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# The Role of Government, Islamic Banks, And Waqf in Inclusive Economic Development in Indonesia

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***Abstract:***
*This study examines the relationship between government spending variables, Islamic commercial bank financing, and waqf, focusing on the inclusiveness of economic development, using a quantitative approach to explanatory research. A panel data regression analysis model is used to test the hypotheses. The results of the analysis partially explain that government spending and Islamic commercial bank financing have a significant positive effect on the inclusiveness of economic development. Meanwhile, the waqf variable does not affect the inclusiveness of economic development. This study uses Ibn Khaldun's hikkamiyah theory to explain economic development. By improving the quality of institutions, such as the government and financial sector, and applying fair principles in conducting economic development in Indonesia, inclusive economic development becomes more realistic.*

**Keywords**: Government Expenditure, Islamic Commercial Bank Financing, Waqf, Inclusiveness

**JEL Classification Code**: G21, H50, O15

## 1. Introduction

Economic development primarily focuses on building community welfare using economic growth as a key parameter for successful development (Mahri et al., 2021). Economic growth is defined as an increase in the economy's production of goods and services, referring to changes that are quantitative and measured based on Gross Domestic Product (GDP) data (Putri et al., 2022). Despite the high GDP figure, the limitations of economic development with the GDP indicator cannot reflect society's welfare of society (Junaedi, 2020). Consequently, unemployment, inequality, and poverty have increased, leading to social exclusion (Safitri et al., 2021). Social exclusion is the process of removing the rights of certain people for a long time from the social system that should be obtained as a general public so that it has an impact on cutting off access to services, institutions, social services, and opportunities for these individuals or groups which can indicate that economic development is not fully inclusive (Makki, 2019).

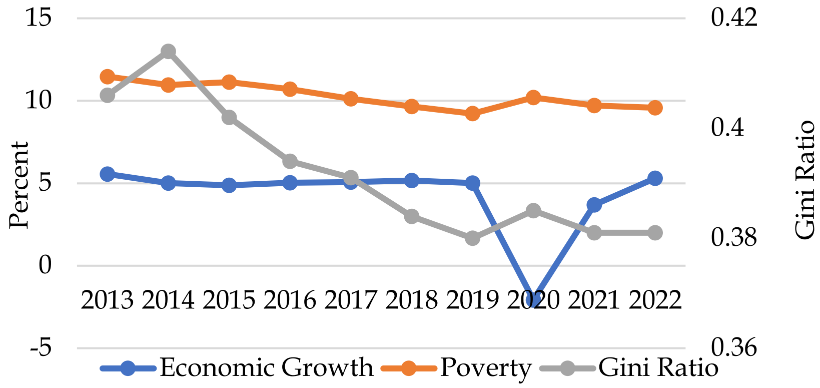


**Figure 1**: GDP, poverty, and Gini ratio developments 2013-2022 (Badan Pusat Statistik, 2023a, 2023b, 2023c)

GDP growth in Indonesia over the past 10 years has shown a positive trend, but this has not been reflected in poverty and inequality. The percentage of the population living in poverty in Indonesia has remained stagnant, at an average of 10.27%, whereas the average level of inequality is 0.39%. Economic growth increased by 5.77% and 1.61%, poverty decreased by 0.48% and 0.14%, and inequality decreased by 0.004% and 0% in 2021 and 2022. A weakness of economic development with GDP indicators is that high GDP figures do not necessarily reflect community welfare (Junaedi, 2020). Consequently, unemployment, inequality, and poverty rates have increased, leading to social exclusion (Safitri et al., 2021).

Inclusive economic development is equitable and has fair economic growth; thus, all levels of society can improve welfare and reduce inequality (Badan Perencanaan Pembangunan Nasional, 2019). Inclusive economic development focuses not only on the economy but also on people's welfare. The National Development Planning Agency (BAPPENAS) created an Inclusive Economic Development Index (IEDI) to determine the level of economic inclusiveness (Safitri et al., 2021). Based on the three pillars of the IEDI, national and provincial levels were categorized as satisfactory by 2021. The benefits of the IEDI have been used to create development policies that focus on encouraging more inclusive development, one of which involves religious indicators (Badan Perencanaan Pembangunan Nasional, 2019; Susanti, 2021). Islamic economic principles that prioritize justice and sustainability can bring the national economy to inclusive growth (Ibrahim et al., 2021). Khaldun modelled economic development by involving six interrelated aspects: government, institutions, human resources, wealth, justice, and development.

The government is tasked with overseeing an efficient economy for the benefit of people (Ibrahim et al., 2021). Government spending plays a role in providing fair and equitable capital to achieve economic growth (Rahmawati, 2022; Widiaty & Nugroho, 2020) government spending in Islam is one of the supports for achieving Sharia goals, namely welfare, intellectuals, wealth, and ownership (I. Aini, 2019; Habibah et al., 2020). Nofrianto et al. (2021) conclude that government spending affects long-term economic growth. The government cooperates with the private sector for funding needs in terms of economic development, one of which is banking, which plays an important role in the capital and productive sectors (Muhamad, 2017).

Islamic banking plays a role in the economy as an institution for channeling funds in the form of financing to the community based on Sharia principles (Rohmi et al., 2021). Through Islamic banking financing, it can increase the economic productivity of the community, which has an impact on economic growth (Dewantara, 2022). The distribution of Islamic Commercial Bank financing is divided into three sectors: working capital, investment, and consumption (Otoritas Jasa Keuangan, 2024). Sharia commercial bank financing that provides capital and investment increases income through increased consumption and availability of employment in the community. In addition, the tax revenue in the country will increase. Islamic banks will have a direct and long-term effect on economic growth (Kismawadi, 2024). State taxes increase if the financing distributed in the working capital and investment sectors generates profit (Muhamad, 2017).

Equitable distribution can occur through individual redistribution instruments to society, one of which is waqf (Rosmini et al., 2023). The distribution of waqf consists of two sectors, namely commercial, infrastructure, and non-profit sectors, which can affect fiscal benefits (Muljawan et al., 2016). In the commercial sector, hospitals, retail stores, and offices generate profit. In the non-profit sector, for example, the construction of educational and religious institutions that have operations. Waqf has been proven to have a positive impact on poverty alleviation and welfare improvement (Shehzad et al., 2022). Waqf showed a positive trend with rapid growth in 2022. The total area of waqf land has reached 57.2 hectares, and the cash waqf sector is estimated to have the potential to reach 180 trillion (Badan Wakaf Indonesia, 2022). However, the cash waqf recorded by the Indonesian Waqf Board as of March 2022 was valued at 1.4 trillion. The need to optimize Waqf in Indonesia, particularly in the commercial sector, will help boost the economy and achieve societal well-being by providing accessible facilities for the less fortunate and fostering entrepreneurial activities. The great potential of waqf has allowed it to become an instrument that affects economic development in Indonesia.

Based on this background, the author aims to analyze and determine the effects of government spending, Islamic commercial bank financing, and waqf on the inclusiveness of economic development in Indonesia. The results of this study are expected to be a consideration for authorized institutions in national development.

## 2. Literature Review

Economic development is a process that involves all social and economic factors (Mahri et al., 2021). Islamic economic development prioritizes a system by Islamic values, aiming at the benefit of the people. Khaldun proposed one of the theories of Islamic economic development. Ibn Khaldun's perspective on economic development emphasizes the instruments that influence economic development (Susanti, 2021). Economic development is a continuous process characterized by an increase in the wealth and welfare of society (Widiaty & Nugroho, 2020). Ibn Khaldun's development model, called Hikkamiyah or the eight wise principles (Mahri et al., 2021), states that the government (G) is one of the parties that can influence growth through fiscal policy and is also responsible for the welfare and prosperity of society. Wealth (W) in Islam is wealth that flows like water that should not be hoarded. Wealth increases if it is utilized by sharing it in a social form that aims to help others. Justice (J) Just development is development that not only focuses on the economy but also on the supporting aspects of development.

Inclusive economic development emphasizes equitable economic growth, which fosters opportunities for all segments of society (Arrfah & Syafri, 2022). The focus of inclusive economic development is long-term welfare. The development has two main concepts: achieving sustainable growth and increasing opportunities for growth to be accessed equally (Acheampong et al., 2023). Inclusive economic development is defined as equitable economic growth in Indonesia,, so that all levels of society have the opportunity to improve welfare and reduce gaps between groups and regions (Badan Perencanaan Pembangunan Nasional, 2019).

The IEDI, in measuring inclusiveness in Indonesia, considers three aspects: economic growth, inequality and poverty, and access to opportunities. The IEDI consists of three pillars, eight sub-pillars, and 21 indicators (Badan Perencanaan Pembangunan Nasional, 2023a). The first pillar, economic growth and development, is an important foundation for achieving economic and employment opportunities. Next, income equality and poverty reduction: an inclusive economy must reflect economic equity and reduce inequality (Diba et al., 2020; Safitri et al., 2021). The expansion of access and opportunity is the last pillar to ensure easy access to infrastructure for all people and the development of quality human resources (Arrfah & Syafri, 2022). To achieve these three pillars, the government plays an influential role through its policies, one of which is spending (Badan Perencanaan Pembangunan Nasional, 2019).

Government spending is the total value of spending by the government that is intended for the public interest (Ningrum et al., 2020). The financial relationship between the central and local governments is regulated, implemented fairly, and by law. Wagner's law states that government spending continues to increase if the government increases activities related to society, law, education, tourism, and culture (Safitri et al., 2021; Urif et al., 2020). Economic growth is influenced by government intervention through fiscal policy by increasing government spending and reducing tax (Ibrahim et al., 2021). Government spending requires consistency to realize a stable economy as a driving factor for economic growth (Nofrianto et al., 2021).

Indonesia, with its Pancasila foundation, provides an opportunity for Islamic policies to become the basis for fiscal policy in Indonesia's revenue and expenditure (Ibrahim et al., 2021). The Islamic fiscal policy implemented in Indonesia can be seen from several government activities in economic development using funds, instruments, and the use of state funds for the benefit of the people through development that supports the welfare of the community (I. Aini, 2019). The government can collaborate with the private sector for funding, such as Islamic commercial banks, which play an important role in the capital and productive sectors (Muhamad, 2017).

Services provided by Islamic commercial banks can encourage economic growth by channelling financing to the community by considering Sharia and economic aspects (Widiaty & Nugroho, 2020). Financing can be a good investment instrument for improving the quality of individuals by improving their economic conditions (Amijaya et al., 2023). The financing services provided by Islamic commercial banks are a means of sustainable economic empowerment for the community (Dewantara, 2022). Sharia financing can create a more inclusive and ethical financial system based on Sharia principles, such as fairness, transparency, and the prohibition of usury (Mahri et al., 2021). This encourages productive economic activity, particularly in the Micro, Small, and Medium Enterprise (MSME) sector, which ultimately increases community income and welfare.

One of the benefits of investment is the development of production capacity aimed at increasing economic growth by increasing community employment (Amijaya et al., 2023). More investment activities will be conducted. Additionally, the provision of capital channels increases consumption in society (Hanim et al., 2022). Financing is provided for capital and investment if the business is run profitably, the state revenue through taxes will increase, and the use of foreign exchange issued by the government will be reduced, so that national income increases with financing (Muhamad, 2017). Optimizing distribution so that it is evenly distributed can be achieved through Islamic financial instruments such as waqf.

Waqf is the activity of releasing property by the waqif to be managed and developed by the nazir, and the results are intended for religious and community welfare (Sukmana et al., 2021). Waqf is included in institutional buildings in poverty reduction efforts because waqf can be an economic redistribution (Urif et al., 2020). Waqf is channelled for the construction of public facilities, meeting the social needs of the community, and the construction of educational institutions that can support economic development by improving the quality of human resources (Badan Perencanaan Pembangunan Nasional, 2023b; Mahri et al., 2021). Waqf is channelled to productive sectors, such as leasing buildings for shopping centers in the commercial sector (Muljawan et al., 2016)

The National Waqf Index (NWI) assesses waqf performance both nationally and regionally (Sukmana et al., 2021). The NWI consists of six factors and 17 sub-factors that can be used as benchmarks (Badan Wakaf Indonesia, 2022). These factors include the regulation factor, which is government support for waqf systems and activities. The institutional factor is the condition of the waqf management institution (Nazhir) in a region. Process Factor, which is the business process in waqf practices. It consists of data collection, management, and reporting. System factors that support the business process include the outcome factor, which is the productivity and benefits of the waqf. Impact Factor, which is the impact of waqf on welfare and service delivery to the community.

## 3. Research Methods

This study used a quantitative approach to explanatory research design. This study explains the effect of government spending, Islamic commercial bank financing, and waqf on the inclusiveness of Indonesia's economic development using a panel data regression analysis. The population in this study was Indonesia's provinces for the period of 2020-2021. Since 2022, there have been 37 provinces divided into five major islands and four smaller ones. The purposive sampling technique used in this study was the technique of taking samples by considering certain criteria (Majduddin, 2023).

**Table 1**: Sample Selection Procedure

| Criteria | Total |
|---|---|
| Population | 37 |
| Provinces that have not been registered as part of the Indonesian state in 2020-2021 | 3 |
| Provincial data is not available according to the variables studied | 1 |
| Total Sample | 33 |

This study used secondary data in the form of quantitative data in the form of time-series and cross-sectional data. Secondary data were obtained from pre-existing sources, including government and private institutions. The operational definitions of the variables and institutions that are the sources of the researchers are as follows.

**Table 2**: Operational Definition and Data Source

| Variable | Symbol | Operational Definitions | Data Source |
|---|---|---|---|
| Government Expenditures | GE | Government expenditures are all regional obligations that are recognized as deductions from the value of net assets in the relevant fiscal year period. The | From data on the realization of regional expenditure |

| | | | |
|---|---|---|---|
| | | indicator used in this study is the realization of expenditures in Indonesian provinces. This study uses data on the realization of regional expenditures in Indonesia for the 2020-2021 period in units of billions of rupiah. | from the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance. |
| Islamic Commercial Bank Financing | ICBF | Islamic Commercial Bank Financing is the provision of money or bills that are equated with it based on an agreement between a bank and another party that requires the financed party to return the money or bill after a certain period of time with profit sharing. The indicators of Islamic commercial bank financing in this study are funds channelled by Islamic commercial banks for working capital, investment, and consumption. The data used are the total financing disbursed by Islamic commercial banks by province in the 2020-2021 period in units of billion rupiah. | From the total financing of Islamic commercial banks originating from Islamic banking statistics at the Financial Services Authority (OJK). |
| National Waqf Index | NWI | Waqf is an Islamic redistribution instrument that encourages economic development through commercial and non-profit sectors. The value of the national waqf index is used as an indicator of the impact of waqf on development. The data used is the National Waqf Index (NWI) for each province in Indonesia in the 2020-2021 period in units. | From the National Waqf Index Report (IWN) derived from the Indonesian Waqf Board (BWI). |
| Inclusive Economic Development Index | IEDI | Inclusive economic development is a condition of equitable economic growth that creates opportunities at all levels. The indicator used is the success of inclusive economic development. The data used are the IEDI at the provincial level in Indonesia for the 2020-2021 period in units. | IDEI data sourced from the National Development Planning Agency (BAPPENAS). |

This study uses panel data, which is a combination of cross-sectional and time series data. This method allows for the control of unobserved individual heterogeneity, improves estimation efficiency with a larger number of observations, and allows for a more robust analysis of causal relationships. Three basic techniques are used in panel data regression analysis: the Common Effect Model (CEM), which estimates the characteristics of similar research samples across different periods (Hanim et al., 2022). The fixed effects model (FEM) is a regression model for panel data that considers variations between units or entities, but the coefficients of the independent variables remain similar across time or between units (Rohmi et al., 2021). The random effects model (REM) assumes that the independent variables are interrelated across time and units (Diba et al., 2020). The next step in determining the analysis to be used involved the Chow, Hausman, and Lagrange multiplier tests. The Chow test was used to determine whether the CEM or FEM model was used.

The hypothesis in the Chow test is that if the probability of the cross-section is < 0.05, then the FEM model is selected; otherwise, the CEM model is selected (Ningrum et al., 2020). The Hausman test was used to determine which of the FEM and model was used in this study. The hypothesis in the Hausman test is that if the probability of cross-section randomness is < 0.05, then the FEM model is used; otherwise, the REM model is used (Madany et al., 2022). The Lagrange multiplier test was used to determine the model used for writing the CEM and REM. The hypothesis in the Lagrange multiplier test is that if the cross-section Breusch–Pagan value is < 0.05, then the REM model is used; if the opposite is true, the CEM model is used (Widiaty & Nugroho, 2020).

After determining the analysis to be used, a classical assumption test was conducted, consisting of autocorrelation, multicollinearity, and heteroskedasticity tests. The autocorrelation test aims to determine the relationship between residual components. If the p-value was > 0.05, the data were free from autocorrelation (Napitupulu et al., 2021). The multicollinearity test aims to determine whether there is a correlation between the independent variables in the regression model (Ningrum et al., 2020). If the correlation coefficient of each independent variable is < 0.8, there is no multicollinearity, and vice versa (Madany et al., 2022). A heteroscedasticity test was conducted to determine whether there was unequal variance in remnants within the regression model. If the residual plot values are not greater than 500 or -500, the data are free of heteroscedasticity (Napitupulu et al., 2021).

Finally, the hypothesis test consists of a t-test to determine the partial effect of the independent variables on the dependent variable. If the t-calculated value is > t-table and the significance value is < 0.05, H1 is accepted (Widiaty & Nugroho, 2020). The F-test was used to determine the simultaneous effect of independent variables on the dependent variables. If the f-calculated value is > f-table and the significance value is < 0.05, then H1 is accepted (Hanim et al., 2022).

## 4. Finding and Discussion

Model selection was used for panel data regression using the Chow, Hausman, and Lagrange multiplier tests. The results of these tests are as follows:

**Table 3**: Result Chow Test and the Hausman Test

| Test | Statistic | Prob. | Hypothesis Result |
|---|---|---|---|
| Chow test | 127.766799 | 0.0000 | FEM |
| Hausman test | 13.870532 | 0.0031 | FEM |

Note: Data processed by the authors

The Lagrange Multiplier test was not necessary because the FEM was chosen. The results of the panel data regression estimation using the selected model are as follows:

**Table 4**: FEM Test

| Variable | Coefficient | Std. Error | t-Statistic | Prob |
|---|---|---|---|---|
| C | 3.988337 | 0.525880 | 7.584115 | 0.0000 |
| GE | 0.110599 | 0.050322 | 2.197815 | 0.0358 |
| ICBF | 0.005501 | 0.001769 | 3.109006 | 0.0041 |
| NWI | 0.001908 | 0.763123 | 0.002501 | 0.9980 |

Note: Data processed by the authors

The probability values of GE and ICBF were <0.05, and NWI > was > 0.05 In the FEM. The coefficient values of all independent variables were positive, indicating that all independent variables affected the dependent variable. The selected fixed effects model means that in this study, there are differences between individuals or entities, but the coefficients of the independent variables remain the same between individuals or times.

The classic assumption tests carried out in this study were autocorrelation, multicollinearity, and heteroscedasticity tests. The results of the classic assumption tests are as follows.

**Table 5**: Autocorrelation Test

| Test | Value |
|---|---|
| F-Statistic | 0.749728 |
| Obs* R-squared | 3.882353 |
| Prob. F | 0.4821 |
| Prob. Chi Square | 0.419 |

Note: Data processed by the authors

Prob. The chi-square value was 0.419, which was greater than the alpha value of 0.05, and the data did not exhibit autocorrelation.

**Table 6**: Multicollinearity Test

| Variable | GE | ICBF | NWI |
|---|---|---|---|
| GE | 1.000000 | -0.196448 | 0.291099 |
| ICBF | -0.196448 | 1.000000 | -0.166466 |
| NWI | 0.291099 | -0.166466 | 1.000000 |

Note: Data processed by the authors

The correlation values of all independent variables were <0.8. Therefore, the data passed the multicollinearity test based on the correlation table (Madany et al., 2022).

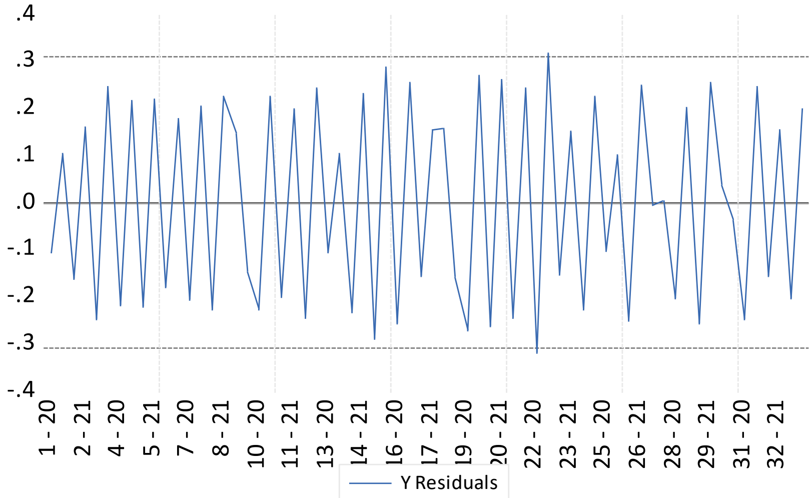


**Figure 2**: Heterocedasticity Test

The residual graph showed nothing exceeded the value of 500 or -500, indicating that the residual variants were the same as those (Napitupulu et al., 2021). Thus, the data avoided heteroscedasticity.

**Table 7**: T Test

| Variable | Coefficient | t-Statistic | Prob | R-Square | Prob (F-Statistic) |
|---|---|---|---|---|---|
| C | 3.988337 | 7.584115 | 0.0000 | 0.750361 | 0.000001 |
| GE | 0.110599 | 2.197815 | 0.0358 | | |
| ICBF | 0.005501 | 3.109006 | 0.0041 | | |
| NWI | 0.001908 | 0.002501 | 0.9980 | | |

Note: Data processed by the authors

The t-table calculation obtained a value of 1.99773, and the t-count was the t-statistic value in the t-test table. The t-count value is 2.197815 > t-table with a value of 0.0358 <0.05 in the government expenditure variable; thus, H1 is accepted. Government expenditure has a positive and significant partial effect on Indonesia's inclusive economic development. The expenditure coefficient value is 0.11; therefore, if the other variables are constant, government spending increases by Rp. 1 billion, and the inclusiveness of economic development increases by 0.11 times. For the Islamic commercial bank financing variable, the t-count value is 3.109006 > t-table 1.99773 and the sig value. If 0.0041 <0.05, then H1 is accepted, meaning that the Islamic commercial bank financing variable has a positive and significant effect on inclusive economic development in Indonesia. The coefficient value of Islamic commercial bank financing is 0.01; therefore, if the other variables are constant, Islamic commercial bank financing increases by Rp. 1 billion, the economic development Inclusiveness variable increases by 0.01 times. The t-test results for the waqf variable obtained a t value of 0.002501 < t-table 1.99773 and a sig value of 0.9980 > 0.05; therefore, H1 is rejected, meaning that the waqf variable does not affect inclusive economic development. Waqf has no effect because of factors that hinder it.

The adjusted R Square value was 0.750361, or 75%. The coefficient of determination shows that the independent variables, namely, government spending, Islamic commercial bank financing, and waqf, affect the dependent variable, economic development. Financing and waqf affect the dependent variable, inclusive economic development in Indonesia, by 75%, while the remaining 25% is influenced by other variables. Inclusive economic development in Indonesia increased by 75%. The remaining 25% were influenced by other factors. Based on the calculation value of the F table based on the formulation in Microsoft Excel, the value was 2.75297, and the f count was the f-statistic value in the F test table. The results of the F-test f-count value of 6.582168 > f Table 2.75297 and sig value 0.000001 < 0.05. Thus, government spending, Islamic commercial bank financing, and waqf have a significant positive effect on inclusive economic development in Indonesia.

The results of this study show that government spending has a significant positive effect on the inclusiveness of economic development in Indonesia. This means that an increase in government spending is in line with an increase in inclusiveness in Indonesia's provinces (Safitri et al., 2021). The Hikkamiyah theory of economic development influences economic development (Mahri et al., 2021). The government in development is one of the parties that influences growth through fiscal policy and is responsible for the welfare and prosperity of society (Habibah et al., 2020). Based on Ibn Khaldun's theory of development, a strong government is realized with a strong economy (Q. Aini & Abidin, 2022). Therefore, economic development is closely related to the government, including how government policies regulate fiscal policies (I. Aini, 2019). If related to government spending, expenditure must consider income to avoid deficits. In addition, spending is oriented towards social benefits because it can support the development process in Islam and reduce the income gap (Safitri et al., 2021). The results of this study show that government spending plays an important role in economic development as a capital provider for activities that support it (Widiaty & Nugroho, 2020).

Government spending on education, economic development, and healthcare can promote inclusive economic development (Safitri et al., 2021). Education can improve the quality of human resources, enabling them to play an active role in promoting development (Putri et al., 2022). Economic development through infrastructure development and the growth of MSME can improve economic access to communities and reduce income inequality (Ningrum et al., 2020). Health functions can improve community welfare by increasing investment in the health sector.

The research findings align with Wagner's law, which states that increased government spending is driven by heightened government activities related to economic activity (Ningrum et al., 2020). Keynes's theory is also in line with the research results, where government intervention through fiscal policy by increasing government spending and reducing taxes, impacts economic growth (Ibrahim et al., 2021). Policy-making by the government needs to involve institutions as agencies, and institutions can function with the authority of the government (Muhamad, 2017). Policy-making by the government needs to involve institutions as agencies, and institutions can function with the authority of the government (Mahri et al., 2021). Improving the quality of resources is necessary for inclusive economic development, with more human resources actively participating.

The results of this study indicate that Islamic commercial bank financing has a significantly positive effect on the inclusiveness of economic development in Indonesia. Islamic commercial bank financing is channelled into three sectors: working capital, investment, and consumption (Otoritas Jasa Keuangan, 2024). More investment activities increase income, and through the provision of capital, the capital channeled increases consumption in society (Hanim et al., 2022). Financing is provided for capital and investment if the business is run profitably, the state revenue through taxes will increase, and the use of foreign exchange issued by the government will be reduced, so that national income increases with financing (Muhamad, 2017). Islamic commercial bank financing can be linked to wealth in the economic development process. The wealth can be achieved through development (Q. Aini & Abidin, 2022). Providing capital and investment through financing can improve the quality of human resources by improving the economy (Amijaya et al., 2023). Financing for the investment sector aims to attract customers who run productive businesses with profit-sharing in accordance with the initial financing contract (Dewantara, 2022). The purpose of development is to improve religion, the soul, the mind, offspring, and property (Mahri et al., 2021). Islamic banking encourages development by providing religious safeguards.

Transaction activities in Islamic banking avoid usury, a form of Islamic religious compliance (Ibrahim et al., 2021). Religiousness can strengthen the quality of inclusive economic development by increasing the profits of Islamic banking and human resources (I. Aini, 2019). In practice, Islamic commercial bank financing focuses not only on company profits but also on benefits to customers and society (Junaedi, 2020). The results of this study are supported by research that explains that mudharabah contract financing has a significant negative effect on poverty, which is an indicator of inclusive economic development (Amijaya et al., 2023). Islamic banking can promote direct and long-term economic growth (Kismawadi, 2024). The distribution of financing channelled by Islamic commercial banks encourages the creation of jobs for the community so that it can play a role in the economic development process.

The results of this study indicate that waqf does not affect Indonesia's economic development. These factors include a lack of public awareness of the importance of waqf and less-than-optimal waqf management (Badan Wakaf Indonesia, 2022). Justice is a condition for achieving economic development (Q. Aini & Abidin, 2022). The growth of the NWI from 2020 to 2021 shows that only two of the six indicators have increased. The process factor is the process of practicing waqf to 0.001. The system factor is related to the supporting factors in waqf practice, down by 0.022. The outcome factor is related to the productivity and equitable distribution of waqf benefits, which decreases by 0.047. The impact factor measures the welfare and service provision to the community by waqf down to 0.054. Therefore, it is necessary to apply justice in distributing waqf so that the benefits of waqf are more equitable and have a positive impact on society. The distribution of waqf is divided into two sectors: commercial or profit-making and non-profit (Muljawan et al., 2016).

Waqf in the non-profit sector is used for constructing educational institutions or religious facilities (Muljawan et al., 2016). Waqf in the commercial sector includes the construction of hospital infrastructure, retail stores, and buildings that can be rented out (Urif et al., 2020). The distribution of waqf, if only focused on religious facilities such as mosques, can be said to be suboptimal for managing its potential (Ibrahim et al., 2021). Indonesian people's understanding of waqf is still very weak, especially regarding productive waqf, which is a breakthrough in waqf practices for economic development (Badan Wakaf Indonesia, 2022). The lack of support from financial institutions, public understanding of waqf, and public trust in waqf are evidence of weak waqf literacy in Indonesia (Fazriah et al., 2023). Lack of literacy also impacts the lack of public trust in waqf institutions and the professionalism of waqf managers (Adistii et al., 2021). Nazir plays an important role in the optimal management of waqfs (Ibrahim et al., 2021). The collected waqf funds must be managed effectively and efficiently to generate significant economic benefits for the wider community so that the expansion of access and opportunities is achieved.

## 5. Conclusions

This study analyzes the impact of government spending, Islamic commercial bank financing, and waqf on economic development inclusiveness in Indonesia. Using a regression analysis of research data, this study concludes that government spending and Islamic commercial bank financing have a positive impact on economic development inclusiveness in Indonesia, while waqf has no impact. Total government expenditure has a positive and significant effect on Indonesia's inclusive economic development. These results prove that government spending is an important factor in increasing inclusive economic development by providing capital to the communities. If the province has high expenditure, it is increasing the expenditure function that supports economic development, such as education, health, and economic development.

The distribution of financing by Islamic commercial banks has a positive and significant effect on inclusive economic development. Islamic commercial bank financing is a solution for people who need funds for working capital, improving business quality, and meeting consumptive needs. The results of this study also prove that Islamic commercial bank financing can improve the quality of human resources by improving economic quality and providing employment. Thus, inclusive economic development can be achieved by expanding access and opportunities and reducing poverty. The national Waqf Index does not affect inclusive economic development in Indonesia. Waqf does not affect the inclusiveness of economic development due to problems in waqf, such as the lack of public literacy towards waqf, the lack of trust in waqf institutions, and the professionalism of nazirs in waqf management. Therefore, strategies are still needed to optimize waqf's potential for economic development in Indonesia. Strengthening the capacity and professionalism of nazirs is also crucial to ensure that waqf is managed productively and contributes significantly to inclusive economic development. Innovation in waqf management models is also expected to open broader opportunities for participation and increase public trust in Indonesian waqf institutions.

The limitations of this study lie in the availability of secondary data on waqf obtained from the BWI, where the available data only cover the period from 2020 to 2021, which is within the research criteria. This limits the scope of broader longitudinal analysis and reduces the possibility of comparing historical data before that year. Economic development inclusivity should not only focus on economic growth but also consider factors that can provide capital for communities to improve economic quality and support development. The funds required by communities can be channelled through government expenditure and financing from Sharia commercial banks. For future researchers, further research on inclusive development can utilize other Sharia-compliant variables that align with Ibn Khaldun's theory. It is also hoped that when using the endowment variable, more accurate indicators, such as productive endowments, can be employed.

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