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The Impact Of Islamic Social Finance (Zakat, Waqf, And Alms) On Rural Poverty Alleviation In Indonesia

[1] Anez Yuniar Pradini, [2] Nur'aini

[1,2] UIN Sunan Gunung Djati Bandung
(*Email Correspondence: anezyuniar@uinsgd.ac.id)

KEYWORDS

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ABSTRACT

Poverty in rural areas is a tangled thread triggered by specific characteristics, such as lack of access to infrastructure and low quality of human resources, so that its handling cannot be generalized to urban areas. Islamic Social Finance (ISF) offers alternative solutions through strategic instruments based on social justice. This qualitative research using the literature study method and descriptive analysis approach aims to analyze in depth the impact of the three main instruments of ISF—zakat, waqf, and alms—in alleviating village poverty, as well as evaluating productive ISF governance for the welfare of the local community. Data sourced from scientific articles, journals, books, and official reports are codified and analyzed using SWOT analysis techniques to formulate an applicable management strategy. The results of the study show that: 1) zakat contributes significantly to increasing income, job creation, and social transformation; 2) productive waqf has proven to be an effective and sustainable instrument in poverty alleviation; and 3) alms play a strong role in wealth redistribution, reducing inequality, and strengthening inclusive social solidarity. As an output, the SWOT analysis resulted in Strengths-Opportunities (SO)-based strategy recommendations, which include optimizing the ISF collection and distribution system, developing economic empowerment models through sharia communities and cooperatives, utilizing productive financing schemes, strengthening synergy between stakeholders, and measurably identifying local commodities and village potentials

INTRODUCTION

Poverty is often a global problem that is faced and receives worldwide attention. Problems such as uneven growth and income distribution are still experienced by many countries, especially developing countries. As one of the developing countries, Indonesia is faced with poverty problems that cannot be ignored, especially in rural areas. The Central Statistics Agency (BPS) stated that the percentage of the rural poor in Indonesia in the second semester of 2024 is 11.34%, when compared to the urban poor whose percentage of 6.66% is quite large (BPS, 2025). Some of the factors that affect the probability of poverty in rural areas include gender, age of the head of household, number of household members, low level of education, access to jobs and business credit, lack of infrastructure, and location of residence (Rini & Sugiharti, 2016).

The poverty inequality between rural and urban areas is characterized by a high level of migration from rural to urban communities. This proves that development inequality and lack of job availability encourage migration (Sukardi et al., 2024). Based on BPS data, the number of villages in Indonesia as of 2022 is 83.7 thousand villages with a percentage of underdeveloped villages of 11% or 9.2 thousand. This means that the village has minimal access to basic and public services, infrastructure, and government administration (Rasyid et al., 2023).

The geographical and topography conditions of the countryside often identify villages with poverty and underdevelopment. Limited livelihoods and prolonged conflicts have made the village further away from the world prosperous. Prolonged conflicts have an impact on the destruction of *the resource base* and community capabilities (people's capability) (Priambodo, A., & Bakhri, S., 2026; Ritonga et al., 2022). Some indicators of poverty in rural areas include; unmet basic needs, lack of opportunities to access education, lack of health facilities and access to health insurance, limited access to sanitation, low business productivity, lack of land and agricultural capital, there is still a lot of collusion, corruption, and nepotism (KKN) between village governments, and no participation in decision-making policies (El-Adawiyah, 2020).

One of the solutions that can be used to alleviate poverty is Islamic *social finance* which consists of zakat, waqf, and alms. Islamic social finance (ISF) is included in one type of finance that is in accordance with Islamic principles (Sholihah, 2024). The purpose of the presence of ISF is expected to redistribute wealth, so that it can help the poor and weak and improve welfare. The term ISF first appeared and was known since the Islamic Research and Training Institute (IRTI) held its Annual Islamic Social Finance Report in 2014. Some of the ISF categories include three categories of philanthropy (zakat, waqf, and alms), cooperatives in the form of foundations (kafalah & qard), and other micro Islamic financial instruments (sukuk, takaful, etc.) (Lestari et al., 2023).

The three philanthropic instruments discussed in this study (zakat, waqf, and alms) each have great potential and roles in poverty alleviation efforts. Zakat is not only the obligation of each Muslim, fulfilling the duties of the state. Therefore, according to the Islamic government's view, it is mandatory to establish a special body to manage zakat, the body is known as the Amil Zakat Agency (Nofiaturrahmah, 2016). As a country with a majority Muslim population, Indonesia has rights and obligations like other Islamic countries, this is in accordance with article 29 of the 1945 Constitution regarding the government's obligation to take care of matters related to Islam, including zakat. Based on this, the potential for zakat to continue to develop and help more mustahik towards welfare is very large.

Other philanthropic instruments such as waqf also have no less potential so that they receive

special attention from the Indonesian government. This is marked by the birth of Law Number 41 of 2004 concerning waqf which regulates and discusses in detail the definition, purpose, object, subject, procedure, and management of waqf (Law Number 41, 2004). Waqf has a strategic and timeless role, this is because waqf contributes to the development of society in terms of education, health, and welfare (Yuniara & Afrianty, 2024). In accordance with the definition of waqf, which is to withhold or give part of the property to be taken advantage of, the management of waqf must also be optimal (Iskandar, 2023). In an effort to alleviate poverty, waqf can be used to maintain and build infrastructure or social facilities such as schools, hospitals, and orphanages (Machmudah et al., 2024).

Great potential is always accompanied by challenges, such as fundraising that has been good and achieved great results, but the realization is still not optimal. Several facts show that there are still many zakat funds that are distributed to mustahik in the form of consumptive ones, as well as waqf which is widely used for the non-productive sector so that it cannot have a long-term impact (Sholihah, 2024).

Problems in the management of zakat, waqf, and alms in rural areas are related to management, literacy, transparency, accountability, and innovation. In Saprida's (2021) research, village people generally only know zakat fitrah and pay it directly to mustahik, not through the amil zakat body. Village people also minimally pay zakat *maal* (property) due to low understanding of the obligation to pay zakat *maal*. Musana (2021) stated that the main obstacle to zakat management in rural areas is the lack of human resources, in this case trained zakat managers, so that the management of its management is still not optimal. The lack of communication and transparency in the management of these funds results in a lack of trust of the village community to fulfill their obligations through the amil agency (Fathani, 2016). The number of amil who still lack competence results in a lack of innovation and creativity in the management and empowerment of zakat, waqf, and alms funds (Supriyadi, 2020). In addition to amil and management, other problems come from mustahik where it is often difficult for institutions to supervise and the lack of human resources in the field of supervision (Setiadi, 2016).

Based on the problems outlined above, this study will analyze the impact of Islamic social finance in alleviating poverty in rural areas, focusing on several things; how zakat, waqf, and alms contribute to the economic empowerment of rural communities, the extent to which ISF contributes to the welfare of rural communities, and how appropriate strategies are to optimize the management and distribution of these funds in rural areas. Rural.

The urgency of conducting this research is recommendation for the optimization of ISF as a tool to alleviate poverty. The results of this research are expected to help ISF management institutions in creating a more targeted and sustainable strategy. With the optimization of ISF, people are expected to be more economically independent so that they can get out of the snare of poverty.

LITERATURE REVIEW

Poverty Alleviation Strategies in Rural Areas

Poverty alleviation in rural areas is not enough with cash assistance alone but must be through a comprehensive community empowerment approach. The involvement of various parties, both the government and the private sector as well as the community in general, is responsible for poverty alleviation efforts. According to Chambers (1983) in his theory of *Rural Development,* poverty alleviation in villages must be carried out through a participatory approach, empowering the community as the main actor of development, not just as an object.

Policy formulation strategies in poverty alleviation need to be studied through several stages,

including; 1) conducting in-depth diagnosis and analysis of poverty, 2) determining the goals and targets to be achieved, and 3) designing and implementing programs (Nazara, 2007). In addition to the comprehensive stages from the preparation to monitoring and evaluation of the program, other things that need to be considered in this strategy are to ensure good governance, develop the people's economy, and establish synergistic relationships between the government and non-governmental organizations.

Optimizing the utilization of local potential can be an alternative in efforts to alleviate poverty in rural areas. Local potential can be explored through community empowerment activities to improve community independence and welfare, both materially and non-materially (Fitasari, 2023; Pradini, 2022). These efforts can be realized, one of which is through Village-Owned Enterprises (Bumdes) and amil zakat institutions.

In the context of Islamic economics, the approach to poverty alleviation is carried out through the distribution of wealth and social protection with the principles of justice, sustainability, and concern for others (*ta'awun*). *Islamic Social Finance* such as zakat, waqf, and alms is believed to be an alternative solution to strengthen the village economy and reduce social inequality (Ascarya & Yumanita, 2020).

Islamic Social Finance as a Means of Redistributing Wealth from the Perspective of Maqashid Sharia

Islamic social finance or *Islamic Social Finance* (ISF) is defined as a type of public finance that is in accordance with Islamic principles and aims to create togetherness and prosperity (Nasution et al., 2024). The term ISF was first introduced by *the Islamic Development Bank* (IDB) and *the Islamic Research and Training Institute* (IRTI) around the 1970s, where in that year Islamic financial institutions began to appear in various countries, especially those with a majority Muslim population. ISF has an important role in achieving welfare, so it needs special attention from various parties, including the government.

Social finance is the capital as well as ethos contained in initiatives, projects, and organizations with the aim of providing social and/or environmental impact in order to create common prosperity (Rizzi et al., 2018). The ISF management mechanism can be carried out through amil agencies and/or microfinance institutions with crowdfunding schemes (fundraising), and social security (Pericoli, 2020). ISF is basically a financial system that has a social impact on society with a record of not being commercialized.

The mechanism in the redistribution of wealth through the ISF instrument can be both positive and prohibitive. Positive actions through ISF instruments are a means of maintaining social benefits and reducing inequality. Meanwhile, prohibitive measures (prevention) can be carried out through the prohibition of usury, *gharar* (uncertainty), hoarding (*ikhtikar*), and monopoly. This ban aims to prevent economic practices that cause injustice and wealth accumulation.

Zakat, Productive Waqf, and Alms as a Social Safety Net and a Means of Poverty Alleviation

Legal evidence related to zakat is mentioned in the Qur'an and hadith, one of which is in QS. al-Bayyinah verse 5 which obliges Muslims to pay zakat. The potential of zakat to alleviate poverty in Indonesia is very large, this is because geographically Indonesia has the majority of the population who are Muslim (Qomari, 2017). In order to alleviate poverty, zakat must be seen as an effort to make its mustahik independent. Zakat that is consumptive often makes mustahik only out of temporary difficulties, so they will not get out of the circle of poverty. Therefore, improvements are needed in the pattern of consumption, production, and distribution of zakat in order to prosper the people (Atabik, 2016). Yusuf Qardhawi (2005) in his book

explained that zakat as an effort to alleviate poverty is inevitable, even more than that, zakat is able to overcome many other societal problems. If all people pay zakat according to their respective proportions, then there will be no more poverty in this world.

Data from the Ministry of Religion's Waqf Information System (SIWAK) noted that in 2024 the number of waqf land points in Indonesia will reach 440,512 thousand and the total area of waqf land will reach 57,263 hectares, and the potential for money waqf will reach IDR 130 trillion (Imron et al., 2024). The potential of waqf is accompanied by several obstacles such as the use of waqf assets that are not optimal. To achieve this goal, a special institution is needed that manages waqf assets formed by the government, in this case nadzir. In the context of poverty alleviation in rural areas, productive waqf can be one of the alternative solutions. Waqf assets that are usually owned by rural areas are usually in the form of land, so the land can be used to then become productive and productive. As in Jufri's (2018) research, the empowerment and utilization of waqf land can be synergized with village funds through Bumdesa so that the benefits will be felt more widely. Waqf assets in the form of land can be used as plantation land, livestock, agriculture, fisheries, and others which can then be used to improve the standard of living of the village community, help business capital through investment in *Baitul Maal wa Tamwiil* (BMT), and/or the development of worship infrastructure and others that support the welfare of the village.

Alms as a form of voluntary concern have high flexibility in their use. Alms are often used as emergency aid, health compensation, and educational support, which indirectly help ease the burden of the poor. According to Hudaefi et al. (2022), although the nominal amount is not as large as zakat or waqf, the existence of sadaqah is very important in creating a system of social solidarity and strengthening *ukhuwah* values in rural areas. The effectiveness of alms often depends on the driving community and local social networks.

RESEARCH METHODS

This research is a qualitative research, which aims to understand problems related to individuals and groups in social life (Creswell, 2014). The approach used in this study is a descriptive analysis approach. This approach is a tool to analyze and descript the data that has been collected to draw conclusions (Sugiyono, 2018). Descriptive analysis can help in organizing, compiling, and presenting easy-to-understand analysis results (Maswar, 2017).

This research is a research with a literature study method and uses secondary data sources. Sugiyono (2018) stated that secondary data is data used in research taken from secondary sources or data that is not obtained directly but through intermediary media. The data used in this study is of the type of literature/literature in the form of documents/texts that are relevant to the research topic. These documents can be in the form of books, journals, proceedings, seminars, financial reports, and other scientific works that are in accordance with the latest year range of the last 5 years.

The analysis tool used in this study is a SWOT analysis. SWOT is an acronym for *strength*, *weaknesses*, *opportunities*, and *threats*. This analysis is used to identify the four instruments, so that they can plan the right strategy in a case (Fatimah, 2020). SWOT analysis is a tool to identify the four factors (strengths, weaknesses, opportunities, and challenges) that are or will be faced by ISF managers in rural areas. The results of the SWOT analysis can determine the right policy direction and strategy to have a greater and sustainable impact on rural poverty alleviation efforts by utilizing ISF.

RESULTS AND DISCUSSION

The Impact of Zakat on Poverty Alleviation in Rural Areas

The problem of poverty in rural areas requires special treatment to overcome it because the root of the problem is different from the poor in urban areas. Several previous studies have stated that efforts to alleviate rural poverty are categorized based on the resources of each village. If a village has land resources, it can develop its agribusiness sector such as through the Rural Agrbisnis Business Development Program (PUAP) so that members of farmer groups get access to business capital (Akhmadi et al., 2016; Andhika, H., et al., 2025). Villages with marine resources and the majority of the population are fishermen can take advantage of fishermen empowerment and coaching programs both technically and business management (Zuhri, 2020). Meanwhile, villages that have tourism potential can also utilize the resources and income obtained as a means of alleviating poverty in their areas (Gai et al., 2023). Various typologies of poverty in rural areas can be overcome by prioritizing the use of resources owned by each village, in this case including the management and distribution of zakat so that it is expected to accelerate the achievement of poverty alleviation results.

Several case studies show that zakat can be a means of economic empowerment in rural areas so that it can improve the standard of living and welfare of rural communities, such as with the *Zakat Community Development* (ZCD) program that has been implemented in various rural areas. Poverty alleviation programs through the optimization of zakat funds by village communities have been implemented by several villages, including the following.

1. Zakat Community Development (ZCD) in Lubuk Bangkar Village, Jambi

Lubuk Linggar Village is one of the underdeveloped villages located in the highlands and has extensive coffee plantations that are the main income of the local community. The ZCD program, which is under the auspices of BAZNAS, first entered Lubuk Linggar Village around 2018 and the first project implemented was to form a coffee MSME community with a capital of IDR 105 million, then continue with other projects such as sheep farming, fisheries, woven crafts, processed pastries, and creative youth groups (Kurniawan et al., 2023).

The ZCD program has principles in its implementation, namely mandate and responsibility, sustainable, participatory, and integrated, and plays a role in various aspects such as the economy, education, da'wah, and health. The ZCD program implemented in Lubuk Linggar Village was able to reduce the number of poor people and the unemployment rate from 1,197 people to 183 people (Kurniawan et al., 2023). However, there are still several factors that hinder such as not many distributors buying products or harvests, extreme weather that causes losses in several sectors such as fisheries and agriculture, and delays in the supply of feed for livestock. These things must be recorded and corrected for other villages that want to implement productive zakat.

2. Livestock Village Program in Jatisari Village, Geger District, Madiun

This livestock village program is under the auspices of the amil institution Dompet Dhuafa Madiun which allocates zakat funds for productive activities to improve the welfare of mustahik in Jatisari village. This program is carried out by seven mustahik with the distribution of 24 livestock per mustahik in the same place and method. In addition, zakat funds are also allocated for planning, organizing, directing, and supervision activities (Anwar, 2021). Livestock that is ready to be harvested will be marketed by Dompet Dhuafa and given to the farmers. The nominal income obtained differs depending on the initiative of farmers to increase salespower, this fosters the enthusiasm of farmers to continue to increase income.

The cattle village in Jatisari village has a positive impact on improving the welfare of the seven mustahik, this is evidenced by the mustahik making livestock as its main job. In 2021, this breeder successfully passed two harvest periods and continues to this day. From the explanation above, it can be concluded that the program can be implemented well and is able to improve the

economic level and welfare of mustahik.

3. Social Trust Fund (STF) Program in Melaya Village, Bali

Social Trust Fund (STF) is a national program in terms of zakat empowerment and as a financing mechanism that requires large funds in the medium or long term (Satrio & Madiati, 2014). The STF program implemented by Melaya Village in Bali uses a productive zakat scheme that is distributed to asnaf through cooperatives. The utilization of zakat funds uses the qardul hasan and murabahah (productive funds) contracts for each financing provided, of course, with asnaf criteria according to the sharia stipulated.

These funds are used by the recipients as business capital on a microscale individually or in groups. Structurally and managerially, the STF cooperative Bali unit is complete and ready to distribute more zakat funds in a productive scheme. The results of Reni Mulyani's research (2020) stated that the presence of the STF program in Melaya Village influences increasing the income and economic level of the community. However, some of them have not felt the positive impact, and this is due to a lack of creativity and initiative in doing their business.

Good utilization of zakat can have a maximum and widespread impact and can even help alleviate poverty. In addition to the economic aspect, good utilization of zakat can also overcome social problems that are present among villagers such as lack of employment, lack of educational opportunities, hard-to-reach health facilities, and others. Some of the programs carried out by zakat management institutions in rural areas include the development of agribusiness potential including people's industries based on local strength, empowerment of farming and artisan communities, development of sharia-based financial institutions, and empowerment of microfinance and real businesses (Rustandi et al., 2023).

The impact of Zakat utilization on poverty alleviation in rural areas includes; 1) increasing income and creating mustahik independence, 2) creating new jobs through micro businesses, 3) improving the local economy by utilizing local production, and 4) social transformation from mustahik to muzakki. However, there are still several challenges faced in the utilization of zakat in rural areas such as distribution is still in consumptive form, lack of trust of village communities in zakat management institutions, the lack of the number of zakat management institutions in rural areas, the lack of professional human resources to manage zakat, and the management of zakat institutions which are still not optimal.

In facing the challenges of zakat utilization, it must start from the management of zakat management by institutions so that they can foster public trust to start distributing their zakat through institutional intermediaries. Professional human resources can help in the development of management of the management institution. In addition, it should be noted that in managing zakat, identifying the local potential of each village is important to maximize the impact.

Utilization of Productive Waqf in Economic Empowerment of Village Communities

This great potential of waqf was welcomed by the government in Indonesia so that Law Number 41 of 2004 concerning Waqf was issued and in 2007 the Indonesian Waqf Agency (BWI) was established. BWI aims to foster nazir so that waqf assets can be managed better and productively so that they can have a better impact in the form of social services, economic empowerment, and public infrastructure development (BWI, 2025).

Transparency and accountability in the management of waqf assets are very important in managing productive waqf. In addition, nazir is also the key to the success of productive waqf management. Nazhir has an important role in changing the view of asset management from consumptive to productive. Because basically waqf has a different nature from zakat, waqf must be managed productively so that the benefits provided become broader and more

sustainable. A study conducted by Lulu Sylvianie (2023) found several factors that affect the lack of nazir skills, including; lack of managerial ability, unprofessional recruitment of nazir, lack of coaching, traditional paradigms, and lack of number of nazir.

Tabel 1. Practical Steps for the Development of Productive Waqf

Strategic Steps	Actor	Remarks
Identify potential waqf assets	Nazhir & Indonesian Waqf Agency (BWI) / Ministry of Religious Affairs	Looking at the history, location, and waqf management model that has been running, as well as exploring the potential for the next use of waqf.
Management modernization	Nazhir & Technology Provider/Management Partner	Implement modern management models and efficient administrative systems such as the use of technology.
Business model development	Nazhir & Business Partners / Business Actors (Private Sector)	Opening and developing business units according to potential assets and aligning them with the needs of the community.
Improving the competence of nazir	Indonesian Waqf Agency (BWI), Training / Certification Institutions, & Government	Conducting coaching, training, seminars, and strengthening the professionalism of nazir.
Fundraising and funding innovation	Nazhir, Fintech Platform, & Sharia Financial Institutions	Initiating funding by issuing money waqf certificates, utilizing fintech such as *crowdfunding*, and others.
Monitoring and evaluation	Regulator (BWI / Ministry of Religion) & Independent Auditor	Conducting periodic monitoring and evaluation to ensure the sustainability of benefits.

Sumber: data primer, diolah (2025)

The use of productive waqf in villages has proven to be one of the effective instruments in economic empowerment and improving community welfare. Villages have their own authority in regulating their households, so in economic empowerment in rural areas it is necessary to explore the local potential of each village. A study by Endah (2020) concluded that human resources are local potentials in the position of development subjects, while natural resources are local potentials that can be used for the welfare of the community.

The implementation of productive waqf in rural areas can start with identifying the potential of existing waqf assets. The forms of productive waqf that can be implemented include; managing agricultural/fishery/livestock assets, utilization for educational and business facilities, and profit-sharing or rental management systems (Sundana, 2023). The following are some villages that have successfully empowered waqf productively as a means of improving community welfare.

The Role of Alms in Supporting Social Welfare

As a country with a high generosity index, the potential for alms in Indonesia is very large. In fact, many of Indonesian culture also represent alms traditions such as earth alms carried out by farmers during the harvest season, sea alms carried out by coastal communities, mountain alms,

and many others. If interpreted, then the culture can be transferred into implementation according to Islamic law, so it has great potential to help improve the welfare of the community, especially in rural areas.

The implementation of alms instruments in rural areas has proven to have the manifestation of adaptive programs and multisectoral impacts on the welfare of local communities. This is reflected in three main initiatives, namely the Rosok Alms Movement Program (GSR) by LAZISNU in Mukuh Village which converts valuable waste into sustainable business capital for the poor (Kharis, 2025); the elderly canned alms movement by LAZISNU in Rejomulyo Village which adopts local wisdom of the jimpitan system to ensure a social safety net for the elderly (Dariyana et al., 2024); as well as the borewell jariyah alms program by Laznas BMH in Keniten Village which focuses on fulfilling basic infrastructure in the form of providing access to clean water (Sari, 2023). Collectively, these three intervention models affirm that productive alms not only function as an instrument for short-term wealth redistribution, but are also able to transform into strategic solutions in overcoming multidimensional poverty in rural areas, both from the aspects of economic empowerment, pure social security, to the fulfillment of public facilities.

Poverty Alleviation Strategy in Rural Areas through the Utilization of Islamic Social Finance

The root of the problem of poverty in rural areas is different from urban areas, so different strategies are needed in efforts to alleviate it. A study by Istyawan (2025) states that the root of the problem of rural poverty is categorized into two, namely the lack of availability of infrastructure and the low quality of human resources. This causes a low quality of life for the village community and stagnation of the economic level. The recommended policies in village poverty alleviation include making villages independent, through village direct cash assistance, and village budget allocation in the context of empowerment.

Another instrument that has the potential and can be used in efforts to alleviate poverty in rural areas is *Islamic Social Finance*. Based on the description in the above subchapter, ISF consisting of zakat, waqf, and alms has a strategic role and a positive impact to help alleviate poverty. The following are the results of the SWOT analysis of ISF which are more clearly outlined in the table below.

Tabel 4. SWOT ISF Analysis

Strenghts	***Weaknesses***
• Strong religious foundation and moral support from the Muslim community • Sustainable sources of zakat, waqf, and alms funds • Potential for economic empowerment through business capital and skills training • Faith-based and entrepreneurial mentoring that supports *changing people*'s mindsets	• Less than optimal and less transparent management of zakat funds • Limited companion capacity in professionalism and entrepreneurial knowledge • Dependence on zakat funds fluctuates according to the economic conditions of the community
Opportunities	***Threats***
• Opportunities for collaboration with the	• Inequality in wealth distribution and

government and other institutions to expand the program • Development of innovative empowerment models based on communities and sharia cooperatives • Increasing public awareness of the importance of zakat and active participation	political influence that can hinder the equitable distribution of benefits • The risk of natural disasters and conflicts that can worsen poverty conditions • A mentality of dependence and laziness that hinders successful empowerment

Source: Primary data is processed, 2025

Table 4 summarizes internal and external factors that can influence poverty alleviation strategies through ISF in rural areas in a clear and measurable manner. It can be explained that ISF has several main strengths, such as a strong religious foundation and moral support from the Muslim community, as well as a sustainable source of zakat, waqf, and alms funds. In addition, ISF also has great potential in economic empowerment through business capital and skills training, as well as religious-based and entrepreneurial mentoring that can encourage changes in people's mindsets. However, ISF also faces several weaknesses, including the management of zakat funds that is not optimal and less transparent, the capacity of companions that is still limited in terms of professionalism and entrepreneurial knowledge, and the dependence on zakat funds that fluctuate according to the economic conditions of the community.

On the other hand, there are opportunities that can be used by ISF, such as collaboration with the government and other institutions to expand programs, the development of innovative empowerment models based on communities and sharia cooperatives and increasing public awareness of the importance of zakat and active participation. However, ISF is also faced with threats such as inequality in wealth distribution and political influence that can hinder the equitable distribution of benefits, the risk of natural disasters and conflicts that can worsen poverty conditions, as well as the mentality of dependence and laziness that hinders the success of empowerment. Therefore, the right strategy must be designed based on the results of the SWOT analysis above, further described in table 5.

Table 5. ISF Strategy Plan SWOT Analysis

Strategy	Description
SO (*Strenghts – Opportunity*)	1. Optimizing the collection and distribution of zakat, waqf, and alms in a professional and transparent manner 2. Development of community-based economic empowerment models and sharia cooperatives with entrepreneurship training 3. Synergy between management institutions, village governments, and community organizations to expand access to MSME financing 4. Utilization of productive schemes and sharia microfinance for interest-free business capital 5. Identification and development of local potential of each village
WO (*Weaknesses – Opprtunities*)	1. Capacity building and professionalism of ISF institution managers through management training 2. Strengthening religion-based and entrepreneurial mentoring to change the mindset of the poor

Strategy	Description
	3. Development of partnerships with mosques and social institutions as community development centers 4. Diversify ISF funding sources to make them more stable
ST (*Strenghts – Threats*)	1. Strengthening community-based economic empowerment and sharia cooperatives to reduce socio-economic inequality 2. Mentoring initiatives to overcome the dependency mentality with a religious and entrepreneurial approach 3. Development of a disaster risk mitigation system and social conflict through waqf and zakat funds
WT (*Weaknesses – Threats*)	1. Institutional recommendations for ISF management with better governance and transparency 2. Continuous training and education program for companions and the community for socio-economic preparedness 3. Implementation of strict monitoring and evaluation to ensure the effectiveness and adaptation of empowerment programs

Source: primary data processed, 2025

From the description of table 5, it can be concluded that the priority strategy that can be used to develop the potential of ISF in the context of rural poverty alleviation is with SO (*strenghts – opportunity*) or utilizing power to seize opportunities. This strategy recommendation is aimed at management institutions, policy makers, and other *stakeholders* to prepare a plan for the implementation of ISF management. With good, measurable, transparent, and innovative management, it will produce a very positive impact in supporting the role of ISF as a means of poverty alleviation.

CONCLUSION

This study concludes that productively managed Islamic Social Finance (ISF) instruments have a significant impact on alleviating multidimensional poverty in rural areas. The utilization of zakat has been proven to be able to increase income, create micro jobs, stimulate the local economy, and encourage the social transformation of mustahik into muzakki. Meanwhile, productive waqf plays a role as an effective instrument in community welfare by optimizing village authority to explore its local potential. As a flexible complement, alms contribute to the redistribution of wealth, strengthening social solidarity, and reducing the burden on the state through its inclusive nature. To maximize all of these potentials, this study recommends a *Strengths-Opportunities* (SO)-based strategy, which includes optimizing ISF fund collections, developing community-based sharia cooperatives, strengthening multi-stakeholder synergies (management institutions, village governments, and CSOs), utilizing interest-free sharia microfinance schemes, and identifying local village commodities in a sustainable manner.

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