



Islamic Social Finance in Addressing Poverty and Economic Growth: Using Structural Equation Modelling

Tijjani Muhammad^{*1}, Fahd Al-Shaghdari², Shariff Muhammad Ibrahim³

¹ Faculty of Arts, Management and Social Science, Federal University, Gashua, Yobe State, Nigeria.

² Institute of Islamic Banking and Finance, International Islamic University Malaysia. Jln Gombak, 53100 Kuala Lumpur, Selangor.

³ Faculty of Arts, Yobe State University, Damaturu, Yobe State, Nigeria

ABSTRACT - Islamic social finance is one of the sources of funds in the Islamic economic system. It refers to voluntary philanthropic activities that have a unique presence in Islam. Islamic law is the first to define and regulate *Zakat* and *Waqfs* as civil society institutions. Currently, microcredit and microfinance programs are unsuccessful in reducing poverty and income inequality in Northern Nigeria. Islamic social finance institutions are promoting programs such as offering free education, scholarships, free medical care, and orphanage activities around the globe. However, in Nigeria, such Islamic social finance is currently growing slowly. This paper investigates people's perception of reducing poverty and promoting sustainable economic development in Northern Nigeria. The study employed random sampling using Structural Equation Modeling (SEM) for the analysis. Findings indicate the relationship between *Waqf* and sustainable economic development and *Zakat* and sustainable economic development as a direct effect. The findings indicated that *Waqf* and *Zakat* significantly reduce poverty, and Poverty reduction promotes and enhances sustainable economic development in Northern Nigeria. The study further suggests and recommends that the Northern states, where the majority of the citizens are Muslim, deserve serious consideration for developing *Zakat* and *Waqf* institutions in the region to assist in reducing the vulnerable group in society.

ARTICLE HISTORY

Received: 14th Oct 2023

Revised: 19th Oct 2023

Accepted: 23th Nov 2023

Published: 01st Dec 2023

KEYWORDS

Islamic Social Finance, Poverty reduction, Sustainable Economic Development, Northern Nigeria

INTRODUCTION

Islam is an all-encompassing religion that encompasses all aspects of human life. As a perfect way of life, Islam has a secure and perfect economic system. One of the powerful Islamic economic instruments, *Waqf*, means "religious donation" and refers to religious, purity, or charitable donations. It was a source of development, such as the construction of mosques, madrasas, educational institutions, libraries, accommodations for tourists, inns, etc. Its benefits are not limited to the Muslim community alone but transcend religious, cultural, racial, and sectarian boundaries (Almahfali and Avery, 2023). *Waqf* is one of the underlying tools of Islam to eliminate poverty and improve the socio-economics of the Muslim Ummah, among other purposes (Ismail et al., 2023). The *Waqf* institution has been important throughout Islamic history, from the Prophet to his early nineteenth century and up to the present (Iskandar et al., 2023).

In the history of Islam, the first known *Waqf* was the Quba Mosque in Medina, a city 400 kilometres North of Mecca, built after the Prophet Muhammad's (PBUH) arrival in 622 AD

(Masrifah et al., 2023). A real innovation in *Waqf* began in early Islamic Medina (Badawia, 2022). It was initially given when the Prophet (PBUH) called on someone to purchase the well of Ruma and designate it as a public utility providing free drinking water to all (Al Hashmi, 2022). Afterwards, the Prophet (PBUH) admonished Umar to allocate his land in Khyber as a *Waqf* for the poor and needy (McChesney, 2021). This was the second innovation to assist the poor and needy, from the size of an individual charity to the size of a social citizenship institution with capital investment. A third innovation occurred when comrades added the family *Waqf* during the reign of Umar ibn Al-Khattab (McChesney, 2021). Nigeria is the first and seventh most populous globally; 65 percent are predominantly Muslim, and 80 percent of Northern countries are Muslim (Muhammad & Khalil, 2021). As a Muslim-dominated area, the *Zakat* and *Waqf* institutions were limited; new intellectual property and cash-*Waqf* trends have recently emerged, and researchers are advocating for them (Khaliyarov, 2022).

Northern Nigerian States need to institutionalize *Zakat* and *Waqf* to accelerate economic growth in the North and reduce poverty (Zauro et al., 2020). With the MDGs in mind, the government must adopt and approve the Poverty Reduction Strategy (PRS) to bring the Northern State on track to address poverty reduction in the region (Chao et al., 2021). In addition to the government's efforts, the government has adopted a basic strategy of seeking cooperation between NGOs and the private sector, particularly by providing necessary support to NGO activities to meet the challenges of poverty alleviation. However, it suffers from sustainability (Moeenian, Khamseh, and Ghazavi, 2022). The study attempts to prove how Islamic Social Finance can be used to address poverty reduction in Northern Nigeria. The study is divided into four sections. Section One is an introduction, Section Two is a Literature review, Section Three is a Methodology, and Section Four is the Results discussion and conclusion.

LITERATURE REVIEW

Alfiani and Akbar (2020) conducted a study on the Sustainable Development Goals of *Zakat* and human development. This study indicates that *Zakat* increases the well-being of disadvantaged people and promotes human development. The study further emphasized that *Zakat* is one of the most important funding sources in the financial system and Islamic economy. Along with taxes on agricultural products and property taxes, it is a major source of income in Islamic countries. Furthermore, *Zakat* is wealth that should be distributed to vulnerable groups as justified by the Qur'an and Sunnah (Zulhendra et al., 2020). Hasan (2020) states that *Zakat* can be distributed to victims of disasters. From this perspective, the COVID-19 pandemic is considered a disaster, and the *Zakat* Fund could be used to help those affected by considering the role of *Zakat* in mitigating the effects of COVID-19 (Umar & Danlami, 2022). Hambari et al. (2020) argue that *Zakat* is an Islamic right that society needs in light of any circumstance in which people or individuals find themselves vulnerable around the globe (Abbasi, 2022). It claims to be the Social Security Fund. Scholars say *Zakat* organizations will focus on communities and places affected or needs and increase effectiveness by providing health facilities, education and awareness, food, and other related materials of human life (Kumar et al., 2021; Mohsin & Ismail, 2013).

However, Al Anshory et al. (2020) affirmed that *Zakat* institutions have a significant and vital role in assisting the public authority in preventing the impact of COVID-19 in the economy, given their position as a charitable organization. This vital role can be executed in different dimensions, such as education and social orientation, to enhance the well-being of the people affected by the pandemic (Hamilton & Gross, 2021). *Zakat* institutions can be used in the health sector and developing ways of eradicating poverty (Ahmad & Ghiasul Haq, 2021) regarding a *Zakat* institute for the study and provisions of vaccines for the COVID-19 pandemic to forestall the spread of the disease (Hasan, 2020). Moreover, the study conducted by Sulaeman and Ninglasari (2020) demonstrates that the *Zakat* institution has played an important role in assisting people during the COVID-19 pandemic. This can serve as a reference for other countries to take *Zakat*

as an essential mechanism for social financing. Collaborating with several parties will help overcome the vulnerable group. Hambari et al. (2020) demonstrated that *Zakat* has an important role in reducing societal poverty.

Similarly, posits that several people in various countries face difficulties in life. *Zakat* is one of Islamic social financing that can play an essential role in overcoming difficulties by supporting societies. Besides, the institutions of *Zakat* can play a significant role in helping the government deal with vulnerability if they are properly institutionalized in the country (Muhammad & Bin Ngah, 2020). Note that implementing the government's Movement Control Order (MCO) in Malaysia resulted in *Zakat* institutions providing funds to assist people through the different programs for the victims of COVID-19 (Hambari et al., 2020). This effort demonstrates that the institutions of *Zakat* have an important role to play by assisting people amidst the crisis and beyond.

Moreover, in an Indonesian investigation relating to using *Zakat* to cushion the effect of COVID-19 and other related crises, Sulaeman and Ninglasari (2020) recommend that *Zakat* could assist the government and policymakers in their plans to mitigate or minimize the negative effect of the deadly pandemic. Similarly, Ibrahim (2015) discovered that *Zakat* plays a significant role in mutual assistance to Muslim communities. *Zakat* assists in redistributing wealth, reducing inequality, alleviating poverty, and as well assist in demonstrating the willingness of rich Muslims to submit themselves to the commands of the Almighty Allah by worshipping Him and assisting in implementing His injunctions (Muhammad & Bin Ngah, 2020).

Saad and Farouk (2019) study relating to *Zakat* management in Nigeria. Rusydiana and As-Salafiyah (2021) examine a business incubation model based on productive *Zakat* for the economic recovery of small and medium enterprises (SMEs) during a difficult time. The study strongly emphasizes the utilization of *Zakat* products for community development schemes, which have gigantic potential to reestablish the economy of the people affected negatively. The authors demonstrate that *Zakat* in Malaysia helps various people during the MCO by offering various innovations and empowerment for community-based business programs that can positively impact the community. More so, the outcomes of the study conducted by Ascarya (2022) show that Islamic social financing has enormous potential to fight any pandemic, especially through *Zakat*, which has proved to be an effective mechanism to fight the vulnerability.

Islamic social finance has great potential for economic development, including *Zakat*, which can effectively alleviate the suffering of Muslim communities (Tok et al., 2022; Mohsin, 2019). Similarly, *Zakat* has been one of the Islamic social programs that have had a significant role in safeguarding and promoting Muslim well-being throughout Islamic history. The *Zakat* management and distribution were extensively efficient and effective during the second caliphs to the extent that *Zakat* was offered to all the needy in communities (Abdul-Jabbar and Bin-Nashwan, 2022). All these demonstrate that *Zakat* can potentially improve communities' well-being, especially in reducing societal poverty.

***Waqf* on the Social Development**

Waqf is one of the major Islamic economic mechanisms used for the socio-economic development of society. *Waqf* implies a devout and charitable donation. Generally, *Waqf* has been the mechanism for social development that incorporates maintaining and providing libraries, mosques, shops, scholarships, and educational institutions (Semana et al., 2021; Mohadi & Akli, 2022; Muhammad et al., 2023). *Waqf* serves as an instrument for eradicating poverty and the socio-economic development of Muslim societies. *Waqf* institution plays an important role in the history of Islam, starting from the era of the Prophet (PBUH) up to the 19th century. The *Waqf* institutions significantly impact the social lives of many societies. It has established a network that covers all the areas of human life, such as education, religion, health, social, and economic sectors (Medias et al., 2022).

Muhammad & Bin Ngah (2020) pointed out *Waqf* as a powerful concept discovered by scholars and Islamic scholars and considered an essential tool for the welfare of the masses. *Waqf* has long played an important role in various Islamic societies and social development. Based on the challenges to overcome, its popularity as a unique and progressive development tool in today's Muslim community shows a downward trend (Biswas, 2023). Additionally, *Waqf* has made a revolutionary shift in its means, introducing a range of *Waqf* products that respond to the well-being and needs of communities and revitalize an economy that appears to be thriving during the current global economic crisis (Khan & Haneef, 2022). Othman et al. (2022) found that a *Waqf* could reduce the burden on local communities during and after MCO implementation in Malaysia. *Waqf* benefits communities and societies, the public sector, and national development. Solichin (2022) studied income generation through the *Waqf* Project and the Malaysian *Waqf* Institute and found improvements in its application and reduced suffering for the vulnerable; however, the authors suggest further improvements to *Waqf* to meet the needs for a sustainable and stable economy.

On the other hand, Kasri and Chaerunnisa (2022) explore the application and potential of *Waqf* institutions in the Islamic Development Banks of Indonesia, Malaysia, Kuwait, and Egypt. Research has found that *Waqf* can support financial activities through *Waqf* real estate for various purposes, such as infrastructure, health, nutrition, and education. Similarly, efforts to foster economic empowerment in communities can be realized through Cash *Waqf*, which funds small businesses. Moreover, the contribution and role of cash *Waqf* can increase local economic activity (Wahyuni et al., 2021; Ramli et al., 2022). Furthermore, *Waqf* organizations play an important role in Muslim communities by assisting the poor, orphans, and the elderly through business activities, health, training, and education (Laila et al., 2023). Priyadi et al. (2023) argued that *Waqf* could improve various activities, including *Waqf* hospitals, *Waqf* isolation shelters, *Waqf* general hospitals, *Waqf* masks, *Waqf* universities, *Waqf* ventilators, etc.

Hypothesis Development

For this study, conceptually, research has focused on *Waqf*-based social systems that may contribute to solving problems in poverty reduction in the targeted areas in Northern Nigeria. Berakon et al. (2022) emphasize *Zakat* and *Waqf*'s importance, whereas some argue about the power mechanism of *Waqf* and *Zakat* in eradicating poverty and enhancing sustainable economic development. Nevertheless, social income performance remains low, and robust social support for poor Muslims. Most low-income households need more sources of revenue to tackle poverty. The study builds on *Waqf* and *Zakat* in addressing and reducing the region's poverty and sustainable economic development.

Furthermore, the studies check the relationship between variable *Waqf* and *Zakat* in enhancing sustainable economic development in Northern Nigeria. The study used two approaches to analyse the role of Islamic social finance based on direct relationships. Therefore, the proposed model is as follows:

- H₁:** *Waqf* significantly enhances sustainable development.
- H₂:** *Zakat* significantly enhances sustainable development.
- H₃:** *Waqf* significantly reduces poverty.
- H₄:** *Zakat* significantly reduces poverty.
- H₅:** Poverty reduction promotes sustainable economic development.

METHODOLOGY

Method and Sampling

A survey method with a random sampling approach was used in this study. Data samples were collected from officials, teachers, researchers, employees, and customers of financial institutions

in Northern Nigeria where six states are in north-western and north-eastern Nigeria. However, the sample size was determined in a study using Structural Equation Modeling (SEM) (dos Santos & Cirillo, 2023). Many used SEM as a parameter estimation approach. However, many researchers pay attention to the suitability of their data to meet the estimated requirements using maximum likelihood methods to obtain reasonable research solutions. The minimum sample size for SEM is 200 respondents and above (Rakhimov et al., 2023). A total of 285 people from the North participated in the survey. Participants were surveyed using a 5-point Likert scale. This study analysed data using SEM and the Statistical Package for the Social Sciences (SPSS) software.

Data Analysis

Data analysis was performed based on confirmatory factor analysis to test the model's effectiveness in reducing poverty in northern Nigeria. Nevertheless, it also measured people's perceptions of the relationship between *Waqf Zakat* and enhancing sustainable economic development (Al-Shaghdari et al., 2021). Structural relationships between standardized loadings of constituents and latent variables were given based on the goodness-of-fit index. The indices consist of the approximate Root-Mean-Square Error (RMSEA), Goodness-of-Fit Index (GFI), Adjusted Goodness-of-Fit Index (AGFI), and Comparative Fit Index (CFI). Descriptive and frequency analyses were performed to represent the demographic variables of the respondents. In addition, we checked the 'internal consistency' of the questionnaires using the normality assessment test and the Cronbach alpha test. Consequently, the normal distribution was tested using the SEM. The researchers then tested the measurement model. This identified hypothetical relationships between observed variables and underlying constructs. Finally, SEM should be performed to determine the relationship between the *Waqf, Zakat* and underlying direct effect, as shown in Figure 1.

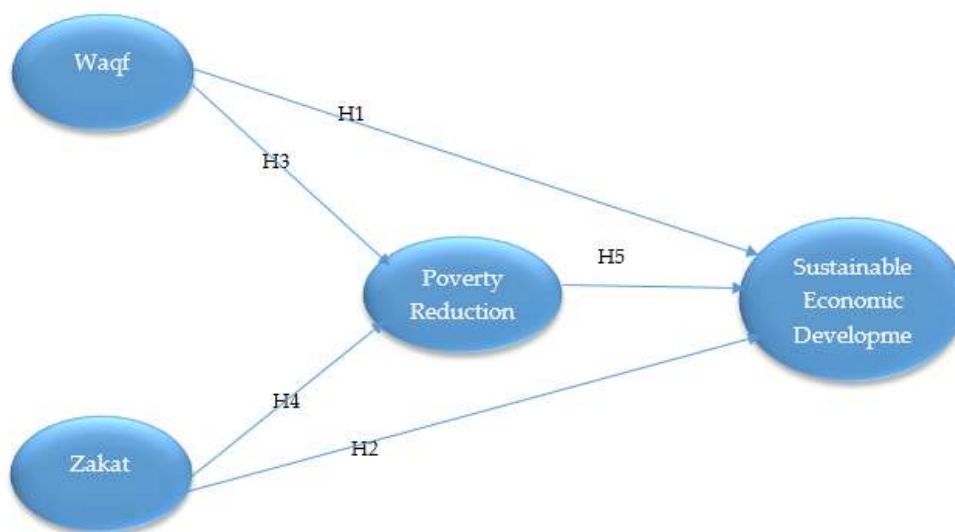


Figure 1: The relationship between *waqf, zakat* and underlying direct effect

Model Assessment of Normality

The result of the assessment of normality is presented in Table 1. It has shown the skewness and Kurtosis of all items as well as the variables placed between ± 2 to ± 2 for skewness as recommended by (Byrne, 2013), and Kurtosis is considered ± 7 to ± 7 as recommended by (Sarstedt et al., 2022). The data set of all item constructs were well-modelled by a normal distribution. The skewness ranges from -0.599 to -1.770, and the Kurtosis ranges from 0.236 to 2.715.

Table 1: Assessment of normality

Construct	Item	Skewness	CR	Kurtosis	CR
<i>Zakat</i>	ZK1	-1.304	-6.284	0.448	2.822
	ZK2	-0.685	-0.886	0.236	1.258
	ZK3	-0.896	-6.399	0.721	3.030
	ZK4	-0.787	-6.677	0.491	1.792
<i>Waqf</i>	WQ1	-1.048	-7.579	2.201	2.485
	WQ2	-1.076	-7.719	1.387	6.405
	WQ3	-1.770	-7.300	2.420	3.630
	WQ4	-1.726	-7.219	2.241	7.630
Poverty Reduce	PR1	-1.667	-6.516	2.715	7.603
	PR2	-1.217	-7.439	1.329	2.370
	PR3	-0.599	-6.136	0.557	1.657
	PR4	-0.808	-7.764	0.691	1.654
Sustainable Economic Development	SED1	-1.254	-7.237	1.778	6.250
	SED2	-1.158	-7.841	1.569	5.748
	SED3	-1.006	-7.885	1.021	2.264
	SED4	-0.784	-5.437	0.362	0.756
	EES3	-1.192	-4.285	1.384	6.503

RESULTS AND ANALYSIS

Table 2 shows the demographic information of the respondents, which consists of the gender, marital status, age of each group, and educational background of the respondents based on their respective status.

Table 2: Demographic analysis of the respondents

Demographic Data	Categories	Frequency	Percentile
Age	18-35	114	40%
	36-55	125	44%
	56-above	46	16%
Gender	Male	171	60%
	Female	114	40%
Marital status	Single	86	30%
	Married	142	50%
	Widow	57	20%
Educational Level	Primary	29	10%
	Secondary	62	22%
	Degree	114	40%
	Postgraduate	51	18%
	Others	29	10%

The demographics of the respondents in the study indicate their characteristics based on gender, age, marital status, and education level to determine the possibility of *Waqf* and *Zakat* addressing poverty reduction. The results show that 40 percent of the respondents are 18 to 35 years old. The male respondents are 60 percent, while female respondents are 30 percent. In addition, the married category is 50 percent of the respondents. Furthermore, the education level is considered differently, indicating the capacity for knowledge and sound understanding; that means *Waqf-Zakat*, which can be accessed as the basic need based on reducing poverty in Northern Nigeria.

Table 3 shows factor loadings based on settings (Bryne, 2013). The range of standardized factor loadings for the four external variables is from >0.5 to 0.9 (Sim et al., 2022). The higher the factor loading, the more positive the factor construction.

Table 3: Description and factor loading

Construct	Measurement	Items used	Loading Factor
WQF	The <i>Waqf</i> reduces poverty and enhances sustainable Economic development.	WQ 1	0.991
	<i>Waqf</i> may be used to address poverty in Northern Nigeria.	WQ 2	0.861
	<i>Waqf</i> can address the ethical values of restoring the distribution of income through sustainability.	WQ 3	0.753
	<i>Waqf</i> can be used as a government mechanism for economic growth.	WQ 4	0.845
ZK	<i>Zakat</i> can be used to fund SMEs and reduce poverty.	ZK 1	0.874
	<i>Zakat</i> fund can be used to eradicate poverty.	ZK 2	0.903
	<i>Zakat</i> can be utilized to formalize using <i>Zakat</i> institutions distribution.	ZK 3	0.837
	<i>Zakat</i> can prevent poverty and enhance economic growth.	ZK 4	0.804
PR	Poverty Reduction can be achieved through <i>Waqf</i> .	PR1	0.787
	Poverty Reduction can be achieved and addressed through <i>Zakat</i> .	PR2	0.877
	Sustainable Economic Development can be tackled by reducing poverty.	PR3	0.866
	Sustainable Economic Development can be achieved through <i>Zakat</i> and <i>Waqf</i> .	PR4	0.777
SED	Sustainable Economic Development can be eradicated using the <i>Zakat</i> fund.	SED1	0.892
	The Sustainable Economic Development is obtainable with the <i>Waqf</i> fund.	SED2	0.763
	Both <i>Waqf</i> and <i>Zakat</i> can be used to address Poverty reduction.	SED3	0.782
	Both <i>Waqf</i> and <i>Zakat</i> can be used to enhance sustainable Economic Development.	SED4	0.922

Table 4: Internal consistency and reliability

Variables	Cronbach alpha	Composite reliability	Average Variance Extracted
<i>Waqf</i> (WQ)	0.920	0.923	0.862
<i>Zakat</i> (ZK)	0.914	0.916	0.854
Poverty reduction (PR)	0.895	0.897	0.826
Sustainable Economic Development (SED)	0.905	0.907	0.839

Rakhimov et al. (2023) used such a method for the internal consistency of a model. Table 4 presented that Average Variance Extracted (AVE) and Composite Reliability (CR) have met the criterion for Average Value Extracted as above >0.50 (Byrne, 2013) and CR, which is another way comparable with Cronbach's alpha that is considered reliable at AVE (>0.60) as recommended by Hair et al. (2017). The highest AVE indicates reliable data, and the variable *Waqf* is 0.862, followed by *Zakat* (0.854), Poverty reduction (0.826), and Sustainable Economic Development (0.839). Similarly, the CR value for all constructs exceeded the recommended value of >0.70 , the same as Cronbach's alpha with a value above 0.7, which means the convergent of the constructs analyses is satisfied (Sim et al., 2022).

Table 5: Discriminant validity

Variables	WQF	ZKT	PR	SED
<i>Waqf</i>	0.743			
<i>Zakat</i>	0.124	0.729		
Poverty reduction (PR)	0.252	0.458	0.682	
Sustainable Economic Development (SED)	0.322	0.394	0.296	0.703

The discriminant validity results described and refined in Table 5 test latent structural variables and show correlations between latent structural variables based on AVE square root mean diagonal and off-diagonal elements. Table 5 shows that the square root of AVE is greater across rows and columns than off-diagonal, below the recommended threshold of 0.85 (Byrne, 2013). Note that the results show that all elements with different configurations show good loadings.

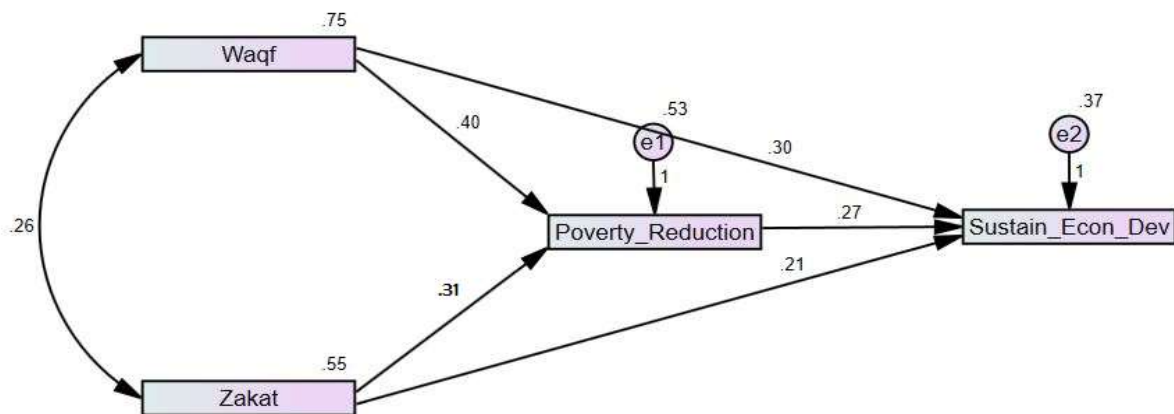
**Figure 2:** Measurement Model

Table 6 lists the model measurements and shows the fit shown above. CMIN/DF gives 2.314, as recommended by (Byrne, 2013). GFI, AGFI, IFI, CFI, and TLI are recommended to be greater than 0.9, meeting our assumptions, while RMSEA is recommended to be less than 0.08, as suggested by (Rakhimov et al., 2023). However, the dependent variable is as specified in the measurement model, thus indicating an appropriate and accepted study model.

Table 6: Model of fitness-based theories

Model Fit	Results	Recommended Threshold	Theories
CMIN/DF	2.314	< 5.0	Byrne, 2013
GFI	0.935	>0.9	Sarstedt, et al., 2022
AGFI	0.929	>0.9	Byrne, 2013
IFI	0.915	>0.9	Byrne, 2013
CFI	0.943	>0.9	Sim et al., 2022
TLI	0.920	>0.9	Byrne, 2013
RMSEA	0.045	<0.08	Rakhimov et al., 2023

Table 7: Hypotheses testing

Path	Unstandardized Estimate	S.E.	Critical Ratio	P-value	Hypotheses
<i>Waqf</i> -> SED	.296	.045	6.541	.000	Supported (H ₁)
<i>Zakat</i> -> SED	.209	.049	4.301	.000	Supported (H ₂)
<i>Waqf</i> -> PR	.401	.049	8.103	.000	Supported (H ₃)
<i>Zakat</i> -> PR	.307	.058	5.270	.000	Supported (H ₄)
PR-> SED	.274	.045	6.541	.000	Supported (H ₅)

Table 7 testing hypotheses indicates the significant relationship between *Waqf* Sustainable Economic development and *Waqf* is significantly positive; the probability of getting a critical ratio as large as 6.541 with an absolute p-value of 0.000. Therefore, the direct link between the WQ and SED is supported (H₁). The scenario is the same with ZK and *SED*; the direct link between ZK and SED indicates a positive effect with *Waqf* and accepts the H₂, H₃, H₄, and H₅. The above results and analyses indicate the direct link between the independent variables and the direct link with positive effects, as indicated in Table 7.

DISCUSSION

Following the measurement and structural models investigated, Table 2 indicates the demographic analysis of the respondents. Table 3 shows the descriptive factor loading that forms the construct factor loading. Each item used was perfectly loaded above 0.5 as recommended (Sim et al., 2022), which means the higher the factor loading, the more positive the construction of the measurement model. The construct reliability and validity indicate the absolute measurement assessment as all met the threshold of the theories, AVE above 0.6 (Alamer, 2022), CR above 0.7 (Byrne, 2013), and Cronbach's alpha also considered the threshold of 0.7 and above in Table 4 (dos Santos & Cirillo, 2023). Table 5 shows the discriminant validity results describing the square root of AVE as greater than off-diagonal across rows and columns, which were below the recommended threshold of 0.85 (Sarstedt et al., 2022). In addition, Table 6 describes the measurement of the model and discloses each model fit of GFI, AGFI, IFI, CFI, TLI, and RMSEA as recommended by (Byrne, 2013).

Moreover, Tables 7 and 8 indicate the results' direct effect and status of each variable towards eradicating poverty and sustainable economic development. The hypotheses were accepted on the direct effect between ZK towards PR and WQ towards PR and enhancing SED. Therefore, the results have a direct effect relationship in Table 7.

The study confirmed the relationship between Islamic social finance (*Waqf* and *Zakat*) and the reduction of poverty and enhancement of sustainable economic development and wealth distribution in communities (Hasan, 2020). Both scenarios showed a positive relationship between the variables and the direct effect. The results supported the argument that *Waqf* and *Zakat* were independent and dependent variables, as supported by (Ahmad & Ghiasul Haq, 2021). The innovative capabilities of Islamic social finance are the most important factor for maintaining a competitive advantage in reducing poverty (Hambari et al., 2020). The study shows that Islamic social finance can support Sustainable Economic Development by providing opportunities for governments to invest modestly in the system and attract donors to fund the sector through *Waqf* and *Zakat*. The result justifies the fact that Islamic social finance influences sustainable goals. The structural funding of *Waqf* and *Zakat* established essential benefits and a strong relationship between direct effects, as indicated in Table 7. The result emphasizes addressing vulnerable groups and enhancing sustainable economic development in Northern Nigeria. Finally, the study stresses the significance of applying Islamic Social Finance to tackle poverty and enhance sustainability.

CONCLUSION

The fitness model of goodness-of-fit that consists of GFI, AGFI, TLI CFI, and RMSEA (0.052) is perfectly fitted and ensures the theories were being used and utilized credibly to meet the required model development. The empirical evidence demonstrates the statistical fitness and practical significance of the results tested. The direct effect of the hypotheses indicates the positive relationship between variables. Further, this study discovered a positive relationship between the WQ ->SED and ZK->SED. In the practical form, the first set shows a positive influence on SED, the same as PR, indicating a direct relationship. In addition, the study provides important information and positive relationships between the variables.

Moreover, the study justifies that Islamic social finance will significantly reduce poverty and assist the Government in the Northern region for vulnerable groups if appropriately institutionalized by the Government on ethical and domestic funding sources. Therefore, two variables, *Waqf* and *Zakat*, reduce poverty in North Nigeria. This study shows that Islamic social finance can be a potential funding source to promote sustainable Economic Development in Northern Nigeria. The paper provides a model that can be used to reduce poverty and impact the sustainable regional economy.

ACKNOWLEDGEMENT (if any)

This paper recognizes the contribution of Aisha Bukar and Abbas Mohammed to data collection and research outputs.

REFERENCES

- Abbasi, M. U. R. (2022). Emerging trends of radicalization in global context and Pakistan and their solution in the light of Islamic teachings. *International Research Journal on Islamic Studies (IRJIS)*, 4(1), 86-103. <https://doi.org/10.54262/irjis.04.01.e06>
- Abdul-Jabbar, H., & Bin-Nashwan, S.A. (2022). Does deterrence-based enforcement matter in alms tax (Zakat) compliance?, *International Journal of Social Economics*, 49(5), 710-725. <https://doi.org/10.1108/IJSE-06-2021-0346>
- Ahmad, S., & Ghiasul Haq, S. (2021). How far corporate Zakat may contribute to sustainable development goals?. *Islamic Wealth and the SDGs: Global Strategies for Socio-economic Impact*, 421-437.
- Al Anshory, A. C. & Hudaefi, F. A., Junari, U. L. & Zaenal, M. Z., & Ramdhoni, R. (2020). The role of zakat institution in preventing Covid-19. *Policy Brief*.
- Al Hashmi, E. A. M. K. (2022). *Waqf* as a financing tool and its role in achieving SDGs and foreseeing the future. In *Wealth Management and Investment in Islamic Settings: Opportunities and Challenges*, 1(1), 333-355. Singapore: Springer Nature Singapore.
- Alamer, A. (2022). Exploratory structural equation modeling (ESEM) and bifactor ESEM for construct validation purposes: Guidelines and applied example. *Research Methods in Applied Linguistics*, 1(1), 100005. <https://doi.org/10.1016/j.rmal.2022.100005>
- Alfiani, T., & Akbar, N. (2020, November). Exploring strategies to enhance zakat role to support sustainable development goals (SDGs). In *Indonesian Conference of Zakat-Proceedings*. 295-310. <https://www.iconzbaznas.com/submission/index.php/proceedings/article/view/226>
- Almahfali, M., & Avery, H. (2023). Human rights from an Islamic perspective: A critical review of Arabic peer-reviewed articles. *Social Sciences*, 12(2), 106. <https://doi.org/10.3390/socsci12020106>
- Al-Shaghdari, F., Hakami, T. A., Bardai, B., & Saleh, A. O. H. (2021). Investigating the parameters influencing Islamic banks financial performance: Evidence from five Southeast Asian

- Countries. In International Conference on Business and Technology (pp. 29-50). Cham: Springer International Publishing.
- Ascarya, A. (2022). The role of Islamic social finance during Covid-19 pandemic in Indonesia's economic recovery. *International Journal of Islamic and Middle Eastern Finance and Management*, 15(2), 386-405.
- Badawia, T. (2022). Islamic practical theology: *Waqf* and zakāt as theological foundations. In *Exploring Islamic Social Work: Between community and the Common Good*. 151-164. Cham: Springer International Publishing.
- Berakon, I., Aji, H. M., & Hafizi, M. R. (2022). Impact of digital Sharia banking systems on cash-*Waqf* among Indonesian Muslim youth. *Journal of Islamic Marketing*, 13(7), 1551-1573.
- Biswas, F. (2023). Electoral patterns and voting behavior of Bihar in Assembly elections from 2010 to 2020: a spatial analysis. *GeoJournal*, 88(1), 655-689. <https://doi.org/10.1007/s10708-022-10627-2>
- Byrne, B. M. (2013). *Structural equation modeling with Mplus: Basic concepts, applications, and programming*. routledge.
- Chao, P. E. N. G., Biao, M. A., & Zhang, C. (2021). Poverty alleviation through e-commerce: Village involvement and demonstration policies in rural China. *Journal of Integrative Agriculture*, 20(4), 998-1011. [https://doi.org/10.1016/S2095-3119\(20\)63422-0](https://doi.org/10.1016/S2095-3119(20)63422-0)
- dos Santos, P. M., & Cirillo, M. Â. (2023). Construction of the average variance extracted index for construct validation in structural equation models with adaptive regressions. *Communications in Statistics-Simulation and Computation*, 52(4), 1639-1650. <https://doi.org/10.1080/03610918.2021.1888122>
- Hambari, H., Arif, A. A., & Zaim, M. A. (2020, October). The role of Zakat institution in facing Covid-19. In *Indonesian Conference of Zakat-Proceedings*, 119-126. <https://doi.org/10.37706/iconz.2020.225>
- Hamilton, L., & Gross, B. (2021). How has the pandemic affected students' social-emotional well-being? A Review of the Evidence to Date. *Center on Reinventing Public Education*. <https://eric.ed.gov/?id=ED614131>
- Hasan, Z. (2020). Distribution of zakat funds to achieve sdgs through poverty alleviation in Baznas Republic of Indonesia. *AZKA International Journal of Zakat & Social Finance*, 25-43. <https://doi.org/10.51377/azjaf.vol1no01.7>
- Ibrahim, S. M. (2015). The role of Zakat in establishing social welfare and economic sustainability. *International Journal of Management and Commerce Innovations*, 3(1), 37-441.
- Iskandar, I., Irsyamuddin, D., Dwiyan, E., & Ihsan, H. (2023). *Waqf* Substantial Contribution Toward the Public Healthcare Sector in the Ottoman Empire. *Journal of Critical Realism in Socio-Economics (JOCRISSE)*, 1(3), 275-294. <https://doi.org/10.21111/jocrise.v1i3.21>
- Ismail, S., Hassan, M., & Rahmat, S. (2023). The concept of *Waqf*. *Islamic Social Finance*, 1(13). Edward Elgar Publishing.
- Kasri, R. A., & Chaerunnisa, S. R. (2022). The role of knowledge, trust, and religiosity in explaining the online cash *Waqf* amongst Muslim millennials. *Journal of Islamic Marketing*, 13(6), 1334-1350. <https://doi.org/10.1108/JIMA-04-2020-0101>
- Khaliyarov, A. (2022). Capitalism in Khiva: Cash *waqf* or cash loan?. *Journal of the Economic and Social History of the Orient*, 65(1-2), 248-278. <https://doi.org/10.1163/15685209-12341567>
- Khan, F., & Haneef, M. A. (2022). Religious responses to sustainable development goals: An islamic perspective. *Journal of Islamic Monetary Economics and Finance*, 8(2), 161-180. <https://doi.org/10.21098/jimf.v8i2.1453>
- Kumar, R., Verma, A., Shome, A., Sinha, R., Sinha, S., Jha, P. K., ... & Vara Prasad, P. V. (2021). Impacts of plastic pollution on ecosystem services, sustainable development goals, and need to focus on circular economy and policy interventions. *Sustainability*, 13(17), 9963. <https://doi.org/10.3390/su13179963>

- Laila, N., Ratnasari, R. T., Ismail, S., Mohd Hidzir, P. A., & Mahphoth, M. H. (2023). The intention of small and medium enterprises' owners to participate in *Waqf*: the case of Malaysia and Indonesia. *International Journal of Islamic and Middle Eastern Finance and Management*, 16(3), 429-447. <https://doi.org/10.1108/IMEFM-01-2022-0014>
- Masrifah, A. R., Harris, J. I., & Umam, K. (2023). Mainstreaming *Waqf* Sukuk to achieve Sustainable Development Goals in pesantren. *International Journal of Business and Economy*, 5(1), 46-61. <https://myjms.mohe.gov.my/index.php/ijbec/article/view/21371>
- McChesney, R. D. (2021). The Shrine of the Prophet's Cloak, the Khirqat al-Nabī of Qandahar. *Four Central Asian Shrines*. 326-397. Brill. https://doi.org/10.1163/9789004459595_006
- Medias, F., Rahman, A. A., Susamto, A. A., & Pambuko, Z. B. (2022). A systematic literature review on the socio-economic roles of *Waqf*: evidence from organization of the Islamic cooperation (OIC) countries. *Journal of Islamic Accounting and Business Research*, 13(1), 177-193. <https://10.1108/JIABR-01-2021-0028>
- Moecanian, M., Khamseh, A., & Ghazavi, M. (2022). Social innovation based on collaboration between government and non-governmental organizations in COVID-19 crisis: evidence from Iran. *Infect Dis Poverty*. 2022 Jan 25;11(1):13. <https://doi.org/10.1186/s40249-021-00923-3>
- Mohadi, M., & Akli, A. (2022). Utilization of awqaf in financing widowed and divorced women in Malaysia and Algeria. *Journal of Global Business and Social Entrepreneurship (GBSE)*, 7(23).
- Mohsin, M. (2019). A brief history of *Waqf*: An Islamic socio-financial institution of philanthropic endowment. *A Journal of Interest Free Microfinance*, 7(2), 7-22.
- Mohsin, M. I. A., & Ismail, M. (2013). Potential of Zakat in eliminating riba and eradicating poverty in muslim countries. *EJBM-Special Issue: Islamic Management and Business*, 5(11), 114-126. <https://iiste.org/Journals/index.php/EJBM/article/view/5429/5546>
- Muhammad, T., & bin Ngah, B. (2020). Islamic financial institutions and their impact on the development of Halal SMEs in Nigeria. *AZKA International Journal of Zakat & Social Finance*, 01-24. <https://doi.org/10.51377/azjaf.vol1no01.6>
- Muhammad, T., & Khalil, Z. (2021). The role of islamic banks in tackling financial exclusion in North-East Nigeria. *Turkish Journal of Islamic Economics*, 8(1), 87-110. <https://www.tujise.org/content/6-issues/15-8-1/a102/tujise-8.1-102.pdf>
- Muhammad, T., Al-Shaghdari, F., & Ngah, B. B. (2023). Role of Islamic Financial Institutions in Addressing Financial Exclusion: A Methodological Mix Approach. *AZKA International Journal of Zakat & Social Finance*, 161-198. <https://doi.org/10.51377/azjaf.vol4no2.171>
- Othman, Y. H., Cheumar, M., & Abdullah, N. (2022). The role of islamic social finance instruments in reviving the economy during the Covid-19 pandemic crisis in Malaysia. *International Journal of Academic Research in Business and Social Sciences*, 12(6), 807-819. <http://dx.doi.org/10.6007/IJARBS/v12-i6/14037>
- Priyadi, U., Achiria, S., Imron, M. A., & Zandi, G. R. (2023). *Waqf* management and accountability: *Waqf* land financing models for economic well-being. *Asian Economic and Financial Review*, 13(1), 74-84. <https://doi.org/10.55493/5002.v13i1.4696>
- Rakhimov, A., Realo, A., & Tang, N. K. (2023). The Self-Compassion Scale: validation and psychometric properties within the exploratory structural equation modeling framework. *Journal of Personality Assessment*, 105(3), 422-435. <https://doi.org/10.1080/00223891.2022.2093731>
- Ramli, M. F., Shaari, M. S. M., & Bakhri, B. S. (2022). Influence of Cash *Waqf* on Economic Growth Evidence from Malaysia. *Journal of Finance and Islamic Banking*, 5(2), 5404. <https://doi.org/10.22515/jfib.v5i2.5404>
- Rusydiana, A., & As-Salafiyah, A. (2021, June 15). A Scientometric Analysis of Zakat Literature Published in times of COVID-19 Pandemic. *International Journal of Zakat*, 6(2), 1-14. <https://ijazbznas.com/index.php/journal/article/view/306/103>

- Saad, R. A. J., & Farouk, A. U. (2019). A comprehensive review of barriers to a functional Zakat system in Nigeria: What needs to be done?. *International Journal of Ethics and Systems*, 35(1), 24-42. <http://doi.org/10.1108/IJOES-06-2018-0090>
- Sarstedt, M., Hair, J. F., Pick, M., Liengaard, B. D., Radomir, L., & Ringle, C. M. (2022). Progress in partial least squares structural equation modeling use in marketing research in the last decade. *Psychology & Marketing*, 39(5), 1035-1064. <https://doi.org/10.1002/mar.21640>
- Seman, J. A., Jamil, N. N., & Hashim, A. J. C. M. (2021). Development of integrated Islamic finance-based index of financial inclusion using Zakat and cash *Waqf*: A preliminary study in Malaysia. *The Journal of Muamalat and Islamic Finance Research*, 73-95. <https://doi.org/10.33102/jmifr.v18i2.370>
- Sim, M., Kim, S. Y., & Suh, Y. (2022). Sample size requirements for simple and complex mediation models. *Educational and Psychological Measurement*, 82(1), 76-106. <https://doi.org/10.1177/00131644211003261>
- Solichin, N. M. (2022). Temporary waqf as a study of fiqh Muamalah (Juridical Thoughts and Possibility of Its Implementation). *Az-Zarqa': Jurnal Hukum Bisnis Islam*, 14(2), 243-260. <https://ejournal.uin-suka.ac.id/syariah/azzarqa/article/view/2704/1855>
- Sulaeman, S., & Ninglasari, S. Y. (2020, October). An empirical examination of factors influencing the behavioral intention to use Zakat-Based crowdfunding platform model for countering the adverse impact of COVID-19 on MSMEs in Indonesia. *Indonesian Conference of Zakat-Proceedings* (pp. 203-218). <https://doi.org/10.37706/iconz.2020.218>
- Tok, E., Yesuf, A. J., & Mohamed, A. (2022). Sustainable development goals and Islamic social finance: From policy divide to policy coherence and convergence. *Sustainability*, 14(11), 6875. <https://doi.org/10.3390/su14116875>
- Umar, U. H., & Danlami, M. R. (2022). The need for revitalization of Islamic social finance instruments in the Covid-19 period in Nigeria: The role of digitalization. In *Artificial Intelligence for Sustainable Finance and Sustainable Technology: Proceedings of ICGER 2021 (1)* 177-187. Springer International Publishing.
- Wahyuni-TD, I. S., Haron, H., & Fernando, Y. (2021). The effects of good governance and fraud prevention on performance of the Zakat institutions in Indonesia: a Shari'ah forensic accounting perspective. *International Journal of Islamic and Middle Eastern Finance and Management*, 14(4), 692-712. <http://dx.doi.org/10.1108/IMEFM-03-2019-0089>
- Zauro, N. A., Zauro, N. A., Saad, R. A. J., & Sawandi, N. (2020). Enhancing socio-economic justice and financial inclusion in Nigeria: The role of Zakat, Sadaqah and Qardhul Hassan. *Journal of Islamic Accounting and Business Research*, 11(3), 555-572. <https://doi.org/10.1108/JIABR-11-2016-0134>
- Zulhendra, Z., Nurwahidin, N., Fahruroji, F., & Hamzah, M. Z. (2020, October). Zakat Fund Management by Amil Zakat Institutions. In *Indonesian Conference of Zakat-Proceedings*. 39-48.