Elqish: Journal Islamic of Economics 4(2) 2024, 169-15

The Islamic Financial System as a Solution to Poverty Problems in Indonesia

Wahidatun Nafiah Alfarda[1*], Saifudin Yusuf[2], Hardining Estu M[3], Imam Nur Ngaini[4], Andrean Permadi[5]
[1,2,3,4,5] Sharia Economic Study Program, Faculty of Islamic Religion, Nahdlatul Ulama Blitar, Indonesia
Coresponding Author e-mail: fardaalhida@gmail.com

Article Info

Keywords:
Bank-Based Industry,
Islamic Financial System,
Market-Based Industry,

DOI:
10.33830/elqish.v1i1.001.2024

Abstract
Poverty is one of the main challenges faced by Indonesia, a country rich in natural resources and human potential. The presence of Islamic financial system is considered suitable for poverty alleviation programs. Islamic economics adheres to the principle of synergy (*ta'awun*) by creating economic justice to equalize the distribution of income and wealth, which is the goal of Islamic financial system. This research is a qualitative study with an inductive reasoning approach through a library research process. The data sources used to build the concept are secondary data derived from previous research in the form of articles discussing poverty. The research results show that the poverty rate in Indonesia tends to decrease from year to year. Market and banksbased industry have philosophical principles and operational bases that are integrated with social values and economic activities. Poverty will be reduced if all elements of society work together to support programs originating from the government and from other institutions, such as banking support for poverty alleviation.

1. Introduction

Poverty is a global issue for humanity. In developing countries, the number of people living below the poverty line remains high (Hasyim et al., 2025). Poverty is one of the crucial problems facing Indonesia today. Although the government has implemented various poverty alleviation programs, ranging from social assistance to community economic empowerment programs, this problem remains unresolved. Social and economic inequality remains evident in various regions, demonstrating that conventional approaches alone are insufficient to address these issues. In this context, the Islamic financial system presents a promising alternative for building sustainable social and economic justice. This system is not solely profit-oriented but also embodies moral, ethical, and justice values rooted in Islamic teachings. Key concepts in Islamic finance, such as zakat, *infaq, sadaqah, waqf*, as well as the principle of prohibition of usury and the profit-sharing system, clearly aim to reduce social disparities and improve the welfare of the people.

As a predominantly Muslim country, Indonesia has significant potential to develop an Islamic financial system as a pillar of the national economy. Optimizing Islamic financial instruments is believed to promote a more equitable distribution of wealth, create jobs, and encourage inclusive economic growth. Therefore, it is important to examine in depth how the Islamic financial system can be implemented as a strategic solution to address poverty in Indonesia, as well as how these Islamic financial instruments can contribute to improving people's welfare. This is a matter that must be addressed immediately. Amidst the complexity of the problem, the government has sought solutions to reduce poverty in Indonesia (Pratama et al., 2022).

Islamic financial system have emerged as a promising alternative to address poverty in an inclusive and sustainable manner. In March 2025, the total poverty rate in Indonesia, both urban and rural, was 8.47%, down from 9.03% in the previous period (BPS, 2025). This demonstrates that the government's efforts to address poverty have had a significant impact. Islamic financial emphasize the principles of fairness and risk sharing in their partnerships. In contrast to conventional financial system, which often tend to be exclusive and focused solely on profit, the Islamic financial system offers a more holistic approach and is oriented towards social welfare. Poverty is a major enemy of Islam because it can lead people to renounce their blessings. The role of Islamic financial institutions in poverty alleviation is considered ideal for this program. Islamic economics is based on the principle of synergy (*ta'awun*). This principle allows those who have already achieved success to help others. This cooperation allows Muslims to progress together (Mashuri, 2014). In the Indonesian context, Islamic financial system have great potential to be effective instruments in poverty reduction. First, the Islamic financial system offers more accessible financial services to low-income communities, particularly through products such as microfinance and zakat. Second, the principles of justice and distribution that underpin the Islamic financial system can help reduce the social and economic disparities that underlie poverty. However, the implementation of the Islamic financial system in Indonesia still faces several challenges, ranging from a lack of understanding of Sharia principles among the public to a lack of infrastructure to support its development. Therefore, greater efforts are needed from various parties, including the government, financial institutions, and civil society, to strengthen the Islamic financial system and ensure its potential for poverty alleviation is optimally realized.

This system is realized through the development of financial institutions that offer microfinance instruments and products based on Islamic financial values and norms. This concept has become a poverty alleviation program through economic empowerment (Yogasnumurti et al., 2023). In 2024, total assets in Islamic finance were recorded at IDR 9,927 trillion, equivalent to 45% of Indonesia's GDP. Although the growth rate is estimated to decline from 22% in 2023 to 11.8% in 2024, this sector still shows positive growth (KNEKS, 2025). This potential is one of the spearheads of the Indonesian sharia industry, especially for sharia financial institutions.In this ar ticle, we will discuss further how the Islamic financial system can be an effective instrument in overcoming poverty in Indonesia, as well as the efforts that need to be made to overcome the various challenges faced. Poverty is a global issue for humanity. In developing countries, the number of people living below the poverty line remains high (Hasyim et al., 2025). This is a matter that must be addressed immediately. Amidst the complexity of the problem, the government has sought solutions to reduce poverty in Indonesia (Pratama et al., 2022). Islamic financial system have emerged as a promising alternative to address poverty in an inclusive and sustainable manner.

In March 2025, the total poverty rate in Indonesia, both urban and rural, was 8.47%, down from 9.03% in the previous period (BPS, 2025). This demonstrates that the government's efforts to address poverty have had a significant impact. Islamic financial emphasize the principles of fairness and risk sharing in their partnerships. In contrast to conventional financial system, which often tend to be exclusive and focused solely on profit, the Islamic financial system offers a more holistic approach and is oriented towards social welfare. Poverty is a major enemy of Islam because it can lead people to renounce their blessings. The role of Islamic financial institutions in poverty alleviation is considered ideal for this program. Islamic economics is based on the principle of synergy (*ta'awun*). This principle allows those who have already achieved success to help others. This cooperation allows Muslims to progress together (Mashuri, 2014). In the Indonesian context, Islamic financial system have great potential to be effective instruments in poverty reduction. First, the Islamic financial system offers more accessible financial services to low-income communities, particularly through products such as microfinance and zakat. Second, the principles of justice and distribution that underpin the Islamic financial system can help reduce the social and economic disparities that underlie poverty.

However, the implementation of the Islamic financial system in Indonesia still faces several challenges, ranging from a lack of understanding of Sharia principles among the public to a lack of infrastructure to support its development. Therefore, greater efforts are needed from various parties, including the government, financial institutions, and civil society, to strengthen the Islamic financial system and ensure its potential for poverty alleviation is optimally realized. This system is realized through the development of financial institutions that offer microfinance instruments and products based on Islamic financial values and norms. This concept has become a poverty alleviation program through economic empowerment (Yogasnumurti et al., 2023). In 2024, total assets in Islamic finance were recorded at IDR 9,927 trillion, equivalent to 45% of Indonesia's GDP. Although the growth rate is estimated to decline from 22% in 2023 to 11.8% in 2024, this sector still shows positive growth (KNEKS, 2025). This potential is one of the spearheads of the Indonesian sharia industry, especially for sharia financial institutions.

In this article, we will discuss further how the Islamic financial system can be an effective instrument in overcoming poverty in Indonesia, as well as the efforts that need to be made to overcome the various challenges faced. This research presents a novel integrative approach to the Islamic financial system as a strategic solution for poverty alleviation, emphasizing the optimization of the role of Islamic social financial instruments such as zakat, infaq, sedekah, and waqf (ZISWAF), integrated with Islamic commercial financial systems such as banking and Islamic microfinance. Unlike previous research that tends to address one aspect in isolation—for example, focusing solely on zakat or Islamic microfinance—this research examines the synergy between Islamic social finance and commercial finance in creating a comprehensive model for empowering the people's economy. This research also examines the contextual aspects of Indonesia, considering the challenges of structural poverty and the significant potential of the country's Muslims.

2. Research Method

This research is a qualitative research with an inductive reasoning approach (Feeney & Heit, 2007; Ketoviki & Mantere, 2010; Bendassolli, 2013) through a library research process. The data sources used to build the conceptual are secondary data derived from the results of previous studies in the form of writings (articles) that discuss poverty and conduct in-depth analysis of the data to produce a conclusion and model. The inductive steps that the author used in this research use a specific to general research thinking approach (Feeney & Heit, 2007) with the sequence referred to by Bendassoli (2013) as the “Generic Analytic cycle”. First, the author makes contact with the data material in the form of general reading followed by careful reading of each piece of information which in this case comes from previous research on poverty. Second, as a result of the first step, the author tries to form a pattern by making deductive conclusions from each article by narrowing down general conclusions into specific conclusions in a direction related to conclusions regarding the theme of the financial crisis, both in terms of causes and other general conclusions needed to build conclusions. Third, from each of the conclusions, the author reviews poverty by categorizing the causes of poverty and conceptualizing the Islamic financial system, where at this stage the research aims to extract the material into smaller pieces while increasing the abstraction of a concept that the author calls the Islamic financial system as a breakthrough to overcome poverty.

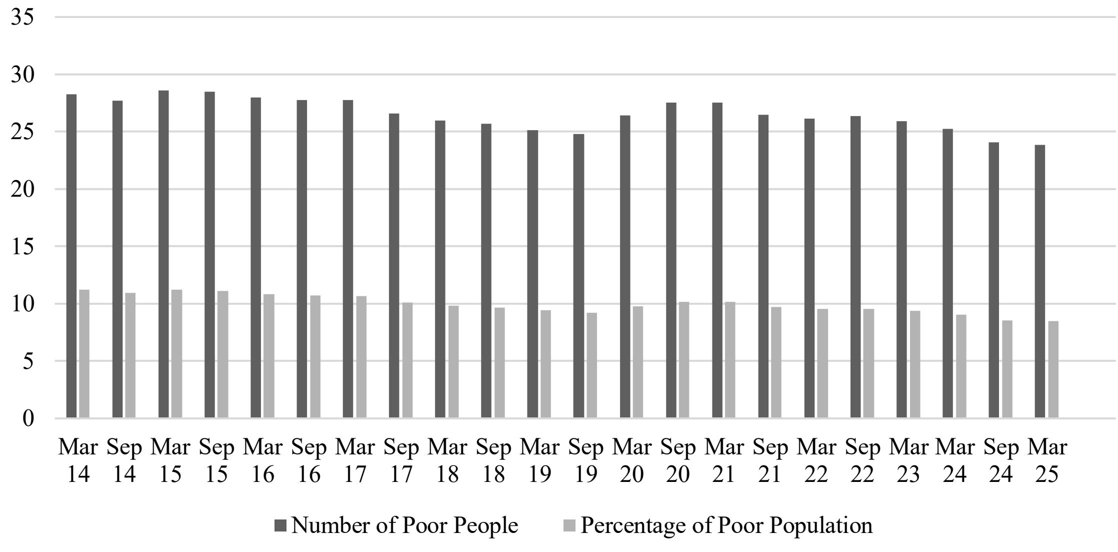
According to Ketoviki and Mantere (2010), the reasoning strategy with the pattern used by the author is a strategy with an idealization approach where in general and the research is largely an inductive research flow, but in it there is also a deductive process from each material and the results are in the form of a generalization of the concept or model that is built. The collected data was analyzed using content analysis, namely by examining the content and meaning of data sources to determine the extent to which the Islamic financial system can contribute to overcoming poverty in Indonesia.

3. Results and Discussions

The Islamic Financial System as a Solution to Poverty Problems in Indonesia

Human efforts to meet unlimited needs with limited resources have fueled greed and a struggle for sustenance, leading to the hoarding of wealth by the powerful and powerful, thus having fatal consequences for the lives of others. Overall, these inequalities constitute a problem that should be effectively addressed if Islamic economics guides all economic activities. If poverty does not reach the level of disbelief, then the financially destitute are not a problem. This will not negatively impact development or life in the universe. They can only be used as objects of assistance for the payment of zakat, infaq, and alms by other established groups. However, they are not dangerous and do not pose a significant obstacle to development. However, if they are numerous and oppressed, they must be lifted out of poverty to the lowest and safest level. The remaining poor are those who require assistance throughout their lives because they cannot be empowered.

Diagram 1. Number and Percentage of Poor Population, March 2014 - March 2025



Based on Figure 1, Indonesia's poverty rate from 2014 to March 2025 experienced minor fluctuations and tended to decline. Economic recovery has had a positive impact on improving public welfare. This is reflected in Indonesia's poverty rate as of March 2025, which declined again to 8.47%, a decrease of 0.10 percentage points compared to September 2024 and a decrease of 0.56 percentage points compared to March 2024. This demonstrates the quality of economic growth in the first quarter of 2025. The poverty rate continues to trend downward amid pressure from global commodity prices, particularly food and energy prices, which impact domestic prices and public purchasing power. This is positive, indicating the effectiveness and necessity of continuing the APBN's function as a shock absorber.

A World Bank study (June 2022) stated that rising domestic commodity prices, triggered by global commodity price movements, are estimated to increase the poverty rate by 0.2 percentage points. The PC-PEN program implemented by the Government, which targets population welfare, plays a role in maintaining people's purchasing power and supporting improvements in poverty indicators, in addition to programs directly benefiting the community, such as subsidies and social assistance. Furthermore, the ongoing strengthening of economic recovery also contributes to poverty improvements. Improvements in the poverty rate in March 2025 occurred evenly across all islands in Indonesia, as well as at the rural and urban levels. Spatially, the urban poverty rate was 6.73%, an increase compared to 6.66% in September 2024. Meanwhile, the percentage of the rural poor in March 2025 was 11.03%, a decrease compared to 11.34% in September 2024.

Indonesia's socio-economic conditions in 2025 according to the Central Statistics Agency's economic census, economic growth in the first quarter of 2025 still grew by 4.87 percent (y-on-y). Household consumption expenditure reached IDR 1,741.0 trillion. The Farmer's Exchange Rate (NTP) in February 2025 was 123.45, indicating that the price index received by farmers was higher than the price index paid by farmers. The Open Unemployment Rate (TPT) in February 2025 decreased compared to August 2024. The decline was faster in rural areas. The number of underemployed in urban areas in February 2025 increased by 0.46 million people compared to August 2024. The proportion of informal workers in February 2025 was 59.40%. The price developments of various commodities in February 2024 compared to March 2024 were relatively varied. Most food commodities experienced price increases, such as: cooking oil, cayenne pepper, and garlic. Prices for several food commodities also decreased, such as rice, broiler chicken, and shallots. A 50% electricity tariff discount remained in effect in February 2025, contributing to deflation (bps.go.id).

Another crucial policy for maintaining public purchasing power is maintaining domestic energy prices, despite the consequent increase in energy subsidy and compensation spending. The state budget (APBN) has played a crucial role as a shock absorber by dampening rising pressure on global commodity prices. If global commodity price pressures are allowed to be transmitted to domestic prices, Indonesian inflation will likely be as high as inflation in many countries. The impact will be an increase in poverty levels. Therefore, the government's policy of maintaining domestic energy prices is crucial to preventing rising poverty rates. The success of programs such as productive zakat, cash waqf, and Islamic microfinance demonstrates that the Islamic approach is not merely charitable (temporary assistance) but also transformative, empowering the poor to become economically independent. However, challenges identified include low Islamic financial literacy, suboptimal integration between social and commercial financial institutions, and a lack of synergy with overall government policies. Therefore, despite its significant potential, implementing this system requires careful planning, regulatory support, and institutional strengthening.

Economic growth plays a crucial role in improving living standards, reducing poverty, and creating opportunities for individuals and communities. The interaction between economic actors and markets underpins macroeconomic growth. Macroeconomic actors include governments, central banks, companies and industries, households, financial institutions, investors, international traders, foreign consumers, and suppliers and distributors (Atmodjo et al., 2023). Financial institutions play a key role in providing financial resources. They facilitate the flow of funds and provide financial services that support economic growth. The financial system can significantly influence the sustainability of the economy in any country. Generally, financial systems are categorized into two types: a market-based industry dominated by capital market activities, and a bank-based industry, where the banking sector has a dominant market share (Sakinah et al., 2023). Both can have a direct impact on the flow of capital in each country. The financial system is a system that includes banking, capital markets, insurance, pension funds, multifinance and other infrastructure that interact with each other in mobilizing funds for investment and financial services including payment systems. Its main task is to transfer funds (loanable funds) from savers to borrowers to then be used to purchase goods and services in addition to investment so that the economy can grow and improve the standard of living (Nurastuti, W., 2011). The financial system is basically an order in a country's economy that has a role in providing facilities for financial services by financial institutions and other supporting institutions, for example the money market and capital market.

Table 1. Development of Islamic Banking Financing Distribution (IDR Trillion)

Financial Institutions	Des 2020	Des 2021	Des 2022	Des 2023	Des 2024
BUS	247	256	323	368	413
UUS	137	154	169	200	211
BPR Sharia	11	12	14	17	19
Sharia Bank	395	422	506	585	644

Source: Kneks.go.id

Sharia banking financing disbursed reached Rp643.55 trillion in December 2024, up Rp58.08 trillion from the previous year and growing by 9.92% year-on-year. Financing from Islamic banks (BUS) remains quite dominant in the Sharia banking industry, followed by Sharia business units (UUS) and Sharia rural banks (BPR). Financing realization for Islamic banks (BUS) reached Rp413.26 trillion, up Rp44.88 trillion (12.18% year-on-year growth). Meanwhile, UUS reached Rp211.31 trillion, up Rp11.25 trillion (5.62% year-on-year growth), and Sharia rural banks (BPR Syariah) reached Rp18.98 trillion, up Rp1.96 trillion (11.51% year-on-year growth).

Table 2. Statistics and Development of The Islamic Capital Market

Product	Amount	effect value (IDR Trillion)	% market share value of sharia securities
Sharia Shares	679	6.825,31	55.33%
Corporate Sukuk through Public Offering	247	55.27	11.63%
Sharia Mutual Funds	245	50.55	10.12%
State Sharia Securities	95	1.626,42	21.00%

Source: Kneks.go.id

In line with the national economic recovery program and the government's strategic programs, the need for capital and financing by market players through the capital market sector continues to increase. This is evident in the positive growth of the Islamic capital market in 2024. This is evident in the increase in the number of Islamic products, namely Islamic stocks, corporate sukuk, and sovereign sukuk. The number of Islamic stocks at the end of 2024 was 679. The number of outstanding corporate sukuk through public offerings increased by 5.56% compared to the previous year. The number of outstanding sovereign sukuk increased by 15.85% (yoy). Meanwhile, the number of active Islamic mutual funds in 2024 was 245, a decrease of -10.26% compared to the previous year, offset by an increase in the net asset value (NAV) of Islamic mutual funds.

This indicates that the distribution of Islamic financing and the Islamic capital market in Indonesia continues to increase, both in terms of capital investment for businesses. If this growth continues, we can conclude that public interest in utilizing these facilities is generally positive. If this trend can be maintained, communities will be able to escape the poverty line. The advantage of the Islamic financial system we know today is that it does not use interest. The philosophy of an "interest-free" (usury-prohibiting) Islamic financial system not only examines the interaction between production factors and economic behavior, as is the case in conventional financial systems, but also balances various ethical, moral, social, and religious dimensions to promote equality and justice, leading to a prosperous society as a whole. Through a profit-sharing system, risk is shared. The risks arising from financial activities are not solely borne by the capital recipient or entrepreneur, but also by the capital provider. Based on the principles of the Islamic financial system, as discussed above, there are many advantages of the Islamic financial system, or Islamic banks, that can be used to help alleviate poverty compared to conventional banks. Among them, Islamic banks treat debtors as business partners. The Islamic financial system, with its profit-sharing principle (referring to musyarakah and mudharabah contracts), necessitates the sharing of risk of loss based on a mutual agreement between the bank and the debtor. This system is a consequence of Islamic banks treating debtors as business partners. The debtor's business success is an indicator of the success of Islamic banks.

Profit-sharing is particularly well-suited to the agricultural sector. Farmers, fishermen, and small traders are groups that are consistently poor or vulnerable to poverty. For this group, a study conducted by Sudin Haroon, a Malaysian Islamic banking expert, concluded that by analyzing the characteristics of their business sectors, the most ideal financing schemes to empower them are profit-sharing, musyarakah, and mudharabah financing schemes. Islamic financial institutions, such as Sharia banks, must begin targeting this group with their empowerment concept. Sharia banks can collaborate with other parties, such as the Ministry of Agriculture, Maritime Affairs and Fisheries, Industry, Trade, and other relevant ministries. The development of agricultural and rural economic activities will increase employment and income for farmers, fishermen, and rural communities, supporting poverty alleviation and sustainable rural industry. The agriculture, plantation, and fishing sectors play a strategic role due to the large workforce involved and their output, which has strategic value because it affects the livelihoods of many people.

Optimizing Qardhul Hasan funds. In Islamic banks, there is a type of financing called qardhul hasan (benevolent loan), which is financing distributed without any compensation. Qardhul hasan funds come from fines, zakat, infaq, and shadaqah. Qardhul hasan financing is a financing facility provided on the basis of obligations for the purpose of mutual assistance (ta'awun), where the borrower is only required to repay the principal, without being charged additional fees or profit margins, unless the borrower voluntarily exceeds their payments. Islamic banks then return the excess and the returned funds back into the source of qardhul hasan financing funds. These funds can be used to finance the economic development of the underprivileged in the form of working capital. This is especially true for lower-middle-class customers who still struggle to obtain assistance and loans from banks because they are considered unbankable, such as those running small businesses, selling vegetables, servicing shoes, and similar activities. If managed well, this will have a significant impact on the macroeconomic scale. Empowering small-scale communities through the concept of community empowerment is an effective solution to addressing poverty within the community.

4. Conclusions

The Islamic financial system has philosophical principles that reflect Islamic values. It plays a crucial role and contributes significantly to supporting economic growth and stability, particularly within the context of social justice and financial inclusion. Nearly all prominent social observers agree that increasing poverty leads to increased crime rates, lower levels of education and health, can lead to radicalization of state policies, and even foster religious fundamentalism.

The government must demonstrate a strong commitment to addressing the nation's poverty problem immediately. Without government support, any activity will fall short of expectations. Poverty will be reduced if all elements of society work together to support programs, both government-sponsored and other institutions, such as financial institutions, including banks and the capital market.

References

Amijaya, R. N. F. 2023. Does Islamic Finance Matter for Poverty Development in Indonesia. Airlangga Journal of Innovation Management. Vol. 4. No. 2 https://doi.org/10.20473/ajim.v4i2.49756

Atmodjo S.S., dkk. 2023. *Pengantar Ekonomi Makro.* Jakarta Timur: Kreasi Skrip Dijital

Chapra, M. U. (2000). *Islam dan Tantangan Ekonomi.* Jakarta: Gema Insani Press

Chapra, M. U. (2008). *The Global Financial Crisis: Can Islamic Finance Help Minimize the Severity and Frequency of Such a Crisis in the Future?*. Paper. Presented at the Forum on the Global Financial Crisis to be held at the Islamic Development Bank.

Endriani, Santi. (2015). Konsep Uang: Ekonomi Islam vs Ekonomi Konvensional. *Anterior Jurnal, Vol 15 No 1*

Development of Total Islamic Financial Assets: Early Momentum in 2025. Available online: (archived on July 25, 2025).

Hasyim, K., dkk. 2025. Peran Lembaga Keuangan Syariah dalam Memerangi Kemiskinan di Jayapura. *Jurnal Istiqro: Jurnal Hukum Islam, Ekonomi dan Bisnis, 11, 1:* 35-41

Kaminsky, G. L., & Reinhart, C. M. (1999). The Twin Crises: The Causes of Banking and Balance-Of Payments Problems. The American Economic Review, 89(3), 473–500.

Ketoviki, M., & Mantere, S. 2010. Two Strategies for Inductive reasoning in Organizational research. The Academy of Management Review, 35(2), 315–333.

Lestari, W.P.E., dkk. 2024. Peran Lembaga Keuangan Syariah dalam Meningkatkan Akses Keuangan pada Daerah Terpencil. *Jurnal Ekonomi dan Bisnis 12, 2:* 269-275

Mashuri. (2014). Sistem Keuangan Syariah Solusi Pengentasan Kemiskinan. *Iqtishaduna, Vol 3, No 2.*

Mohammad Yahya Mamun Mutho''. (2021). Paradigma Sistem Keuangan Islam Dalam Menghadapi Krisis. *Jurnal Masharif al-Syariah: Jurnal Ekonomi dan Perbankan SyariahVolume 6, No. 3, p(670 - 690)*

Mervyn K. Lewis dan Latifa M. Algaould. (2001) *Perbankan Syariah*, Terjemahan, Burhan Subrata. Jakarta: PT Serambi Ilmu Semesta.

Nufus, S.H and M. Yazid. 2023. Analysis of Islamic Financial Institutions on Proverty in Indonesia. Iqtishaduna: Jurnal Ekonomi dan Keuangan Islam. Vol. 14. No. 2

Pratama, E.P.P.A., dkk. 2022. Peran Lembaga Keuangan Syariah dalam Pengentasan Kemiskinan di Indonesia. *Jurnal Kesehatan Tambusai 3, 4:* 570-577

Percentage of Poor Population (P0) by Province and Region (Percent), 2025. Available online: https://www.bps.go.id/id/statistics-table/2/MTkyIzI=/persentase-penduduk-miskin--p0--menurut-provinsi-dan-daerah.html (archived on July 25, 2025).

Nurastuti, W. 2011. Teknologi Perankan. Yogyakarta: Graha Ilmu

Sakinah, dkk. 2023. Kebijakan Ekonomi Moneter Islam. Depok: CV. Semesta Irfani Mandiri

Wiroso. (2009). *Produk Perbankan Syariah.* Jakarta: Penerbit LPFE Usakti

Yadi, Janwari. (2016). *Pemikiran Ekonomi Islam.* Bandung: PT Remaja Rosdakarya

Yogasnumurti, R.R., dkk. 2023. Upaya Pengentasan Kemiskinan melalui Lembaga Keuangan Syariah di Provinsi Sumatera Selatan. El-Amwal: Jurnal Ekonomi dan Keuangan Syariah 6, 1: 84-94