethical poverty alleviation policies. The significant role of ZIS-DSKL supports the objectives of wealth preservation (hifz al-mal), protection of life (hifz al-nafs), and the promotion of intellectual and economic empowerment (hifz al-‘aql). In this context, Islamic social finance serves not only as a redistributive tool but also as a catalyst for long-term socio-economic justice, aligned with the principles of sustainability and equity embedded in the Sustainable Development Goals (SDGs).

Policy-wise, this study underscores the importance of optimizing ZIS-DSKL through integration with business development programs, improving the reach and effectiveness of MFIS through financial literacy and technological innovation, and refining the targeting mechanisms of social assistance and subsidy programs through data consolidation and inter-ministerial collaboration. However, this study acknowledges its limitations, particularly in the scope of data, which is restricted to 20 provinces due to availability constraints. Moreover, the exclusive reliance on secondary quantitative data does not fully capture the behavioral or cultural dimensions influencing poverty dynamics in local contexts. Future research is encouraged to adopt a mixed-methods approach, include more diverse provinces, and explore the potential of complementary Islamic social finance instruments such as waqf and fintech-based solutions in advancing inclusive and sustainable poverty reduction in Indonesia.

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