

Islamic Banks and Its Role in Reducing Poverty

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Abstrak

Penelitian ini bertujuan untuk menganalisis pengaruh pembiayaan yang disalurkan oleh bank syariah terhadap penurunan tingkat kemiskinan di Indonesia. Penelitian ini menggunakan data timeseries yang diuji menggunakan analisis regresi linier berganda. Data pembiayaan bank syariah didapat dari Statistik Perbankan Syariah oleh Otoritas Jasa Keuangan dan data kemiskinan di Indonesia didapat dari BPS digunakan dalam penelitian ini. Hasil penelitian menunjukkan bahwa murabahah berpengaruh terhadap penurunan tingkat kemiskinan, sementara semakin besar penyaluran pembiayaan mudharabah berdampak pada peningkatan kemiskinan, dan adanya pembiayaan musyarakah sama sekali tidak berpengaruh terhadap kemiskinan di Indonesia.

Kata kunci : Kemiskinan, Pembiayaan, Bank Syariah.

Abstract

This study aims to analyze the effect of financing disbursed by Islamic banks on reducing the poverty rate in Indonesia. This study used timeseries data tested using multiple linear regression analysis. Sharia bank financing data was obtained from Sharia Banking Statistics by the Financial Services Authority and poverty data in Indonesia obtained from BPS was used in this study. The results showed that murabahah has an effect on reducing the poverty rate, while the greater distribution of mudharabah financing has an impact on increasing poverty, and the existence of musyarakah financing has no effect on poverty in Indonesia at all.

Keywords: Poverty, Financing, Islamic Bank

1. INTRODUCTION

Poverty is the main goal in the formulation of the Millennium Development Goals (MDGs) and Sustainability Development Goals (SDGs) (Rassanjani, 2018). Previously it can be known in the MDGs Goal 1 is to reduce poverty and hunger that are used as one. Then in SGDs the two aspects are separated, but poverty remains the main goal to be reduced and even eliminated from the whole country.

Indonesia is one of the countries focused on fighting poverty. The latest annual report from Central Statistics Agency (bps.go.id) notes that, poverty rates over the past five years have fluctuated with a downward trend. In 2020, there were 26.42 million poor individuals in both urban and rural Indonesia. In comparison to the 25.14 million in the prior year, this number is up 5.09%. - The number of poor people in Indonesia often decreases from year to year compared to 2015. In 2015 it reached 28.59 million, then in 2016 it was 28.01 million. In 2017, the number became 27.77 million, and in 2018 it became 25.95 million.

This phenomenon of poverty can be suppressed and even reduced by using Islamic bank financing products that use revenue sharing schemes such as *Mudharabah*, *Musyarakah*, *Murabahah*, and *Ijarah*. The financing is channelled and the target is the poor (Shaikh & Mohanty, 2017). This Islamic financial system is

a new alternative, where it gives the responsibility to carry out the distribution of wealth. It will lead to poverty alleviation (Nugroho et al., 2020).

Islamic finance, embodied in Islamic banks, is still relatively new compared to conventional banks established for hundreds of years ago. But at a young age, Islamic banks managed to develop their assets even some Islamic banks have higher assets than conventional banks. Several empirical studies have resulted in Islamic banks contributing to a country's poverty reduction.

Poverty reduction that leads to social welfare (social welfare) is the answer to the objectives of the Islamic financial system. Poor people are not fully interpreted as lazy parties. However, those who do not have access to a better life. The availability of funding designated for the business sector is a crucial aspect of monetary policy in combating the issue of poverty. The most commonly found financing in Islamic bank products is *Mudharabah*, *Musyarakah*, and *Murabahah*. The financing will encourage the industry to expand its business, be it investment activities by companies or consumption and production by households. Similar to the MSME sector, finance to aid capital in the MSME sector would affect the creation of new jobs, lower unemployment, and ultimately give people money and purchasing power so that poverty will gradually decline.

In its role in reducing poverty, this means Islamic banking also plays the intermediary function very well. Islamic banks that have successfully raised third-party funds from surplus parties then optimize their ability to distribute these funds in the form of financing to deficit parties. Optimization of the intermediation function in Islamic banks broadly will reduce poverty through financial access in the form of capital from the distribution of financing, thus realizing economic welfare in the long term as the goal of the Islamic financial system.

The results of the research of Nugroho et al. (2020), Mohamed & Fauziyyah (2020), Banna et al. (2020), M. Anwar et al. (2020a), Siddique et al. (2020), Rifa'i & Ayu (2019), Tohirin & Husaini (2019), Tamanni & Haji Besar (2019), Febianto et al. (2019), Yahaya & Ahmad (2018), stated that the role of Islamic banking through the distribution of financing can reduce poverty. However, Ginanjar & Kassim (2020), Begum et al. (2019), presented the results of his research that Islamic bank financing has no impact on poverty levels.

Therefore, this study attempts to fill the gap by offering a new concept of Islamic bank financing and its role in reducing poverty in Indonesia that has been seen in the long and short term. Islamic bank financing is realized in the form of financing products, often offered by Islamic banking such as *Mudharabah*, *Musyarakah*, and *Murabahah* Financing. This article brings the novelty reflected in making Islamic bank financing as a factor that can reduce poverty, where previously poverty was always associated with zakat and other non-bank Islamic microfinance. This study intends to examine how finance provided by Islamic banks affects Indonesia's poverty rate.

2. LITERATURE REVIEW

2.1. Background Theory

Poverty

When a person is in poverty, they are unable to make decisions for themselves based on the group's standard of living and are unable to contribute their mental or physical resources to the collective. Two major issues in many emerging nations are economic inequality, or the unequal distribution of income between high- and low-income groups, and poverty levels, or the number of people living in poverty, including Indonesia. Empowerment is one of the activities carried out to reduce poverty in order to achieve the goal of utilization according to Chambers describing poverty, especially in the countryside, has five interrelated characteristics: material poverty, physical weakness, isolation and remoteness, vulnerability, and helplessness (Beik & Arsyianti, 2017).

Mudharabah

Mudharabah is a form of capital sharing partnership known as sharia-based revenue-sharing contracts. The party that provides capital is an Islamic bank called *shahibul maal*, while the customer in charge of managing this financing fund is *mudharib* (Sapuan, 2016). The parties involved in this contract use the profit-sharing ratio of 30:70 or 40:60 of the investment proceeds to divide the profits between *shahibul maal* and *mudharib* (AbdulKareem et al., 2020).

The policy of the *mudharabah* agreement is the participation of capital from *shahibul maal* to *mudharib*, which makes *mudharabah* as a form of investment (Tohirin & Husaini, 2019). An easy *mudharabah* scheme will encourage Islamic banks to channel financing to the real sector. It certainly opens more opportunities for new business actors to get capital facilities. Therefore, the real sector will grow, unemployment will decrease, the distribution of financing will bring an impact on reducing poverty.

H₁ : Mudharabah has negative and significant effect on poverty in Indonesia.

Musyarakah

Musyarakah is the participation of capital carried out by two or more parties, where profits and losses are shared between the parties. The capital included in the amount can be the same or different. Gains and losses will be divided based on the capital ratio included (AbdulKareem et al., 2020). The parties are allowed to contribute in regulating the participation of such capital and have their respective responsibilities for the business carried out (Mia et al., 2016).

Musyarakah has inspired a form of partnership, the realization of many jobs for the community, it used to develop personal talents. *Musyarakah* partnerships have a strong impact on macroeconomic control (AbdulKareem et al., 2020). From here, the strengthening of *musyarakah*, especially from the Islamic bank sector, can bring down the country poverty rate

H₂ : Musyarakah has negative and significant effect on poverty in Indonesia.

Murabahah

According to AAOIFI *murabahah* is a process of buying and selling with the amount of profit agreed by both parties. *Murabahah* transactions can be done without making a previous purchase promise, or by making a purchase promise submitted by customers who are interested in obtaining commodities through Islamic banks. *Murabahah* transactions cannot be separated from the trust of both parties regarding the transparency of the cost of goods sold and profits that must be known in the beginning.

Murabahah represents a great opportunity for poverty alleviation. Through easy and unsecured *murabahah*, the poor have access to financial services. An essential step of financial access and financing distribution is the creation of business opportunities and reducing unemployment. Everyone should be allowed to develop their financial skills. This can certainly be easily done if everyone has access to Islamic bank financing facilities. An economy supported by strengthening the financial system that will be faster in reducing poverty (Salisu et al., 2017).

H₃ : Murabahah has negative and significant effect on poverty in Indonesia.

2.2. Previous Studies

Nugroho et al. (2020), stated that Financing has a negative and large impact; specifically, it will lessen poverty the more Islamic banks are financed. However, if overall assets and the number of branch networks rise, it will have an impact on the rising level of poverty. These factors are positive and substantial. This is due to the fact that the assets of Islamic banks are backed mostly by savings and that the community has not yet received funding from Islamic banks in an ideal manner. Additionally, Islamic branch offices are typically concentrated in provincial capitals and major cities, leaving Islamic banks unable to serve the communities in rural and isolated locations.

Mohamed & Fauziyyah (2020), show that The majority of traditional microfinance initiatives ignored the very impoverished population. Thus, diverse forms and institutions of Islamic microfinance can address

varied issues and degrees of poverty, including the very poor. One of the most effective methods for eradicating poverty, particularly in Muslim societies, is Islamic microfinance.

Banna et al. (2020), digital financial inclusion (DFI) in promoting sustainable economic growth through Islamic banking can bring sustainable financial growth to achieve the SDGs. It may ensure sustainable economic growth and stability within banks, specifically Islamic banks, which is a step towards SDGs achievement.

Ginanjar & Kassim, (2020), stated specific ways to increase poor people's financial inclusion. This study recommends a number of techniques to ensure the effectiveness of the Islamic bank's efforts to reduce poverty in addition to provide significant inputs for better decision-making for the Islamic bank.

M. Anwar et al. (2020a), there is a strong correlation between IIB offices and deposits and economic growth in both the short- and long-term. There is proof that the Islamic bank and economic expansion are mutually reinforcing.

Siddique et al. (2020), revealed that some Islamic bank-specific financing products such as *Salam*, *Murabahah*, *Musyarakah*, *Ijarah*, and *Istisna* have a significant and negative effect on poverty. These results obviously, make it clear that the Islamic banking industry has a strong role in reducing the poverty rate. In his research used the main instruments of Islamic banking such as *Mudharabah*, *Musyarakah*, *Murabahah*, *Salam*, *Istishna*, *Ijarah* as independent variables. Siddique considers Islamic bank financing capable of playing a significant role in reducing poverty. His research was directed to look for the impact of independent variables on reducing poverty in Pakistan from 2004 to 2017. Siddique's research shows that Islamic banking in Pakistan has the main goal of achieving the SDGs. One of them is to eliminate poverty (zero poverty).

Rifa'i & Ayu (2019), stated that in comparison to conventional banks generally, the funding distribution from Islamic banks to Sharia-based finance is smaller. However, Islamic microfinance provided by Islamic banks can significantly aid efforts to reduce poverty. Her study provided compelling evidence that the poverty rate is negatively and considerably impacted by the funding distribution made expressly by BPRS for working capital activities. In other words, the poverty rate will drop the more BPRS funds are allocated for company capital.

Tohirin & Husaini (2019), in the results of his research stated that the financing provided by Islamic banks was able to increase people's purchasing power. Society statistically increases its income, and Islamic bank financing has a significant effect in reducing the community poverty rate. In his research, measured existing financing in Islamic banks using natural logarithms (LnIBF) as independent variables, with natural poverty logarithms (LnPOV) as dependent variables. From the beginning, they asserted his research to see the extent of Islamic bank financing in reducing poverty. In line with that, the study outcome showed Islamic bank financing proved to reduce poverty. They also found that the influence of Islamic banks on the reduction of poverty is far greater than the influence exerted by conventional banks.

Tamanni & Haji Besar (2019), found that While larger microfinance institutions would be more oriented toward sustainability goals, smaller ones still have the true goal of helping the needy.

Febianto et al. (2019), that the number of poor micro-entrepreneurs has been decreasing since they received financing and Islamic banking has influencing poverty alleviation among micro-entrepreneurs.

Begum et al. (2019), Islamic financial institution can not help the poor, It supports delaying payments if the debtors are having difficulty and is a more moral practice than the usual goals of profit maximization.

Yahaya & Ahmad (2018), stated there was a significance effect of Islamic banking distribution which leads to a cost reduction in an effort to poverty alleviation.

Islamic banking and financing products such as *Mudharabah*, *Musyarakah*, *Murabahah*, can encourage real sector. Therefore, Islamic banking will provide more financing products aimed at the real sector that allow reducing poverty.

3. RESEARCH METHODOLOGY

This research is a social research that aims to provide a definition or explanation of the effect of mudharabah, musyarakah, murabahah financing on poverty that has gone through hypothesis testing. The analysis unit of this study is Islamic Banks in Indonesia. The type of data used is a timeseries taken from the Sharia Banking Statistics by Financial Service Authority for financing in Islamic bank data and BPS for poverty data.

Multiple linear regression analysis is the methodology used for data analysis. With this regression analysis, we hope to partially and concurrently provide a complete picture of the relationship between the independent and dependent variables. The strategy necessitates completing classical assumption tests prior to multiple linear testing in order to get the best outcomes (Ghozali, 2011). It is intended that this classical assumption be met in order to prevent bias in the free variable's estimation of the bound variable.

$$PV = a + b_1MD + b_2MS + b_3MR + e$$

Information:

PV = Poverty

MD = Mudharabah Financing

MS = Musyarakah Financing

MR = Murabahah Financing

The steps that are completed are descriptive statistical tests, classical assumption tests made up of normality tests, multicolonierity tests, heterochedasticity tests, and autocorrelation tests, followed by multiple linear regression analysis tests made up of simultaneous tests (F test), partial tests (t tests), and coefficient of determination tests (R^2).

4. RESULT AND DISCUSSION

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PV	38	9.22	17.75	12.4979	2.73125
MD	38	1028	16770	9959.21	4413.246
MS	38	528	190724	59039.00	65541.021
MR	38	4271	198795	87915.74	65842.048
Valid N (listwise)	38				

Source: Data Processed, 2022.

Based on Table 1, the number of timeseries data used in this study is 30 data. The maximum and minimum values of poverty, mudharabah, musyarakah, and financing during the research period have a considerable gap, this proves the occurrence of fluctuations during the research period. It can be seen in the average value of mudharabah, musyarakah, and murabahah financing, although the maximum value reaches hundreds of millions, the average value only ranges from a dozen to tens of millions. This also proves the existence of a gap phenomenon that deserves to be revealed during the research period.

Table 2. Simultaneous Test

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	256.293	3	85.431	147.316	.000 ^b
	Residual	19.717	34	.580		
	Total	276.010	37			

a. Dependent Variable: PV

b. Predictors: (Constant), MR, MD, MS

Source: Data Processed, 2022.

Based on Table 2. It can be seen significance value of the simultaneous test (F test) is 0.000 or less than 0.05. This means that mudharabah, musyarakah, and murabahah financing together have a significant effect on poverty.

Table 3. Coefficient Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.964 ^a	.929	.922	.76152

a. Predictors: (Constant), MR, MD, MS

Source: Data Processed, 2022.

The coefficient of determination test is used to measure the magnitude of the contribution of variable X (mudharabah, musyarakah, murabahah financing) to the variance (ups and downs) of variable Y (poverty). The greater the value of R², the stronger the relationship between the bound variable and the free variable. Based on Table 3. known Adjusted R² value is 0.922 or 92.2%. This means that the research model built by researchers by including the variables of mudharabah, musyarakah, murabahah was able to affect poverty by 92.2% while 7.8% was influenced by other variables that were not included in the model.

Table 4. Partial Test

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	17.286	.327		52.874	.000
	MD	.000	.000	-.405	-4.075	.000
	MS	3.193E-6	.000	.077	.455	.652
	MR	-2.820E-5	.000	-.680	-3.074	.004

a. Dependent Variable: PV

Source: Data Processed, 2022.

The t test is used to test hypotheses formulated using tools, namely SPSS 22.0, this test is carried out to determine the effect of mudharabah, musyarakah, and murabahah financing on poverty in Indonesia.

Based on Table 4. The regression equation can be written into the formula:

$$PV = 17.286 + 0.000MD + 3.193MS - 2.820MR + e$$

Hypothesis 1 stated that Mudharabah has negative and significant effect on poverty in Indonesia. Based on Table 4, it can be seen that mudharabah financing has a coefficient value of 0.000 marked positive (+) with a significance level of 0.000 less than 0.05. This means Hypothesis 1 is accepted.

There is a positive influence of mudharabah financing distribution on poverty because basically mudharabah financing is mostly distributed to people who have the ability to pay not to the poor. Islamic financial institution can not help the poor (Begum et al., 2019), It encourages extending the term of payback if the debtors are experiencing difficulty and is a more ethical practice than the conventional goals of profit maximization. It is the level of poverty where poor citizens were impacted by the penalization charged from public banks (Baber & Zaruova, 2018). A study that examined the role performed by Islamic financial institutions in light of their active participation in the process of intermediation discovered a negative relationship, which had a detrimental effect on latent endogenous poverty alleviation (Ginanjari & Kassim, 2020). They said that the poor continued to live in poverty despite microfinance's dual roles as a financial and development institution.

This result disagreed with Tohirin & Husaini (2019) who said that the real sector would be impacted by the rise in financing, whether it be through business investment activities or household consumption and production. Similar to the MSME sector, mudharabah financing will have an effect on creating new jobs, lowering unemployment, and ultimately giving people income and purchasing power, which will gradually reduce poverty. This result is also not in line with (Siddique et al., 2020), revealed that some Islamic bank-specific financing products such as *Salam*, *Murabahah*, *Musyarakah*, *Ijarah*, and *Istisna* have a significant and negative effect on poverty. It proves that the Islamic banking industry has a strong role in reducing the poverty rate. In his research used the main instruments of Islamic banking such as *Mudharabah*, *Musyarakah*, *Murabahah*.

Hypothesis 2 stated that Musyarakah has negative and significant effect on poverty in Indonesia. Based on Table 4, it can be seen that musyarakah financing has a coefficient value of 3.193 marked positively (+) with a significance level of 0.652 more than 0.05. This means Hypothesis 2 is rejected.

In fact, musyarakah financing in Islamic banking has not been of great interest to the public, due to the lack of public understanding and knowledge of Islamic banking products. In the course of its business, Islamic banks cannot make a maximum contribution to support the progress of the real sector, especially MSMEs. This happens because the financing provided is dominated by non-profit sharing financing (*murabahah* and *ijarah*). A study that concentrated on how frequently borrowers acquire loans. Even after receiving the grant, the debtors were unable to improve their income (Mohamed & Fauziyyah, 2020).

First, Islamic banks' sources of funding, which are often short-term, cannot be used for profit-sharing financing, which is typically long-term. This makes musyarakah financing less appealing to Islamic banks. Second, business owners with high profit margins are often reluctant to use the profit sharing system because they believe that using an interest-based credit system is more profitable because it has a set calculation amount. As a result, businesses with relatively low profit margins typically apply for profit sharing financing. Third, the majority of business owners who choose profit-sharing financing are those who operate high-risk enterprises, including those who are new to the world of business. Fourth, to persuade the bank that its projects will generate high profits and encourage entrepreneurs to make overly optimistic business projections. Fifth, although though many business owners book significant profits in their books, the books that are handed to banks have low profit levels, resulting in a tiny fraction of profits that must be given to banks.

Hypothesis 3 stated that Murabahah has negative and significant effect on poverty in Indonesia. Based on Table 4, it can be seen that murabahah financing has a coefficient value of 2.820 marked negative (-) with a significance level of 0.004 less than 0.05. This means Hypothesis 3 is accepted.

Murabahah financing is effective for developing MSME businesses. Murabahah financing is widely used to increase business assets, sales turnover, operating income, and sales profits are increasing after obtaining murabahah financing. MSMEs can develop and add new workers. Therefore, when murabahah financing is effective in increasing income, the economic condition will improve, so that one of the indicators that make the community poor will be resolved. Furthermore, with the development of the business, it will be able to absorb labor, and when the business is able to create jobs, the unemployment will be absorbed into workers. Thus, that murabahah financing for MSMEs is effective in poverty alleviation efforts. The percentage of shariah-based funding is higher, and by applying its tools, poverty can be reduced more deeply across society (Ayu et al., 2019).

Through its role as an intermediary, Islamic banking offers an effective route for the transmission of productive resources for economic progress. This means that Islamic banking efficiently makes it possible to transfer money to the real economy (M. Anwar et al., 2020b). The use of Islamic banking for financial intermediation boosts managerial entrepreneurial abilities and benefits the economy. It lowers agency expenses, which benefits society's advancement as well as the economy (M. Anwar et al., 2020b).

5. CLOSING

The main contribution of the study remains in the perspective of Islamic banks financing towards poverty reduction. Based on the results of research, there is a lot of mudharabah financing distribution that is not on target, this causes many customers to become overwhelmed with the profit sharing charged to them, this further complicates their financial condition. In other cases, musyarakah financing as part of profit-sharing financing is not very well known by the public. In addition, the musyarakah financing that has been distributed does not have a positive impact on borrowers. Thus, the existence of musyarakah financing does not have an impact on poverty alleviation. On the other hand, murabahah financing is margin-based financing that is in great demand by the public, including MSME entrepreneurs. Many MSME entrepreneurs make murabahah financing for asset procurement, so many MSMEs are helped to maintain and even expand their business, until in the end murabahah financing has a significant effect on poverty alleviation.

Future studies will need to verify the offered concepts' measurements and put conceptual models to the test using quantitative techniques and empirical data. For time series data, the Vector Error Correction Model (VECM) may give results in the long and short term as well as have the ability to make recommendations for further study.

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