

INTEGRATION OF ISLAMIC SOCIAL FINANCE FOR SUSTAINABLE ECONOMIC DEVELOPMENT IN THE RURAL AREAS OF SITUBONDO REGENCY, EAST JAVA, INDONESIA

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ABSTRACT

Islamic social finance, which includes zakat, infaq, sedekah, and wakaf (ZISWAF), has significant potential to support sustainable economic development in rural areas. This article aims to explore how the integration of Islamic social finance can contribute to the economic empowerment of communities in the rural areas of Situbondo Regency, East Java, Indonesia. Through a qualitative approach, this research analyzes the implementation of Islamic social finance programs and their impact on the economic well-being of the community. The findings indicate that with the synergy between local government, zakat management institutions, and pesantren, Islamic social finance can be an effective instrument in driving economic growth, reducing poverty, and creating sustainable development. This article provides practical recommendations to optimize the potential of Islamic social finance in rural areas.

Keywords: *Islamic Social Finance, ZISWAF, Economic Development, Rural Areas, Situbondo, Sustainable Development.*

1. INTRODUCTION

Economic development in rural areas often faces various structural challenges, such as limited access to capital, restricted job opportunities, low financial literacy levels, and inadequate supporting economic infrastructure (Mannan 1986, 2). These factors have led many rural communities to be trapped in a cycle of poverty, making it difficult to improve their living

standards. In Indonesia, rural areas contribute a significant proportion of the population and play an essential role in national economic growth. However, economic growth in rural regions is often lagging behind that in urban areas, resulting in economic disparities between regions (BPS Situbondo 2022)

Situbondo Regency, located on the northern coast of East Java, is an example of a rural area in Indonesia facing similar challenges. The majority of the population in Situbondo Regency works in the agriculture and fisheries sectors (BPS Situbondo 2022). Although these sectors have significant potential for development, limited access to economic resources, low financial literacy, and insufficient policy support hinder economic growth in the area. Additionally, low productivity, minimal business diversification, and weak risk management in the agriculture and fisheries sectors make community income highly dependent on price fluctuations and weather conditions (Diana Handayani 2022).

In the context of sustainable economic development, Islamic social finance, which consists of zakat, infaq, sedekah, and wakaf (ZISWAF), plays a crucial role as a wealth redistribution instrument that can promote inclusive and equitable economic growth (Antonio et al., 2012). Islamic social finance emphasizes the principles of social justice and collective welfare through the provision of funds for basic needs, education, health, and economic empowerment for disadvantaged communities (Mannan 1986). According to Hasan (2023), the integration of ZISWAF in economic development has the potential to reduce social inequalities and promote sustainable economic empowerment through targeted and well-directed shariah finance programs.

Several studies indicate that ZISWAF can serve as a catalyst for community empowerment and social inequality reduction. Ismail and Possumah (2012) state that efficient zakat management can significantly increase the income of poor communities through the provision of business capital and skill training. Meanwhile, productive wakaf has the potential to support the development of economic assets whose returns can be sustainably used to finance social and economic programs (Çizakça 2000). However, the effective implementation of ZISWAF in rural areas still faces various challenges, such as low community participation, weak governance, and a lack of coordination between Islamic social finance institutions and local governments (Abdullah 2017).

Situbondo Regency has various potentials to integrate Islamic social finance into regional economic development strategies. Based on previous research, key sectors such as agriculture and fisheries can be further developed through the utilization of ZISWAF funds for business capital and community empowerment (Diana Handayani 2022). Additionally, productive wakaf can also be leveraged to develop economic support infrastructure, such as traditional markets, business training centers, and irrigation facilities needed by local farmers and fishermen (al-Qardhawi 2011). However, to maximize the impact of Islamic social finance, appropriate implementation strategies are necessary, involving active participation from various stakeholders and effective oversight to ensure transparency and accountability (Kuran 2018).

This research focuses on the integration of Islamic social finance in the rural areas of Situbondo Regency, East Java, aiming to explore how the application of ZISWAF can support sustainable economic development. This study seeks to identify the potential and challenges of implementing Islamic social finance while providing appropriate implementation strategies to maximize the social and economic impact of ZISWAF in the region. Through a systematic

approach, this research is expected to provide practical guidance for local governments, social finance institutions, and stakeholders in developing sustainable and equitable economic development strategies in rural areas.

2. LITERATURE REVIEW

The literature review relate to teory serves as a conceptual foundation used to explain the main concepts relevant to the research. In this study, several key theories underpin the analysis related to the integration of Islamic social finance and sustainable economic development in rural areas. This theoretical framework includes the concepts of Islamic social finance, sustainable economic development, and the integration of ZISWAF in rural economic empowerment.

1. Concept of Islamic Social Finance

Islamic social finance is a component of the Islamic economic system aimed at creating social and economic welfare for the community through fair and equitable wealth distribution. The main instruments in Islamic social finance include zakat, infaq, sedekah, and wakaf (ZISWAF), each having its own role and function in supporting social welfare (Mannan, 1997).

Zakat is a religious obligation imposed on every Muslim whose wealth has reached the nisab, and it is distributed to eight categories of recipients (asnaf), such as the poor, travelers in need, and others (al-Qardhawi 2011). In contrast, infaq and sedekah are voluntary contributions that are not limited to specific recipients but can be given to anyone in need. Wakaf, as a unique instrument of Islamic social finance, functions as a permanently endowed asset for social purposes, such as the construction of mosques, schools, hospitals, or productive ventures whose profits are used to support public welfare (Çizakça 2000).

According to Chapra (2000), ZISWAF plays a crucial role in supporting social and economic development through the allocation of funds used to meet basic needs such as education, health, and community economic empowerment. These instruments of Islamic social finance serve as mechanisms for wealth redistribution aimed at reducing social inequality and promoting economic justice. Furthermore, with a holistic approach, Islamic social finance can also accelerate the achievement of inclusive and sustainable welfare by supporting social programs and the development of economic infrastructure in underserved areas (Dusuki 2008).

2. Sustainable Economic Development

Sustainable economic development is defined as development that meets the needs of the current generation without compromising the ability of future generations to meet their own needs (Brundtland, 1987). This concept emphasizes the balance between economic, social, and environmental aspects in the development process, as well as focusing on the efficient management of resources to create sustainable welfare (Todaro and Smith 2009).

In the context of rural development, sustainable development emphasizes improving the quality of life for rural communities through strategies that take into account local potential and

ecosystem sustainability. Its main objectives are to reduce poverty, create jobs, and enhance productivity through the wise management of natural resources and the development of human capacity ((Murtagh 2018)). This approach also involves active community engagement in the planning and implementation of development programs, fostering a strong sense of ownership and independence.

According to Todaro & Smith (2015), one of the main challenges in achieving sustainable development in rural areas is the limited access to financial resources and insufficient infrastructure support. Therefore, alternative funding mechanisms are needed to support the development of micro, small, and medium enterprises (MSMEs) in rural areas and to create synergies among the public, private, and social sectors in fostering sustainable and inclusive development (Todaro and Smith 2009).

3. Integration of ZISWAF in Rural Economic Empowerment

The integration of Islamic social finance through ZISWAF in the context of rural development can be a strategic solution to address economic issues in these areas. As an instrument for wealth redistribution based on values of justice and social solidarity, ZISWAF plays a role in reducing economic disparities and creating inclusive welfare. Various studies indicate that ZISWAF can be optimized to support micro-enterprise funding, capacity building, and skills training for rural communities (Isma'il 2008; Hasan 2018).

In the context of economic empowerment, zakat can be used as working capital for small business actors who lack access to formal financing. Donations (sedekah) and charitable contributions (infaq) can support social programs such as education and health, while waqf can be used to develop productive assets whose proceeds benefit the community (Obaidullah, 2016). The integration of ZISWAF programs with local development policies can also strengthen economic sustainability in rural areas through synergy among local governments, zakat management organizations, and local communities (Luntajo and Hasan 2023).

ZISWAF-based empowerment strategies can include the development of working capital programs for farmer groups, business management training for local entrepreneurs, and the establishment of waqf-based cooperatives that serve as centers for community economic activities. This model should also be integrated with digital technology to enhance transparency, accountability, and efficiency in the distribution of ZISWAF funds (Kuran, 2018).

Additionally, productive waqf has great potential to serve as a funding instrument for the development of rural economic infrastructure, such as markets, irrigation systems, or vocational training centers (Çizakça 2000). By strategically utilizing waqf, rural communities can develop productive assets to enhance their welfare without diminishing the waqf capital itself. This aligns with the goals of sustainable economic development that emphasize the enhancement of local capacity and community empowerment through the optimal and sustainable utilization of available resources (Todaro and Smith 2009).

3. RESEARCH METHOD

This study uses a qualitative approach with a case study method in Situbondo Regency, East Java. Primary data were obtained through in-depth interviews with managers of Islamic social finance institutions, community leaders, and beneficiaries in rural areas. Meanwhile, secondary data come from BPS reports, policy documents, and literature related to the implementation of Islamic social finance in Indonesia.

Data analysis is conducted thematically by identifying key patterns in the implementation of Islamic social finance and its impact on community welfare (Cresswell 2013). This approach is used to explore how ZISWAF can be integrated into sustainable economic development programs.

4. RESULTS AND DISCUSSION

1. Mapping the Potential of ZISWAF in Situbondo Regency

The research findings indicate that the potential of Islamic social finance in Situbondo Regency, which includes zakat, infaq, sedekah, and wakaf (ZISWAF), is substantial, particularly due to the active contributions from pesantren, zakat management institutions, and local community participation. Data from the National Zakat Agency (BAZNAS) of Situbondo Regency (2023) reveals that the collection of zakat and wakaf has continued to increase each year, in line with the growing awareness among the community about the importance of Islamic social finance in supporting regional development.

Pesantren in Situbondo Regency play a very significant role in managing ZISWAF. Based on interviews with Ustadz Ahmad, the zakat manager at one of the major pesantren in Situbondo, it was mentioned that the zakat and sedekah collected at his pesantren are used to fund economic empowerment programs, such as providing capital for small traders and skills training for village youth. *"We see zakat and wakaf as instruments that not only help the poor but also create new job opportunities,"* explained Ustadz Ahmad (Wawancara dengan Ketua Forum ZISWAF Situbondo 2023).

The results of the interview with the Chairman of BAZNAS Situbondo also indicated that this institution has developed various innovative programs, such as productive wakaf programs for establishing entrepreneurship training centers in villages with economic potential. *"We focus on utilizing productive wakaf to support micro-enterprises in the agriculture and fisheries sectors. Currently, there are several wakaf lands being used for the development of organic farming in the Besuki and Panarukan areas,"* stated the Chairman of BAZNAS Situbondo (Wawancara Baznas Situbondo 2023).

The Role of Pesantren as a Center for Islamic Social Finance

Pesantren in Situbondo Regency not only function as educational institutions but also as centers for managing Islamic social finance. Based on interviews with several pesantren leaders in the Situbondo area, it was revealed that pesantren have significant potential to manage zakat, infaq, and wakaf (ZISWAF) more effectively. For instance, at one of the major pesantren in Panji District, the management of wakaf is conducted by utilizing wakaf land for organic farming, the proceeds of which are used to fund educational and social activities at the pesantren.

According to KHR. Kholil As'ad, the leader of the pesantren, "*Managing productive wakaf is not just about utilizing land, but also about how we can distribute the results to support the welfare of the surrounding community.*" He added that the pesantren has partnered with BAZNAS Situbondo to develop wakaf-based agricultural programs that can create a multiplier effect in the community ("Wawancara Dengan KHR. Kholil As'ad. Pengelola Wakaf Di Kecamatan Panji," n.d.).

Additionally, the pesantren is also involved in the distribution of zakat and sedekah to mustahik (zakat recipients) in the vicinity of the pesantren. This indicates that pesantren have the capacity to serve as a center for integrating Islamic social finance, facilitating wealth redistribution more effectively, especially in rural areas that still have limited access to formal financial services (Abdullah 2017).

Challenges in Implementing ZISWAF in Situbondo Regency

Although the potential of ZISWAF in Situbondo Regency is significant, its implementation still faces several major challenges. Interviews with relevant stakeholders revealed key obstacles, such as a lack of coordination between Islamic social finance institutions and local government, weak financial literacy among the community, and low community participation in productive waqf programs.

"*The community's awareness of the importance of productive waqf is still low. Many still see waqf merely as an idle asset, rather than as an instrument that can be optimized for economic activities,*" said Mr. Hadi, Chairman of the Productive Waqf Forum in Situbondo (Wawancara dengan Kepala Desa Kendit. Pemanfaatan Wakaf untuk Pasar Tradisional. 2023). According to him, there needs to be more intensive education and outreach efforts so that the community understands the significant potential that can be developed from productive waqf.

In addition, the Chairman of BAZNAS Situbondo also highlighted the issue of weak governance in the management of zakat in several villages, which is caused by the lack of managerial capacity among local zakat administrators. "Many zakat managers in the villages still need training and guidance to manage zakat more effectively and transparently," said the Chairman of BAZNAS Situbondo (Wawancara Baznas Situbondo 2023).

Integration Strategies for ZISWAF in Sustainable Economic Development

To optimize the potential of ZISWAF in Situbondo Regency, this study proposes several implementation strategies involving various stakeholders, such as pesantren, BAZNAS, waqf institutions, and local government. The strategies include:

First, Capacity Building for ZISWAF Managers: Through training and mentoring, zakat and waqf managers at the local level can enhance their managerial skills and understanding of good governance practices.

Second, Development of Productive Waqf: Encouraging the use of waqf land for productive activities such as agriculture, livestock, or micro-enterprises, the proceeds of which can be utilized to fund community economic empowerment programs.

Third, Collaboration between Islamic Financial Institutions and Local Government: Closer cooperation between Islamic social finance institutions and local government is essential

to create policies that support the integration of ZISWAF into local economic development strategies.

Fourth, Education and Outreach: Enhancing financial literacy and community understanding of Islamic social finance through educational programs and public awareness campaigns.

The implementation of these strategies is expected to maximize the role of Islamic social finance in promoting inclusive and sustainable economic development in the rural areas of Situbondo Regency.

2. Economic Impact of ZISWAF Integration

The implementation of Islamic social finance programs in Situbondo Regency has had a significant positive impact on the local economy. According to data from the Situbondo Zakat Management Agency (2023), Islamic social finance programs, which consist of zakat, infaq, sedekah, and waqf (ZISWAF), have successfully increased the income of beneficiary families by 25% in the past year. This result has been achieved through the development of various economic empowerment programs, such as micro-business financing, skills training, and the development of rural economic infrastructure.

Increase in Income and Community Welfare

An interview with Mr. Rahmat, one of the beneficiaries of the productive zakat program in Banyuputih District, revealed that he was able to expand his chili farming business after receiving a business capital of IDR 5 million from the productive zakat managed by the local Zakat Management Agency. *"Previously, I could only plant on a small scale, but with this assistance, I can expand my land and increase my harvest. Now, our family's income has increased by about 30% compared to the previous year,"* said Mr. Rahmat (Wawancara dengan Bapak Rahmat. Penerima Manfaat Zakat Produktif di Kecamatan Banyuputih. 2023)

In addition to capital provision, the skills enhancement program through small business training has also positively impacted community income. For example, the sewing skills training program conducted in Panarukan District successfully produced dozens of new seamstresses who are now able to start their own businesses. Based on an interview with Mrs. Siti, one of the training participants, she stated, *"After attending this training, I now have a small sewing business at home, and my income has increased by up to IDR 1 million per month"* (Wawancara dengan Bapak Rahmat. Penerima Manfaat Zakat Produktif di Kecamatan Banyuputih. 2023).

Optimization of Productive Waqf for Infrastructure Development

Productive waqf also plays an important role in improving community welfare in Situbondo. One successful example is the utilization of waqf land for the construction of a traditional market in Kendit District. This market not only provides better trading facilities for small vendors but also creates new job opportunities for the surrounding community. According to the Head of Kendit Village, the construction of this market was funded by waqf amounting to IDR 200 million, managed transparently by the local waqf institution. *"With the establishment of this market, the income of the vendors has increased by about 20-30% because they now have a more suitable place to sell their goods,"* he explained (Wawancara dengan Kepala Desa Kendit. Pemanfaatan Wakaf untuk Pasar Tradisional. 2023).

In addition to the market, productive waqf is also optimized for the development of educational facilities. For example, in Panji District, waqf has been used to build a madrasah that now serves as a center for free education for children from underprivileged families. Based on an interview with Kyai Ahmad, the manager of the waqf at the madrasah, he stated that the construction of this madrasah was supported by waqf funds amounting to IDR 150 million collected from the local community. *"Now, our madrasah can accommodate more than 100 students each year, and we are committed to providing quality education for those who cannot afford it,"* said Kyai Ahmad (Wawancara dengan Ustadz Ahmad. *Pengelola Zakat di Pesantren Situbondo 2023*).

Impact on Local Economic Growth

Overall, the integration of ZISWAF in Situbondo has created a significant multiplier effect on local economic growth. The development of micro-enterprises funded by zakat and infaq has stimulated an increase in community income, while productive waqf contributes to improved access to public infrastructure, such as markets and schools. This aligns with the findings of research by Hasan (2023), which states that the strategic utilization of Islamic social finance can accelerate economic growth in rural areas by creating an ecosystem that supports community empowerment (Luntajo and Hasan 2023).

Moreover, the integration of Islamic social finance also helps reduce social inequality by providing greater access for the poor to engage in productive economic activities. According to research by Ismail and Possumah (2012), the distribution of zakat and the optimization of productive waqf not only serve as instruments for wealth redistribution but also as social capital that connects individuals within the community to collaborate in achieving common goals, such as improving welfare and fostering inclusive economic development (Possumah and Ismail 2012).

Challenges in Implementing ZISWAF Programs

However, despite the positive outcomes of ZISWAF integration, its implementation still faces several challenges. Interviews with the Chairman of the ZISWAF Forum in Situbondo revealed that one of the main obstacles is the low level of financial literacy among rural communities. *"Many people do not yet understand the concept of productive waqf and how to independently manage zakat funds,"* he explained (Wawancara dengan Ketua Forum ZISWAF Situbondo 2023). Additionally, the lack of coordination between Islamic social finance institutions and local governments also hinders the optimization of ZISWAF for economic development (Ramadhan and Hayatullah 2025).

To address these challenges, there needs to be more intensive collaborative efforts between pesantren, BAZNAS, waqf institutions, and local governments to enhance the capacity of zakat and waqf managers at the local level (Qutaiba, Owais, and Muharam 2024). More in-depth education on Islamic financial literacy and the development of community-based programs are also essential to ensure that the significant potential of ZISWAF can be optimally utilized in promoting sustainable economic development in Situbondo Regency.

3. Strategies for Optimizing Islamic Social Finance

The findings of this study indicate that several strategies can be implemented to optimize the management and utilization of Islamic social finance (ZISWAF) in Situbondo Regency. These strategies are designed to make ZISWAF instruments more effective in supporting sustainable economic development and improving community welfare. Here are three main strategies proposed (Mustaqim 2024).

Collaboration with Local Government

Collaboration between Islamic social finance institutions, such as BAZNAS and waqf institutions, and local governments is crucial for creating synergy in the implementation of economic development programs. The integration of ZISWAF programs with regional development policies can ensure that funds collected from zakat, infaq, sadaqah, and waqf are used strategically to support local development priorities, such as infrastructure improvement, education, and healthcare services in rural areas.

According to an interview with the Head of Economic Empowerment at BAZNAS Situbondo, they have coordinated with the Community and Village Empowerment Office (DPMD) to integrate productive zakat programs with micro-enterprise development initiatives in villages. "We align the zakat funding programs with local MSME programs so that the distribution of funds is more targeted and aligned with community needs," he explained (Wawancara Baznas Situbondo 2023).

Furthermore, this collaboration could involve the development of joint programs focused on poverty alleviation and community-based economic development, such as providing educational scholarships, supplying business capital, and offering skills training for underprivileged communities (Torjman 1998). Thus, ZISWAF programs can become an integral part of local development policies, allowing for a broader social and economic impact.

Enhancing the Capacity of ZISWAF Managers

One of the main challenges in managing ZISWAF in rural areas is the lack of capacity and management skills among zakat managers (amil zakat) and waqf managers (nadzir waqf). Therefore, training in Islamic financial management and productive waqf management is essential to enhance the capacity of ZISWAF managers, enabling them to perform their duties professionally and accountably.

These training programs can cover topics such as Islamic financial management, risk analysis for waqf investments, and sharia-compliant micro-enterprise development strategies. According to an interview with the Chairman of the ZISWAF Forum in Situbondo Regency, the training conducted by BAZNAS and local waqf institutions has only reached 30% of the total amil and nadzir in the area. "Many amil and nadzir still lack a deep understanding of how to manage ZISWAF productively," he stated (Wawancara dengan Ketua Forum ZISWAF Situbondo 2023).

With the enhancement of ZISWAF managers' capacity, it is hoped that the management of Islamic social funds can become more optimal and transparent, as well as capable of producing

more targeted and positively impactful economic empowerment programs for rural communities (Mohieldin et al. 2011).

Utilization of Digital Technology

The utilization of digital technology is a key strategy for expanding the reach of collecting and distributing ZISWAF funds. Currently, digital platforms such as online donation applications, digital wallets, and electronic payment systems are increasingly being used by the community. Islamic social finance institutions in Situbondo need to adopt this technology to enhance efficiency and transparency in fund management.

For example, the use of digital platforms can facilitate the community's ability to channel zakat, infaq, and sadaqah online. Additionally, these applications can also be used to monitor the flow of fund distribution, provide transparent financial reports, and offer information on ongoing programs. According to a study conducted by Hasan (2023), the use of digital technology in managing Islamic social finance can increase community participation by up to 40% due to easier access and greater trust in the transparency of the institutions (Hassan et al. 2023).

An interview with the Chairman of the Zakat Management Agency in Situbondo stated that they are developing a mobile-based application to facilitate the real-time distribution of ZISWAF funds. "With this application, we hope to reach more muzakki (donors) and manage zakat funds more effectively," he explained (Wawancara dengan Ketua Forum ZISWAF Situbondo 2023).

Furthermore, the use of digital technology can also simplify the implementation of productive waqf programs, such as crowdfunding for public facility development, monitoring the realization of waqf projects, and reporting the development of waqf assets to the community. This innovation not only increases public trust but can also motivate more people to participate in Islamic social finance activities.

Recommendations for Implementing Optimization Strategies

To effectively implement these strategies, this research recommends the following steps:

First, enhancing Education and Socialization: Improve community understanding of the importance of Islamic social finance through structured education and socialization programs, both offline and online.

Second, strengthening Multi-Party Cooperation: Build strong partnerships between local government, pesantren, zakat management institutions, and waqf institutions to ensure the alignment of ZISWAF programs with local needs.

Third, sustainable Development of Digital Technology: Encourage technological innovation in the management of ZISWAF by involving experts in information technology to create reliable, secure, and easily accessible digital platforms for all community members.

By implementing these strategies, Islamic social finance in Situbondo can be optimized to achieve sustainable, inclusive, and equitable economic development goals.

5. CONCLUSION

The integration of Islamic social finance through zakat, infaq, sedekah, and waqf (ZISWAF) has significant potential in supporting sustainable economic development in the rural areas of Situbondo Regency. These social finance instruments can serve as a primary solution to various development challenges, such as low access to capital, limited job opportunities, and weak financial literacy among rural communities. The research findings indicate that effective implementation of ZISWAF can enhance the income of beneficiary families, strengthen the economic resilience of communities, and support the development of sustainable local infrastructure.

With targeted local policy support and optimized ZISWAF management, Islamic social finance can function as a strategic instrument to reduce poverty, enhance welfare, and create inclusive economic growth in rural areas. The importance of collaboration among Islamic social finance institutions, local governments, and active community participation is key to the success of these programs. Additionally, leveraging digital technology can also be a driving factor to expand outreach and improve the efficiency of ZISWAF management.

Overall, this research recommends the need for integrated strategies to maximize the potential of ZISWAF in Situbondo Regency, including strengthening multi-party cooperation, enhancing the capacity of managers, and utilizing technological innovations. With proper implementation, Islamic social finance can become a cornerstone in achieving sustainable and equitable economic development in rural areas.

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