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Sharia-Based Economic Development as a Solution to Poverty Reduction in Jember Regency

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Abstract

Poverty in Jember Regency remains a serious issue, with many people lacking access to resources and economic opportunities. Based on principles of justice and ethical financing, sharia economics offers a promising solution to address this challenge. This study aims to analyze the potential and challenges of sharia-based economic institutions in reducing poverty in Jember Regency. Using a descriptive qualitative approach, the research explored sharia economic models, such as Islamic microfinance institutions, sharia cooperatives, and productive zakat programs, through interviews with 18 informants, observations, and document analysis. The findings show that these institutions empower poor communities by providing microfinance, supporting small businesses, and promoting fair wealth distribution. However, low financial literacy, weak institutional systems, and limited government coordination hinder their effectiveness. The study concludes that strengthening sharia institutions, improving community education, and enhancing collaboration with local government can make sharia economics a sustainable tool for poverty alleviation. Islamic boarding schools, with their strong community ties, play a key role in this process but need better funding and digital tools to expand their impact.

Keywords

Empowerment, Islamic Boarding Schools, Islamic Economics, Microfinance, Poverty.

1. Introduction

Poverty is a complex issue that goes beyond just low income. It includes limited access to resources, low skills, and weak participation in development. In Jember Regency, this problem remains a serious challenge for the local government. According to the Central Statistics Agency, the poverty rate in Jember was 9.63% in 2023, higher than the national average, showing that many people still face economic difficulties (Badan Pusat Statistik Kabupaten Jember, 2023). Common poverty alleviation programs, like cash assistance or short-term job projects, often fail to solve deeper issues. These programs do not address the lack of productive capital, unequal wealth distribution, or weak community economic systems, which block long-term welfare improvements.

Sharia economics offers a different approach based on justice, inclusiveness, and fair wealth distribution, making it a promising solution for areas like Jember with a strong religious community. Unlike conventional systems that focus on profit and free markets, sharia economics emphasizes ethical and spiritual values. Principles such as the prohibition of usury (*riba*), the obligation of *zakat*, the ban on hoarding (*ihtikar*), and business partnerships like *syirkah* and *mudharabah* aim for both efficiency and social justice (Chapra, 2000; Antonio, 2008). These principles make sharia economics not just a financial tool but a way to transform socio-economic systems with moral and community values. In Jember, institutions like Baitul Maal wat Tamwil (BMT), Islamic boarding school cooperatives, and *zakat* organizations have started to empower poor communities, especially through microfinance and small business support.

Despite the growing interest in sharia economics, few studies have explored its practical impact on poverty alleviation at the local level in Indonesia. According to Yahya and Walid (2024), sharia economics can strengthen the people's economy, but they focus on national policies rather than specific regional contexts. Similarly, Fitriadinata et al. (2024) discuss sharia-based poverty alleviation strategies but do not examine how local institutions like BMT or pesantren cooperatives operate in specific areas like Jember. Iqbal (2025) highlights sharia-based policies in Pidie District, but the unique socio-cultural and institutional dynamics of Jember, with its strong pesantren network, remain underexplored. This gap shows a need for research that focuses on how sharia economic models work in a specific regional setting and their challenges in practice.

This study aims to analyze the role of sharia-based economic institutions in reducing poverty in Jember Regency and identify the challenges they face. It seeks to understand how BMT, sharia cooperatives, and *zakat* programs empower poor communities and explore the structural and cultural barriers to their success. By doing so, this research hopes to contribute to both academic discussions and practical policy-making for regional development based on Islamic values. In Jember, where religious institutions like pesantren play a big role, sharia economics could offer a sustainable way to address poverty. This study will provide insights into how these institutions can work better and support local government efforts to improve community welfare.

2. Literature Review and Hypothesis Development

2.1. Principles of Sharia Economics in Poverty Alleviation

According to Chapra (2000), sharia economics is built on principles of justice, fairness, and moral values that aim to reduce economic inequality. Unlike conventional economics, which often prioritizes profit, sharia economics bans usury (*riba*), encourages wealth sharing through *zakat*, and promotes business partnerships like *mudharabah* and *syirkah* (Chapra, 2000). These principles ensure that economic

activities benefit the community while staying ethical. For example, *zakat* redistributes wealth to help the poor, while *mudharabah* allows people with limited capital to start businesses with shared profits. Qardhawi (1995) explains that *zakat* is not just charity but a system to empower the poor by providing resources for productive activities. This makes sharia economics a strong framework for tackling poverty. However, Majdina et al. (2024) note that sharia economic laws must be applied carefully to ensure they address local needs, such as access to capital for small businesses in rural areas. Their study highlights the importance of aligning sharia principles with practical solutions for poverty. Sharia economics also supports sustainable development by encouraging ethical investments and community welfare (Alamsyah et al., 2024). Yet, the application of these principles in specific regions like Jember needs more study to understand their local impact.

2.2. Role of Sharia Microfinance and Zakat in Empowering Communities

Huda et al. (2017) argue that *zakat* and sharia microfinance are key tools for empowering poor communities in Indonesia. *Zakat* programs provide capital for small businesses, helping people escape poverty through productive activities (Huda et al., 2017). For instance, productive *zakat* can fund farming tools or small trade businesses, creating long-term income. Similarly, sharia microfinance institutions like Baitul Maal wat Tamwil (BMT) offer interest-free loans, making them accessible to people who avoid conventional banks due to religious beliefs (Judijanto et al., 2024). These institutions focus on trust-based financing, such as *murabahah* and *qardhul hasan*, which suit small entrepreneurs. Yumna and Clarke (2011) emphasize that integrating *zakat* with microfinance can improve economic access for the poor, but coordination between institutions remains a challenge. Their study shows that combining charity with financial services creates a stronger impact. Additionally, Ratnawita et al. (2023) highlight that sharia-based financial products need innovation to reach more people, especially in rural areas. Despite these efforts, challenges like low financial literacy and weak institutional systems often limit the effectiveness of sharia microfinance and *zakat* programs (Adinugraha et al., 2023). This suggests a need for research on how these tools work in specific local contexts like Jember.

2.2. Role of Pesantren in Sharia-Based Economic Empowerment

Sakai (2021) highlights that Islamic boarding schools (pesantren) play a vital role in poverty alleviation by combining religious education with economic activities. Pesantren often run cooperatives or microfinance programs to support students and local communities (Sakai, 2021). These institutions teach Islamic values while encouraging entrepreneurship through sharia-based businesses. Ali and Rahayu (2025) note that pesantren-based microfinance helps students and alumni start small businesses, creating economic independence. For example, pesantren cooperatives use *mudharabah* to fund ventures like food stalls or farming, sharing profits fairly. Zulkipli et al. (2025) add that pesantren can manage *zakat* and *waqf* to support community welfare, such as funding education or small businesses for the poor. Suryanto et al. (2024) argue that pesantren's economic activities align with Sustainable Development Goals (SDGs) by reducing poverty and inequality. However, pesantren often face challenges like limited managerial skills and lack of access to modern technology (Adinugraha et al., 2023). Ni'mah et al. (2024) suggest that pesantren could adopt circular economy principles to make their economic programs more sustainable, but this needs further exploration in local settings. The unique role of pesantren in Jember, with its strong religious and cultural influence, makes them a key focus for studying sharia-based economic empowerment.

3. Methods

This study uses a descriptive qualitative approach to explore the dynamics of sharia-based economic models in reducing poverty in Jember Regency, East Java Province. The focus is on understanding how these models work in a local context and identifying challenges in their implementation. The research centers on three main entities: Baitul Maal wat Tamwil (BMT), sharia-based Islamic boarding school cooperatives, and zakat institutions involved in community economic empowerment programs.

Data were collected through three main techniques to ensure a deep understanding of the sharia economy in Jember. First, in-depth interviews were conducted with key informants, including managers of BMTs, cooperatives, and zakat institutions, as well as beneficiaries like micro-business owners and local government officials handling economic and welfare programs. A total of 18 informants were selected using purposive sampling, based on their direct involvement in sharia economic programs, ensuring diverse perspectives from urban and rural areas. Second, participant observation was carried out to examine economic activities, such as micro-enterprises, the distribution of productive aid, and interactions between communities and sharia institutions. Third, secondary data were gathered through a documentation study, including annual reports from BMTs and zakat institutions, publications from the Central Statistics Agency (BPS), regional regulations, and strategic documents related to Jember's sharia economy.

The collected data were analyzed using thematic analysis, following the steps outlined by Braun and Clarke (2006). The process involved transcribing and organizing data, coding to identify main themes, finding patterns related to the role, impact, and challenges of sharia economics in empowering poor communities, and drawing conclusions inductively. To ensure reliable findings, triangulation was applied by cross-checking data from interviews, observations, and documents, and credibility was verified by confirming results with key informants. This approach allowed the study to capture the complexities of sharia-based economic empowerment in Jember and provide practical insights for local development.

4. Results

4.1. Role of Sharia Economic Institutions in Empowering Poor Communities

Interviews and observations revealed that sharia-based economic institutions in Jember Regency provide significant support to poor communities through microfinance and productive aid. Baitul Maal wat Tamwil (BMT) Al-Ikhlâs in Summersari District serves around 70% of its customers who are small traders and female micro-entrepreneurs. A manager from BMT Al-Ikhlâs reported that they offer financing products like *murabahah* (buying and selling with a fixed profit margin) and *qardhul hasan* (interest-free loans) to support small businesses in trade, home-processed food, and small-scale agriculture. The manager stated, "We provide funds without collateral and verify based on social trust, which helps people who can't access bank loans" (W1, 2025). Observations in Ajung Village showed that BMT financing has supported the growth of grocery stores, tempeh chip production, and family-based horticultural farming. Beneficiaries reported that their daily income increased by 20-30% after receiving BMT funds, and their reliance on loan sharks decreased significantly.

Zakat institutions, such as LAZISNU and LAZISMU, also play a key role in empowering poor communities. According to the LAZISMU Jember annual report (2024), their Productive Zakat for Prosperous Farmers program distributed capital assistance, including fertilizers and agricultural tools, to 55 poor farmers across five sub-districts. A farmer beneficiary shared, "They gave me tools and seeds, which helped me grow better crops and sell more at the market" (R2, 2025). Interviews

with LAZISMU managers confirmed that 80% of the farmers in the program reported improved harvests within one year. Observations showed that these farmers used the aid to buy better-quality seeds and modern tools, leading to higher yields in crops like rice and vegetables.

Sharia cooperatives in Islamic boarding schools also contribute to economic empowerment. The Al-Qodiri Islamic Boarding School cooperative, for example, has run a *mudharabah*-based program for five years, targeting alumni and local residents. The cooperative provides capital in the form of goods and raw materials for businesses in culinary, clothing, and livestock sectors. A cooperative manager noted, "We supply materials like flour for food stalls, and profits are shared based on an agreed ratio" (W3, 2025). Internal records from the cooperative showed an 85% return on capital over the past two years. Observations confirmed that businesses supported by the cooperative, such as a halal food stall in Summersari, attracted more customers due to their religious branding and ethical practices.

4.2. Challenges in Implementing Sharia Economic Institutions

Data from interviews and documentation studies highlighted several barriers to the effective implementation of sharia economic institutions in Jember Regency. Managers of BMTs and zakat institutions reported that many rural communities lack understanding of sharia financial products. A manager from a pesantren cooperative stated, "People often think our loans are just like those from loan sharks, only with a religious label" (W4, 2025). Interviews with 10 beneficiaries showed that 70% of them were unaware of key sharia principles like *murabahah* or profit-sharing contracts. Observations in rural areas, such as Ajung Village, confirmed that educational programs about sharia finance were rare, with only one workshop held in the past year.

Institutional challenges were also evident. Documentation studies of three BMTs in Jember revealed that two lacked standardized financial records and relied on manual bookkeeping. A BMT manager admitted, "We don't have enough training to use modern accounting systems, so we do it by hand" (W2, 2025). Interviews with managers showed that 60% of them had no formal training in sharia-compliant financial management. This led to errors in reporting, with one BMT misrecording transactions for six months in 2024, as found in their annual report. Observations indicated that these issues reduced trust among some community members, with 5 out of 10 interviewed beneficiaries expressing concerns about transparency.

The lack of coordination with local government was another barrier. Interviews with officials from the Social Services Agency and the Regional Development Planning Agency (Bappeda) revealed no formal collaboration with sharia institutions. An official noted, "We have poverty programs, but we don't yet work directly with BMTs or zakat organizations" (W5, 2025). Documentation from Bappeda showed that only 10% of their 2024 budget for poverty alleviation involved sharia-based programs. Observations in five sub-districts confirmed that government aid, such as cash assistance, was distributed separately from zakat or BMT programs, leading to overlapping efforts.

The use of digital technology was limited among sharia institutions. Interviews with managers of two pesantren cooperatives showed that none used digital platforms for transactions or marketing. A manager stated, "We still rely on cash and face-to-face meetings, which slows us down" (W6, 2025). Documentation studies found that only one BMT had a basic website, but it was not updated since 2023. Observations in Summersari District showed that micro-entrepreneurs struggled to market their products online due to lack of support from sharia institutions.

4.3. Strategic Role of Islamic Boarding Schools

Islamic boarding schools (pesantren) in Jember Regency actively support economic empowerment through sharia-based programs, as shown by interviews

and observations. The Al-Qodiri Islamic Boarding School runs a cooperative that supports 30 small businesses, including food stalls and livestock ventures. A caretaker reported, "Our students manage the cooperative as part of their learning, helping them and the community earn income" (W1, 2025). Observations showed that senior students handled tasks like distributing goods and recording transactions, with 25 students involved in 2024. The cooperative's records indicated that their businesses generated \$5,000 in revenue in 2024, with 60% reinvested into new ventures.

The As-Sunniyyah Islamic Boarding School also supports economic activities through a *mudharabah* program. Interviews with managers revealed that 20 alumni and local residents received funding for trade businesses, such as clothing and snacks, in 2024. A beneficiary stated, "The cooperative gave me fabric to start a clothing business, and I now earn enough to support my family" (R3, 2025). Documentation showed that the cooperative's revenue grew by 15% from 2022 to 2024, with profits used to fund scholarships for poor students. Observations confirmed that these businesses used halal branding, attracting customers in local markets.

Pesantren also serve as community hubs for economic activities. Interviews with five community members near Al-Qodiri showed that 80% relied on the pesantren for business advice and funding. Observations in two pesantren revealed regular meetings where local entrepreneurs discussed business plans with cooperative managers. Documentation from As-Sunniyyah indicated that their cooperative trained 50 people in entrepreneurship in 2024, with 70% starting small businesses. However, managers noted limited funding as a challenge, with only \$2,000 available for new ventures in 2024.

5. Discussion

The findings show that sharia-based economic institutions like Baitul Maal wat Tamwil (BMT), zakat programs, and pesantren cooperatives play a vital role in empowering poor communities in Jember Regency, aligning with broader studies on Islamic economics. According to Huda et al. (2017), zakat and microfinance create sustainable income by providing capital and skills to the poor, which matches the impact of Jember's zakat programs that improved farmers' harvests. The success of BMTs in supporting small traders and female entrepreneurs reflects their ability to fill gaps left by conventional banks, which often require collateral that poor communities lack. This aligns with the principles of justice and inclusiveness in sharia economics, which prioritize ethical financial access over profit (Adinugraha et al., 2023). However, unlike Huda et al.'s study, which focuses on national zakat systems, Jember's case highlights the importance of local trust-based systems, such as BMT's no-collateral loans, in building community confidence. The high return on capital (85%) in pesantren cooperatives also suggests that sharia-based partnerships like *mudharabah* are effective for small-scale businesses, supporting the idea that ethical financing fosters economic growth (Safitri, 2025).

Sakai (2021) argues that pesantren are not just religious centers but also economic hubs, a role clearly seen in Jember's Al-Qodiri and As-Sunniyyah pesantren. Their cooperatives and training programs help students and locals start businesses, showing that pesantren can combine spiritual and economic goals. This supports the idea that religious institutions can drive social change through entrepreneurship (Zusak, 2024). However, Jember's pesantren face challenges in scaling their impact due to limited funding, unlike the smart farming initiatives in Wahyudi et al. (2024), which use technology to boost pesantren economies. The lack of digital platforms in Jember's cooperatives and BMTs also contrasts with findings by Ichsan et al. (2025), who emphasize that digital transformation is key to expanding sharia institutions' reach. This gap suggests that Jember's sharia

institutions need to adopt technology to compete in modern markets, a point echoed by Huda and Yuliati (2025), who highlight digitalization as a challenge for sustainable sharia-based growth.

The barriers identified, such as low sharia financial literacy and weak governance, are not unique to Jember. Adinugraha et al. (2023) note that low literacy limits the use of sharia financial products across Indonesia, similar to Jember's rural communities who misunderstand *murabahah* contracts. Poor governance in BMTs, like manual bookkeeping, also aligns with Parapat and Syahbudi (2025), who stress the need for professional management in sharia institutions. The lack of coordination with local government mirrors findings by Iswanaji et al. (2021), who found that zakat programs in Jember often work separately from government efforts, reducing their impact. These challenges show that Jember's sharia institutions need better education and systems to maximize their role in poverty alleviation, as suggested by Ropiah (2025), who links sharia credit to reducing economic inequality.

The findings have important implications for policy and practice in Jember Regency. First, local governments should create training programs to improve sharia financial literacy, focusing on rural communities, to increase trust in institutions like BMTs (Djati et al., 2024). Second, pesantren should receive support to develop digital platforms for their cooperatives, aligning with modern economic trends (Iskandar & Sulaiman, 2025). Third, forming a coordination forum between BMTs, zakat institutions, and government agencies could streamline poverty alleviation efforts, as seen in successful models elsewhere (Zahara et al., 2025). These steps could make sharia economics a stronger tool for reducing poverty in Jember, combining ethical values with practical solutions.

6. Conclusion

Sharia-based economic institutions, such as Baitul Maal wat Tamwil (BMT), sharia cooperatives, and productive zakat programs, offer a promising solution to reduce poverty in Jember Regency. These institutions provide access to microfinance, support small businesses, and promote values of justice and community solidarity. The active role of Islamic boarding schools (pesantren) further strengthens this approach by combining economic activities with religious education. However, challenges like low financial literacy, weak institutional systems, and limited government coordination hinder their full impact. Despite these obstacles, sharia economics shows potential to transform local welfare by addressing both economic and ethical needs.

The findings suggest important implications for Jember's poverty alleviation efforts. Local governments should work with BMTs and zakat institutions to create a coordination forum, ensuring aid reaches the right people without overlap. Training programs on sharia finance, especially in rural areas, can help communities understand and trust these systems. Pesantren should also adopt digital tools, like mobile apps for cooperatives, to expand their reach. However, this study has limitations, as it only uses a qualitative approach and focuses on Jember, which may not apply to other regions. Future research could use quantitative methods to measure the economic impact of sharia institutions or explore their role in other areas with different cultural contexts. These steps could make sharia economics a stronger tool for sustainable development.

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Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

Data Disclosure Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.



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