

## Evaluating the Transformative Role of Islamic Microfinance in Poverty Alleviation and Entrepreneurship Development

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### Abstract

Research was also done to test the transformative effect of Islamic microfinance (IMF) in changing the developmental strategies of the poor to shift the patterns of charity-based to the aspect of empowerment. The main theme of the research is how much the Sharia-compliant microfinance organizations, like Baitul Maal wat Tamwil (BMT) and Sharia cooperatives, may help to reduce poverty and promote entrepreneurship based on the Islamic beliefs. The study used a qualitative descriptive research approach, and interviews (semi-structured), direct observation, and documentary analysis were used to elicit the experiences and perceptions of the participants and the subsequent changes in socio-economic gains to the recipients. The results show that Islamic microfinance is an institution that engages in financing with no interest as well as a tool of socio-economic empowerment, an instiller of self-sufficiency, hard work and moral accountability into the community. Through the application of the principles of qard al-Hasan, mudharabah and musyarakah, access to productive capital by the low-income individuals is achieved, hence enabling them to practice entrepreneurship based on the Islamic ethics. The shift towards empowerment as opposed to charity is seen through increased economic involvement, the change of mind set by the recipients into entrepreneurs and an awakened mindfulness on spiritual involvement in business practices. The research concludes that Islamic microfinance is a powerful tool to the achievement of the goals of maqasid al-Shariah based on the combination of the economic, social, and spiritual aspects to empower the populace in a sustainable manner.

### Keywords

Islamic Microfinance  
Empowerment  
Poverty Alleviation Poverty

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### Introduction

Poverty has been an endemic issue on the global stage, and it has been a major challenge to most countries especially those countries that have a large number of Muslims (Saiti et al., 2021). These have included various efforts that have been made to deal with poverty which includes social assistance and subsidy programmes and other efforts that are driven by the economy to develop (ayo,2022). The large-scale interventions, however, have a fundamentally charity-based or giving nature (Elkharouf et al.,2021). Even though these models can reduce the economic cost faced by the poor in general, they will often not result in any sustainable and independent economic growth (zhu et al., 2022). The perpetual dependency on aid breeds dependency which prevents the beneficiaries to come out of the structural aspects of poverty (mangwanya,2022).

The Islamic tradition has put concepts of charity, including zakat, infak, and sedekah, in a very important place, as systems of maintaining social and instrumental equity in wealth distribution (Nugraha &Wanto,2025). Islam however does not limit itself as a simple provision of assistance but also stresses on the principle of empowerment (Khalidin,2024). The eventual goal of assistance to the Islamic perspective is not only the solution of the immediate needs but the transformation of the beneficiaries as productive, empowered, and capable agents who could in their turn help others (Bsoul et al., 2022). Quran teaches that giving is inherently more meritorious than not giving which means, It is imperative to be active in the development of a strong economy and not passive because of receiving benefits (Hasan,2024). Islamic economics has become one of the new paradigms in the last several years where the spirit of philanthropy is to be combined with the ideas of empowerment, especially with the help of Islamic microfinance (Khalidin,2024). Microfinance institutions that are applied using Sharia are not only meant to give people

who have low incomes access to capital but also to give coaching, entrepreneurial training, and mentoring based on the Islamic values (Awan et al.,2023).

Other instruments, including murabahah, qard-hasan, mudarabah and musharakah, offer a substitute to traditional finance, which is often unaffordable or offers great interest rates to the poor borrowers (Shah et al.,2024). This is not a pure profit-oriented strategy but rather a strategy that is justice-oriented and at the same time encourages social equity, prosperity and a blessings-oriented economy (Enval &Andersson,2025). Islamic microfinance is not only vital because of its contribution to the economy but also to the social and spiritual levels (Shabbir,2021). The process of continuous development improves the outcomes to the recipients because it changes the mindsets of recipients to dependence, which is a mindset of charity, to independence which is a mindset of empowerment (ul Haq et all.,2021). The process of transformation extends beyond income enhancement, to include a change in attitude, self-belief, work ethos as well as some enhanced knowledge on justice and blessings in the practice of business (François et all., 2023).

Islamic microfinance can therefore be transformed into a transformational tool that can bring the people out of poverty to respectable welfare (Hakim & Rahim,2024). Even though many studies have pointed out the importance of microfinance institutions in alleviation of poverty, most of them still pay attention to financial measures and economic achievements (Chikwira et al., 2022). Economic empowerment cannot be taken out of Islamic context that has morality and spiritual aspects (karimullah,2023). Trust (honesty), ukhuwah (solidarity), and barakah (blessings) are some of the values that can be used as fundamental pillars in harmonizing material well-being and spiritual satisfaction (Kirom,2025). Hence, more detailed studies are needed to explain how Islamic microfinance can be viewed as a transformational agent not only in raising income but also changing character and entrepreneurial attitudes (Mia,2024).

Furthermore, the accelerating development of micro-sharia financing establishments in most of the Muslim-majority states, such as Indonesia, Malaysia, and Pakistan is another indication that there is an increased realization that economic empowerment cannot be done without religious underpinning (Sari et al., 2024). A good example is Indonesia, the country with the highest numbers of Muslims in the world and has a lot of potential in creating the model of micro-finance based on charitable notions of empowerment (Izzudin & Adinugraha,2021). A number of organizations, including Baitul Maal wat Tamwil (BMT) and productive zakat units that are run by zakat collection agencies, have produced positive outcomes in helping poor people to establish micro- and small-scale businesses (Ahmad,2021).

However, their effectiveness on a long-term basis is yet to be properly assessed (Grewal et al., 2022). This paper is an innovation of the traditional perception that the Islamic micro-finance is an institution that plays a similar role of a financial institution; an institution that is a catalyst of change both socially and spiritually. It is clear in its potential to cause multidimensional changes, i.e., economic, social, and moral ones. This means that it becomes imperative to assess the transformative nature of Islamic mini-finance in gauging the extent to which such organisations may be able to transform the general paradigm of the population (dependent to independent), passive recipients of aid to active business participants and poverty to sustainable well-being.

## **Methods**

### **Approaches and Types**

The research has a qualitative paradigm and a descriptive exploratory design, which is selected to gain comprehension of depth transformation of those who receive Islamic microfinance. In particular, it looks at the process of a recipient moving through the levels of charity to the levels of being economically self-sufficient hence gaining empowerment. Qualitative inquiry allows the researcher to explore the meanings, values,

experiences, and perceptions of subjects in situational contexts. This method is relevant in that it predicts the transformative status of Islamic microfinance that focuses more on the social, spiritual and economic transformation processes that do not lend themselves to numerical statistics. The methodology of the research is a case study. The researcher uses detailed analysis of the cases to discuss internal dynamics and empowerment by Islamic microfinance institutions under certain circumstances. Case studies help conduct a thorough study of relations between institutions, recipients, and the Islamic values that form the basis of the empowerment process.

#### **Location and time study**

This paper discusses one of the Islamic microfinance institutions in operation within Indonesia e.g. Baitul Maal Wat Tamwil (BMT) or productive zakat units by national zakat collection institutions (e.g., BAZNAS Microfinance or Wallet Dhuafa). The study site was selected purposely with a number of criteria in consideration. To begin with, the institution should operate micro-financing programmes in accordance with Sharia principles in order to make low-interest lending to the population. Second, the selected institution should have an empowerment programme that extends beyond providing capital support to incorporating coaching, training and mentoring elements to create sustainable entrepreneurship to beneficiaries. Thirdly, the field location should have programmed participants who have at least one year of beneficitation of Islamic microfinance and thus will allow the researchers to observe the transformation process in more depth and completeness. The research was to be carried out within a maximum of three months including the preparation, data collection, data analysis, and compilation of the report. The preparation phase entailed getting management approvals, the institutions to be used in the field study and coming up with the research tools, which included interview instructions and observation templates. Data collection involved in-depth interviewing, observation in the field and collection of documentary material of the concerned institutions. Analysis was carried out simultaneously with the data collection process to have the ability to review and verify information fast. At the end of data collection and analysis, the researchers prepared a final report in which the findings of the research will be described and the role of transformational Islamic microfinance discussed in the empowerment of community economies.

#### **Types and sources of data**

The institutional agents like administrators of mosques, scholars, and activist scholars in the discipline are used as points of focus when exploring the complexities of the processes of implementing the Islamic microfinance. Through the insights of the managers and beneficiaries, this study will seek to offer an in-depth explanation on how the Islamic microfinance functions in various stakeholders. This paper aims at analyzing the transformational nature of Islamic microfinance towards empowering the poor communities and empowering them to be entrepreneurs based on Islamic values and principles. The study is aimed at understanding the processes by which Islamic microfinance does not only serve as a financial tool, but as a social and spiritual impetus to changing consumption-motivated to productive and independent economic performance of the citizenry. By examining the financing practices, the mentorship provisions as well as internalizations of Sharia values in economic undertakings, the study aims to show that the Islamic microfinance provides a solution to poverty eradication and at the same time develops entrepreneurial spirit amid low-income earners.

#### **Data analysis techniques**

To have valid in-depth, relevant data with focus research, a technique mutual data collection complement was used. The primary method employs are interview in - depth interview, observation participatory and documentation. The interviews were conducted in-depth to manager Islamic microfinance institutions and recipient program benefits. Interviews of this type applied by researchers in semi - structured with guide flexible questions can investigate experience and views respondents in a freer way. By interview this, researcher attempt to unearth background behind recipient benefit prior to conjoining in the program, formation and process of assistance obtained, adjustment of behavior economy as well as social after obtain financing and internalization of Islamic values in the empowerment process the. Besides interviews, researchers also engaged

in observations as participatory in order to know phenomenon first hand in the field. Observation This is done to observe several activities that include party institutions and benefits recipients that include meeting group, training entrepreneurship, and an activity business micro programs conducted by program participants. Observation will provide the researcher with some insight into the contextual factors surrounding the dynamics of social interaction between managers and recipients of the benefits of the activity, pattern behavior economy community of Islamic microfinance activities. The second data collection method is documentation whereby it involves information gathering and analysis of different relevant documents through research. Other reports activities, statistical institutions data, financing program guides, photos activities, and archives administration among other activities are done under the document in question as other related issues are carried out regarding the implementation of the Islamic microfinance program. Documentation data This operating as evidence promoters and utilized to verify results interview and observation. Said blend third technique, researchers can acquire more information holistic, believable, and competent to explain the role transformational Islamic microfinance intact in the work of alleviating poverty and entrepreneurship based on Islamic development.

### **Values Data validity**

To achieve data validity in study this, researcher apply method technique purposive triangulation to improve validity and research credibility results. Triangulation performed between compare and verify the data acquired on multiple sources as well as using different method data collection. First, is done triangulation source, that is in comparison information received among different party such as manager Islamic microfinance institutions, recipients program benefits and documents official institution. By comparing different corner view this, body researcher is able to have a better picture objective and complete on role institution in the empowerment process economy society. Second, researchers use the triangulation technique of combine results interviews, observations and documentation, such that the information acquired through the use of One method can be validated and reinforced with the information obtained by means of method other. Moreover, to make certain and appropriate interpretation results leader interview, researcher must perform member checking, i. e. with request clarification and respondent confirmation of made interpretations of the data and results. This measure significant to avoid misinterpretation and make sure that the meaning attached to the respondent in the real sense in accordance with analysis of results researchers. Then, peer debriefing was also implemented, i.e. a discussion process results study with fellow colleagues or lecturer mentor to receive objective input, criticism and evaluation to findings research. Member checking, peer debriefing and triangulation of the validity of the data in the study This can wake with good, so results study own level high credibility and can accountable in a manner scientific.

### **Procedure research**

procedures study This is done by a series of mutually exclusive stages that are connected and continuous in a manner that is systematic to reach objective research. Stage First is stage preparation that involves activity preparation of research proposals, determination location and research subject and management permission study to party institution related. This researcher also had ready instrument study at this stage such as guidelines interviews, observation format and list of documents to be gathered. Besides that, it conducted literature research to reinforce runway theory as well as enhance knowledge on the concept of Islamic microfinance, empowerment society and poverty eradication basing on Islamic values. Stage second refers to stage data collection which is conducted in the field. At this point This researcher conduct interview profound with program benefits of manager institutions and recipients doing observation to activity financing and empowerment, and collect document supporters of Islamic microfinance institutions. The entire activity is performed in a manner that is intensive and repeated to the extent that the data obtained actually reflect condition real in the field. Researchers also strive to protect ethics study when using request agreement respondents during interview in addition to protecting information given as confidential. Stage three is stage data analysis i.e. the procedure of organizing, coding and interpreting data as per with focus research. In this step This researcher performs data reduction in order to select the information that is related, and thereafter categorize data into themes major such as transformation economics, spiritual empowerment and

development entrepreneurship. That done interpretation Discover meaning and interrelationship of observed phenomena. Stage final is stage withdrawal conclusion, in which the researcher summarizes the results findings on the basis of research analysis that has been performed and relate it to theory and context of Islamic microfinance. Another task performed at this level is compilation implications study to develop Islamic -based microfinance practice in future. General process This done in a manner sequentially Yet flexible, since the processes of study qualitative data collection and analysis are often conducted sequentially and mutually influence in order to generate in -depth and comprehensive knowledge.

## Results and Discussion

### Implementation of the Islamic Microfinance Program

The use of Islamic microfinance program in institutions that are location study walk through integrated approach between aspect financial, social and spiritual. In accordance with the findings of an interview with party manager institution, this program No, not only allocate funds to citizens with low income but also attempt to inculcate Islamic ideals in all levels of operations, beginning with planning, allocation of funds, and even mentoring of business. The major aim is to establish self-sustaining society in a manner that morals in try economy at a time. Head Islamic microfinance institutions that turn into informant main clarify that the implementation of the program is founded on the rule taawun (mutual assistance) and maslahah (benefit jointly). He states:

*"We do not only provide funds, but also provide passion and direction. Our principle is simple: to help people so they can stand on your own feet. All our programs are designed for them No depends on help, but can develop become independent and ethical entrepreneur"* (Interview with Head of Institution, August 12, 2025)

The process of implementing the programs is initiated based on the process of socialization and selection of programs that accrue benefits to the recipients. The institutions interact with the masses directly by meetings in the mosque, taklim meetings, and small business associations. The major intention is to initiate a draft Sharia financing plan and at the same time identify motivated individuals who can create lucrative businesses. According to the findings of interviews held with the field workers, the process of selection is not related to the economic suitability of the prospective beneficiaries alone but the moral and commitment aspect of the Islamic values is also factored into the selection procedure. Results of interview procedures with field staff show that the selection procedure considers besides economic eligibility, moral integrity and devotion towards Islamic values.

*"We choose candidates who are honest, diligent, and enthusiastic in their business efforts, even though their businesses may still be small. Capital can be found, but honesty and responsibility are more important. Because this program is not solely a business matter, but also a form of worship."*

*(Interview with Field Staff, August 15, 2025)*

After participants are selected, the institution organizes basic training before financing is distributed. This training covers the introduction of Islamic economic principles, small business management, basic financial recording, and the importance of Islamic business ethics. The training materials are delivered in simple language to ensure understanding among participants who generally come from middle to lower-income communities. One of the program participants expressed positive impressions of this stage:

*"The first time I joined the training, I got to know that trading is also part of worship. We are taught to be honest, not to cheat, and not to take excessive profit. Now I am more careful in running the business and feel calmer because the income earned is insyaAllah halal."*

*(Interview with Beneficiary, August 20, 2025)*

In financing practice, the institution applies various sharia-compliant contracts based on the needs and capabilities of beneficiaries, such as murabahah (sales with profit margin), mudharabah (profit-sharing), and qardhul hasan (benevolent loan without interest). The murabahah contract is the most frequently used

because it is considered the easiest for small communities to understand. Financing staff explained that every contract is explained transparently so that beneficiaries understand their rights and obligations:

*"We explain the details of the contract so that they understand that this is not a loan with interest, but a sale–purchase or profit-sharing transaction. This transparency is important to avoid misunderstandings and ensure everything is in accordance with sharia principles."*

*(Interview with Financing Staff, August 21, 2025)*

Funds disbursement is carried out gradually and adjusted according to the business plan of each beneficiary. Every recipient is required to prepare a fund utilization plan, including working capital requirements and projected profits. The institution's manager then conducts periodic monitoring and assistance to ensure that funds are used according to their intended purpose. This mentoring becomes an important part of program implementation because it aims to maintain business sustainability and minimize the risk of default:

*"After the funds are disbursed, we don't directly let go. Every week there is a group meeting to monitor business development. If anyone has difficulties, we will help find a solution together. This mentoring is actually the hardest part, but also the most important."*

*(Interview with Field Companion, August 25, 2025)*

In addition to business mentoring, the institution also organizes spiritual development activities such as Islamic studies, Qur'an recitation, and collective prayers before group meetings. The goal is to build awareness that economic success is not only determined by business capability, but also blessings and honesty in work. One of the beneficiaries said:

*"Every group meeting, we always start with prayer and a short study. It feels different because we don't just discuss money or business, but also intention and sincerity. It makes me feel that this program brings peace of mind, not only material benefits."*

*(Interview with Beneficiary, August 27, 2025)*

The implementation of the Islamic microfinance program also shows synergy between Islamic financial institutions and Islamic social institutions such as Baitul Maal. Part of the financing funds are sourced from zakat, infak, and sadaqah (ZIS) funds managed productively. This reflects a shift from a charity approach to an empowerment approach where social funds are not only given as consumptive assistance, but invested as productive business capital. According to one institutional leader, this strategy has proven more effective in the long term:

*"If zakat funds are only given for daily needs, the benefits will quickly disappear. But if we use them as business capital, the results can multiply and continue rotating. This is the essence of transforming charity into empowerment that we strive for."*

*(Interview with Director of the Institute, August 30, 2025)*

Field observations show that the program is implemented with a participatory and familial pattern. The relationship between managers and beneficiaries is not formal like a bank–customer relationship, but rather like a teacher–student or even sibling relationship. This familial atmosphere facilitates communication and strengthens mutual trust. In some cases, successful beneficiaries even help new participants by providing motivation or sharing business experiences.

Despite its success, the researcher also found several challenges in program implementation. Some participants still face obstacles in financial management and discipline in paying installments. External factors such as price fluctuations of raw materials and market limitations also become obstacles. However, the institution makes efforts to overcome these through additional training and fair sharia-compliant rescheduling systems without usury.

Overall, the study results show that the implementation of Islamic microfinance in this institution has succeeded in presenting a comprehensive empowerment approach integrating economic, social, and spiritual

aspects. This program not only helps communities gain access to capital, but also builds business ethics, Islamic values, and independence. In line with the concept of maqashid al-shari'ah, the program strives to protect wealth (hifzh al-mal) while empowering human dignity (taqwiyat al-insan) in overcoming poverty in a dignified way.

Thus, the implementation of Islamic microfinance in this context reflects a major paradigm shift: from a philanthropic and charitable approach toward sustainable empowerment. This program proves that Islamic values can be practically implemented in a microfinance system, creating really social and economic impacts for the poor without abandoning principles of justice, blessing, and humanity.

### **The Impact of Islamic Microfinance on Economic Empowerment**

The research results show that the presence of Islamic microfinance programs has a significant impact on the economic empowerment of beneficiary communities. This impact is not only measurable through increased income and business capacity, but also reflected in changes in attitudes, mentality, and beneficiaries' perspectives toward their business and financial responsibilities. Based on interviews, observations, and document analysis, the economic empowerment that occurs covers three main dimensions: improvements in individual and family economic conditions, strengthening of business capacity, and the growth of independence and social responsibility.

The first and most visible impact is the improvement of income and family welfare. Most informants stated that after joining the Islamic microfinance program, they were able to develop small businesses that were previously stagnant. One of the beneficiaries, a snack vendor in a traditional market, shared how sharia financing helped transform her economic situation:

*"Before, I could only sell on a small scale with limited capital. After receiving financing from BMT, I could add a cart and buy more materials. Alhamdulillah, now my income has almost doubled. My child, who previously could not attend a private school, can now enroll in an Islamic boarding school."*

*(Interview with Beneficiary, September 4, 2025)*

Increased income also contributes to beneficiaries' ability to fulfill their families' basic needs. Observation results show that some beneficiaries were able to improve their housing conditions, purchase better business equipment, and increase their family's food and health consumption. However, the more important impact is the transformation of the mindset from dependency to independence.

One field staff member highlighted that the biggest change observed is the beneficiaries' improved self-confidence. They no longer see themselves as "assisted people", but as business actors contributing to the local economy:

*"In the past, they waited for help. Now they think about how their business can grow. They are braver in making decisions, seeking opportunities, even helping fellow group members. This is a sign that they are empowered, not merely receiving assistance."*

*(Interview with Field Staff, September 6, 2025)*

In addition to improving individual welfare, the Islamic microfinance program also strengthens the business capacity of micro-entrepreneurs. Many beneficiaries who previously lacked managerial skills now begin to apply simple bookkeeping, manage inventory, and organize cash flow. The institution routinely provides training on financial management, marketing strategy, and product innovation. A woven bag craftsman expressed:

*"Before joining the program, I never recorded expenses and income. After attending the training, I began to record every transaction. From there, I could identify which products were profitable and which were not. Now my business is more organized, and I can set aside part of the profit for future capital."*

*(Interview with Beneficiary, September 8, 2025)*

This capacity-building is also supported by a group mentoring system. Each group consists of five to ten members who monitor and motivate one another. This system creates a sense of shared responsibility while strengthening social networks among micro-entrepreneurs. A field companion emphasized that solidarity among group members contributes greatly to program sustainability:

*"They help each other. When a member's business is slow, others help with promotion. Sometimes they also pool money to buy raw materials at a lower price. So, the spirit of mutual cooperation grows within the group."*

*(Interview with Field Companion, September 10, 2025)*

Beyond economic and business improvements, Islamic microfinance also fosters spiritual awareness and social responsibility among beneficiaries. By integrating Islamic values through religious studies, collective prayers, and learning about sharia economics, participants' perspectives on business shift. One beneficiary, a mother running a banana chips business, admitted that her business is now not only profit-oriented, but also blessing-oriented and beneficial to others:

*"Before, I thought what mattered most was profit. But after joining the program, I realized the importance of honesty and blessings. I don't want to take excessive profit. Sometimes when neighbors need goods but don't have money yet, I allow them to pay later. I believe that sustenance will not decrease if we are honest."*

*(Interview with Beneficiary, September 11, 2025)*

This spiritual approach is the main differentiator between Islamic microfinance and conventional financial institutions. The goal is not only to create small entrepreneurs, but to develop ethical, just, and welfare-oriented individuals. Values such as honesty, accountability, diligence, and social solidarity become the foundation of Islamic economic empowerment.

Another impact found is the increasing economic participation of women. Most beneficiaries are housewives who previously had no stable source of income. Through small capital provision and entrepreneurship training, they began to run home-based businesses such as sewing, baking, or vending at the market. Their role as economic actors strengthens family financial resilience. One female beneficiary shared her pride:

*"I no longer depend solely on my husband. Now I can help support the family financially. The small income from my business helps pay for my child's schooling. I also feel more confident because I have my own earnings."*

*(Interview with Female Beneficiary, September 12, 2025)*

Additionally, Islamic microfinance encourages a culture of saving and productive investment among low-income communities. Mandatory and voluntary savings programs help participants learn financial discipline. Some informants admitted that before joining the program, they had no savings habit due to unstable income. However, after joining, they set aside a portion of their income every week:

*"Before, whenever I had money, it was immediately spent on daily needs. Now I am taught to save little by little. It turns out we can save even in small amounts. Now my savings are enough to buy new production equipment."*

*(Interview with Beneficiary, September 14, 2025)*

Overall, the impact of Islamic microfinance on economic empowerment can be seen through changes in household economic structures, increased entrepreneurial capacity, and the formation of new values in community economic behavior. This empowerment process runs gradually from providing capital access, strengthening business capacity, to internalizing spiritual values. This model aligns with the Islamic empowerment framework, which emphasizes enhancing the ability of individuals and groups to manage resources independently within the corridor of sharia principles.

Thus, Islamic microfinance functions not only as an economic instrument, but also as a means of moral and spiritual education that guides communities out of poverty without losing dignity. This approach shows that true empowerment is not only about increasing income, but also about forming character, awareness, and responsibility in managing sustenance in a lawful and just manner.



### **The Impact of Islamic Microfinance on Development Entrepreneurship**

The research results show that Islamic microfinance has a strategic role in encouraging entrepreneurial development among low-income communities. This program not only provides access to capital but also creates a conducive environment for the growth of entrepreneurship based on Islamic values. The impacts can be categorized into four main dimensions, namely: (1) increasing access to business capital, (2) strengthening managerial capacity and business innovation, (3) transforming entrepreneurial mindset and character, and (4) forming an entrepreneurial ecosystem based on sharia values.

The first dimension is improved access to business capital. Many low-income communities previously struggled to obtain financing from conventional financial institutions due to a lack of collateral or credit history. Islamic microfinance emerges as an inclusive alternative through profit-sharing (*mudharabah*) and partnership (*musyarakah*) principles, making financing more accessible for micro-entrepreneurs. Based on interview results, beneficiaries stated that capital from Islamic microfinance institutions enabled them to start or develop their home-based businesses.

One beneficiary, a home-based tempeh producer, explained how access to Islamic capital changed the direction of his business:

*"Before I received financing from an Islamic institution, I often borrowed from middlemen with high interest. The result was always lost to debt payments. After joining this program, the profit-sharing system does not burden me. I can add production equipment and now I can supply stalls around the village."*

*(Interview with Beneficiary, September 6, 2025)*

The provision of capital combined with coaching makes participants feel safer and more motivated to develop their businesses. Institutions also actively ensure that funds are used productively and in accordance with sharia principles. This encourages business discipline and prevents beneficiaries from engaging in unhealthy financial practices such as usury or consumptive loans.

The second dimension is improved managerial capacity and business innovation. The Islamic microfinance program does not stop at fund distribution but also provides training on financial management, marketing, product innovation, and business risk management. Observations and interviews show that beneficiaries experienced increased understanding regarding business planning and financial recordkeeping. One training participant, who runs a small convection business, shared his experience after attending the program:

*"Previously, I just went with the flow; the important thing was production. But after attending training from BMT, I understood the importance of calculating costs, keeping expense records, and creating sales targets. Now I can control raw material stock and know when I need to add workers. As a result, my profits are more stable."*

*(Interview with Beneficiary, September 8, 2025)*

Field companions also added that participants receive not only technical training but also motivation to innovate and utilize simple technology, such as social media for promotion or improved product packaging. According to them, the most significant change is not only in increased turnover but in their growing awareness to continuously learn and adapt to market developments:

*"We see participants starting to think creatively. Someone who used to sell regular cakes now makes attractive packaging and markets them via WhatsApp. Some have also started collaborating between members. This is a sign that the entrepreneurial spirit is beginning to grow."*

*(Interview with Field Companion, September 10, 2025)*

The third prominent dimension is the transformation of entrepreneurial mindset and character. Through spiritual approaches and Islamic values taught in every coaching activity, beneficiaries learn to interpret business not only as a means of earning profit but also as a form of worship and social contribution. Values such as honesty, responsibility, and hard work become the main principles in operating their business. A female beneficiary who runs a home catering business expressed:

*"Every training from the institution always starts with prayer and a short study about halal sustenance. From there, I learned that doing business is not just about making profit but seeking blessings. I have become more careful, not cheating customers, and striving to maintain food quality."*

*(Interview with Beneficiary, September 12, 2025)*

These spiritual values shape a new and sustainable work ethic. Beneficiaries admitted to being more patient in facing business challenges and no longer losing hope when experiencing losses. Field companions also revealed that this character change becomes an important indicator in evaluating program success:

*"We assess success not only from increased income but also from attitude changes. If in the past they were afraid to fail, now they dare to try and learn from mistakes. They are also more open to suggestions and ready to innovate."*

*(Interview with Field Companion, September 13, 2025)*

The fourth dimension is the formation of an entrepreneurial ecosystem based on sharia values. Through the establishment of business groups, participants build mutually supportive economic networks. Microfinance institutions encourage the development of small cooperatives, business discussion forums, and collaboration between members to expand markets and increase competitiveness.

Observation results show that several beneficiary groups began forming collective marketing networks and procuring raw materials to reduce production costs. The head of one business group stated:

*"We now have a joint business group. If there is a large order, we work together so we can fulfill it. We collect capital gradually from profits. Alhamdulillah, our business is progressing well."*

*(Interview with Business Group Leader, September 15, 2025)*

The group-based approach not only strengthens economic networks but also creates social solidarity among small business actors. They learn not to engage in destructive competition but rather collaborate in the spirit of Islamic brotherhood. This is in line with the principle of ta'awun (mutual help) in Islam, which emphasizes equality and justice in economic activities.

Furthermore, the long-term impact of Islamic microfinance on entrepreneurship is reflected in the emergence of new local entrepreneurs. Some successful beneficiaries have become inspirations within their communities. They help provide informal training to other residents and share their experiences in managing halal businesses. A staff member explained that this is a sustainable form of empowerment expected by the program:

*"We want to create a multiplier effect. When one participant succeeds, they can become an example for others. We have seen several senior members now helping new members in training. This means that the program has begun to sustain itself."*

*(Interview with Institution Staff, September 17, 2025)*

Thus, Islamic microfinance does not only act as a financing institution but also as a catalyst for sustainable socio-economic transformation. A balanced approach between financial capital, managerial capacity, and Islamic value internalization results in comprehensive empowerment. Micro-enterprises are no longer merely a means of survival, but become platforms for developing potential, creativity, and community contribution.

These findings demonstrate that Islamic microfinance-based entrepreneurship development has unique characteristics compared to conventional approaches. It emphasizes not only profitability but also morality and blessings. By fostering honesty, discipline, and social responsibility, Islamic microfinance has nurtured a new generation of entrepreneurs who are both competitive and ethical. This represents a real paradigm shift from charity to empowerment, where communities no longer become passive recipients of aid, but active agents of independent and dignified economic development.

### **Transformation from Charity to Empowerment**

Research results show that Islamic microfinance has become an important instrument in transforming the paradigm of poverty alleviation from a charity-based approach toward a transformative empowerment approach. This shift reflects a fundamental change in how society and Islamic financial institutions view poverty not solely as a lack of material resources that must be temporarily assisted, but as a structural and cultural condition that can be overcome through capacity building, independence, and economic responsibility based on Islamic values.

In the context of Islamic microfinance institutions, the concept of charity is generally realized in the form of distributing zakat, infaq, and alms to the poor. Such assistance is consumptive in nature, resulting in beneficiaries tending to depend on periodic aid. However, the study finds that this model gradually shifts when institutions begin integrating social functions with productive functions through financing schemes based on qardhul hasan, mudharabah, and musyarakah. Through this approach, assistance is no longer limited to funds distribution, but directed toward building economic independence. One microfinance institution manager explained the shift in paradigm as follows:

*"We used to focus on distributing zakat and social aid. But after evaluation, many recipients remained poor because there was no follow-up action. Finally, we changed our approach: now zakat funds are not only given, but also invested in the form of financing for small businesses. So, they no longer just receive, but also strive."*

*(Interview with Institution Manager, September 2, 2025)*

This statement shows institutional awareness that poverty cannot be resolved merely through charity, but through a sustainable empowerment strategy. The transformation process involves systemic changes in program governance from fund distribution mechanisms to the pattern of relationships between institutions and beneficiaries. Islamic microfinance builds a partnership-based relationship, not hierarchical; beneficiaries are positioned as business partners with both moral and economic responsibilities.

The impact of this paradigm shift is also directly felt by beneficiaries. During an interview with one program participant a housewife who previously received zakat she expressed a fundamental difference between receiving assistance and participating in productive financing:

*"In the past I only got rice or money; once it ran out, it was finished. But now I am given capital to sell, and there is guidance on how to manage it. It feels different, because I earn by myself. I am proud to make money from my own work, not because I am categorized as poor."*

*(Interview with Beneficiary, September 5, 2025)*

This indicates that transformation from charity to empowerment is not merely financial but also psychological and social. Beneficiaries experience increased self-confidence, dignity, and awareness of their own potential. They no longer see themselves as weak, but as productive individuals capable of contributing to their families and communities.

Moreover, the empowerment approach applied by Islamic microfinance emphasizes ta'dib (moral education) and tazkiyah (spiritual purification). In group meetings and training, participants receive not only technical knowledge but also spiritual development that instills honesty, responsibility, and hard work. A field companion confirmed this:

*"We always emphasize that business is not only for earning profit, but also for worship. That's why every meeting starts with prayer and a short study. As a result, participants are more disciplined and honest in running their businesses. They feel supervised by God, not only by the institution."*

*(Interview with Field Companion, September 8, 2025)*

This moral approach strengthens business resilience and prevents misconduct. In the long run, it forms a new generation of micro-entrepreneurs who are not only financially independent but also spiritually grounded.

The transformation process is strengthened by a group coaching system. Through group lending and halaqah business models, beneficiaries are encouraged to learn from each other, share experiences, and build social solidarity. A group leader shared his experience:

*"We now have regular meetings once a week. Besides discussing business, we also help each other if any member faces difficulties. In the past, everyone waited for help. Now we try to find solutions together. I see their mindset has changed to be much more positive."*

*(Interview with Group Leader, September 10, 2025)*

This shows that transformation does not happen instantly, but through continuous social learning. Beneficiaries learn not only to receive but also to contribute. Some begin participating in social activities – supporting new group members, contributing to mosque programs, or even becoming donors after their businesses grow. One successful beneficiary reflected:

*"Before, I was a zakat recipient. But now, Alhamdulillah, I can contribute to the productive zakat program in my village. It feels extraordinary, because I used to be helped, and now I can help others."*

*(Interview with Successful Beneficiary, September 14, 2025)*

This positive change becomes proof that Islamic microfinance empowerment creates a multiplier effect on social development. When someone escapes poverty, they not only improve their economic condition but also become agents of transformation in their community.

From an institutional perspective, this transformation also requires changes in managing Islamic social funds. Institutions that previously focused on consumptive zakat distribution now allocate part of zakat and infaq funds for productive financing. These funds rotate within sharia-compliant business schemes to multiply benefits. This model aligns with maqasid al-shariah, particularly in protecting wealth (hifz al-mal) and promoting equitable public welfare. The institution director explained:

*"We do not want zakat recipients to forever remain mustahik. Our goal is to make them muzaki. So zakat funds must be managed productively so they have opportunities to grow and be independent."*

*(Interview with Director of Microfinance Institution, September 16, 2025)*

Thus, the transformation from charity to empowerment in Islamic microfinance is the practical actualization of Islamic social justice values. The program does not only channel funds but also knowledge, skills, and spiritual motivation. The poor are no longer treated as passive recipients, but as active agents of development with potential and dignity.

In a wider context, this transformation reflects a modern Islamic development paradigm shift – from a welfare model based on distribution toward a welfare model based on participation and productivity. Islamic microfinance proves that true empowerment occurs not when people are given assistance, but when they are able to stand on their own and contribute back.

### **Transformation Paradigm from Charity to Empowerment in Islamic Microfinance**

This research aims to evaluate the role of Islamic Microfinance (IMF) in transforming the approach to economic development of poor communities from a charity-based model toward an empowerment approach. In line with the research objectives, the findings show that Islamic microfinance not only functions as a sharia-based capital provider but also as a socio-economic instrument that plays an important role in building capacity, independence, and moral integrity among low-income communities. These findings strengthen the argument in the introduction that poverty in Islamic perspectives is not only a material deficiency but also related to weak access, limited capability, and a lack of productive awareness among the poor.

The approach used in this study is qualitative descriptive, utilizing semi-structured interviews, observation, and documentation techniques. This method was chosen because it is relevant for exploring the meanings and subjective experiences of beneficiaries as well as understanding how Islamic values are implemented in

microfinance institutional practices. Rohman (2021) emphasized that a qualitative approach allows researchers to understand Islamic microfinance practices contextually and comprehensively because the phenomenon involves not only economic aspects but also moral and spiritual dimensions (A Review on Literature of Islamic Microfinance from 2010–2020, PMC Journal).

Based on research findings, Islamic microfinance has been proven to significantly contribute to improving the economic welfare of beneficiaries. Institutions such as BMT and sharia cooperatives have succeeded in opening financing access that previously could not be reached through the conventional financial system. Financing schemes such as qardhul hasan, mudharabah, and musyarakah provide interest-free alternatives that encourage economic participation among small-scale communities without burdening them financially. This is in line with Martiana's (2021) findings that Islamic microfinance plays an important role in reducing poverty and improving social welfare by strengthening micro and household businesses (Islamic Microfinance and Poverty Alleviation, JSTOR).

Economic improvement generated by Islamic microfinance is not only reflected in income increases but also in the development of financial awareness and business management capabilities. Through training and mentoring, communities learn about financial management, transaction recording, and business development planning. This model shows that true empowerment is not only about providing capital but also about improving the capacity and knowledge of beneficiaries so they can escape structural dependency on assistance.

Apart from the economic dimension, Islamic microfinance also creates an entrepreneurial ecosystem based on Islamic values. Regular training and coaching programs encourage beneficiaries to internalize Islamic business ethics such as honesty, justice, and social responsibility. Yumna (2019) stated that Islamic social finance institutions in Indonesia have successfully balanced social and economic functions by integrating zakat, infaq, and alms (ZIS) funds into productive financing that supports entrepreneurship (Islamic Charity-Based Microfinance: Lessons from Indonesia, Atlantis Press). With both managerial and moral education, Islamic microfinance helps shape micro-entrepreneurs who are not only profit-oriented but also pursue blessings and social benefit. This illustrates the synergistic relationship between spirituality and productivity, where economic activities are understood as part of worship (muamalah). This concept aligns with maqasid al-shariah, particularly in sustaining public welfare and upholding distributive justice.

One of the most important aspects found in this study is the transformation of the paradigm from charity to empowerment. Conventional social assistance, which is consumptive in nature, has proven to provide only short-term results and can even create dependency. Conversely, Islamic microfinance offers a productive model that positions the community as active economic actors. Zakat, infaq, and alms funds that were previously given for consumptive purposes are now managed as productive financing, generating a multiplier effect on income improvement and independence.

This paradigm shift is consistent with Rahman and Karim (2025), who stated that Islamic microfinance is the implementation of maqasid al-shariah in the modern economy because it promotes financial and social empowerment through fair and ethical mechanisms (Prospects of Islamic Microfinance: Maqasid Shariah Perspective, ResearchGate). This approach not only shifts the position of the poor from mustahik to productive fund managers but also fosters a sense of responsibility and social solidarity. This transformation also has a significant psychological impact. Beneficiaries no longer perceive themselves as objects of pity but as individuals with potential to grow and contribute. In Islamic social terms, this is known as the principle of tamkin an empowerment approach that grows spiritual awareness, economic independence, and social participation.

Conceptually, the findings confirm that Islamic microfinance embodies Islamic economic principles that balance spiritual values and economic rationality. This approach differs from the conventional microfinance system, which focuses solely on profit. In Islamic microfinance, program success is measured not only through income improvement but also through behavioral changes, business ethics, and moral independence of the beneficiaries.

These findings are consistent with Yumna (2019) and Martiana (2021), who concluded that Islamic-value-based microfinance is more sustainable than conventional models because it maintains balance between material and spiritual dimensions. The qualitative approach used in this study has proven effective in revealing these transformative dimensions, allowing a profound exploration of local values, motivations, and subjective community experiences. Therefore, this discussion shows that Islamic microfinance is not only a financial instrument but also a medium for moral and social education that strengthens the foundations of equitable development. The shift from charity to empowerment reflects the Islamic spirit of dignifying humans through work, responsibility, and social participation. This transformation is evidence that sustainable poverty alleviation can only be achieved when economic assistance is integrated with moral education and spiritual capacity building.

## Conclusion

This conclude that *Islamic microfinance* own role transformative in change approach development economy poor people from pattern *charity* going to *empowerment*. Through implementation sharia principles such as *qardhul hasan*, *mudharabah*, and *Masyarakat*, institutions finance micro-Islam success open access fair financing at a time push independence economy public earning low. Apart from providing capital, *Islamic microfinance* also functions as means moral and entrepreneurial development that instills values honesty, responsibility answer, and blessing in activity economics. Research results show that transformation This No only impact on increasing income, but also on changes mentality public from recipient help become perpetrator economy productive, empowered and ethical. With Thus, *Islamic microfinance* proven effective as instrument empowerment socio- economic harmony with objective *maqasid al-shariah* in create prosperity, justice and benefit people in a way sustainable.

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