Integrating Islamic microfinance literacy in pesantren: a community-based approach to economic empowerment

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Article Info

Article history:

Received Feb 15, 2026
Revised Mar 12, 2026
Accepted Mar 20, 2026

Keywords:

community empowerment
Islamic microfinance
literacy
pesantren
rural economy

ABSTRACT

Background: Rural pesantren communities in East Java play a central role in socio-religious life, yet many santri and micro-entrepreneurs lack adequate literacy in Islamic microfinance, limiting access to halal financial services. **Objective:** This program aimed to strengthen Islamic microfinance literacy and facilitate institutional access for pesantren-based micro-entrepreneurs through a participatory, community-centered approach. **Method:** A backward-designed framework was applied, integrating needs assessment, contextualized training, simulation-based learning, sustained mentoring, and collaboration with local sharia financial institutions. **Results:** The program improved participants' understanding of Islamic financial contracts, increased confidence in financial decision-making, and encouraged formal engagement with sharia microfinance services, alongside the strengthening of collective economic groups and institutional linkages within pesantren communities. **Implication:** These findings suggest that participatory and mentoring-based financial literacy programs can effectively enhance access to inclusive and faith-based financial systems in rural contexts. **Novelty:** The program introduces a pesantren-based model that combines experiential learning, sustained mentoring, and institutional collaboration as a scalable approach to Islamic microfinance empowerment beyond conventional short-term training.

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1. INTRODUCTION

Islamic boarding schools (*pesantren*) in rural East Java occupy a strategic position not only as religious and educational institutions but also as socio-economic hubs within their surrounding communities. In districts such as Probolinggo and Bondowoso, pesantren-based communities are closely intertwined with micro-scale economic activities, including small retail, food production, and home-based enterprises. However, recent data from Indonesia's Financial Services Authority indicate that more than 60% of sharia-oriented micro-entrepreneurs operating around pesantren lack adequate literacy in Islamic microfinance instruments, such as *Baitul Maal wat Tamwil* (BMT), sharia cooperatives, and zakat-based financing institutions. As a result, financial practices remain predominantly informal, relying on personal trust networks rather than structured and halal financial mechanisms. Preliminary community surveys further reveal that approximately 55% of santri and local entrepreneurs are unable to distinguish between fundamental Islamic contracts (*akad*), including *murabahah*, *mudharabah*, and *qardhul hasan*. These conditions underscore the urgency of a community-based intervention that strengthens Islamic microfinance literacy within pesantren ecosystems to reduce vulnerability to non-formal debt practices and enhance access to ethical financial resources.

Previous community engagement initiatives and academic studies have extensively addressed financial inclusion and microfinance literacy in Muslim communities, particularly through mosque-based programs, women-entrepreneur empowerment, and digital finance education [1], [2], [3], [4]. Existing literature demonstrates that Islamic microfinance can significantly enhance household resilience and small-business sustainability when literacy and institutional access are adequately integrated [5], [6], [7]. Nevertheless, most prior programs have focused on urban or semi-urban settings, often emphasizing institutional outreach [8], [9], [10] rather than grassroots participation. Pesantren-based approaches remain underexplored, particularly those that embed financial literacy within the cultural, religious, and social fabric of rural boarding schools. Moreover, earlier initiatives frequently prioritize theoretical dissemination over practical mentoring [11], [12], [13], resulting in limited behavioral change and weak post-program continuity. Studies also indicate that short-term workshops without sustained accompaniment rarely translate into formal engagement with sharia financial institutions [6], [14], [15]. Consequently, there is a notable gap in community service models that combine participatory education, contextualized learning modules, and hands-on assistance tailored to pesantren-centered micro-entrepreneurship. This gap provides the empirical and conceptual rationale for implementing a community-based Islamic microfinance literacy program rooted in pesantren contexts.

Against this backdrop, the present community service program aims to address the structural and cognitive barriers that hinder effective utilization of Islamic microfinance among santri and pesantren-adjacent micro-entrepreneurs. Specifically, the program seeks to enhance participants' understanding of core Islamic economic principles, improve practical knowledge of sharia financial products, and facilitate direct engagement with local BMTs, sharia cooperatives, and zakat institutions. The central questions guiding this initiative are: how can pesantren-based literacy interventions improve comprehension and application of Islamic microfinance contracts, and to what extent can participatory mentoring foster sustainable financial inclusion? By targeting 30–40 adult santri, alumni, and micro-entrepreneurs per location, the program adopts a community-driven approach that integrates socialization sessions, structured training, and extended mentoring. Through simulations of financing contracts and basic business financial management, the initiative aims to transform abstract religious-economic concepts into actionable practices relevant to participants' everyday livelihoods.

The anticipated implications of this program extend beyond individual knowledge acquisition to encompass collective and institutional transformation within pesantren communities. At the individual level, increased literacy is expected to empower participants to make informed financial decisions aligned with Islamic principles. At the group level, the formation of pesantren-based micro-enterprise groups may foster peer learning, mutual accountability, and economic solidarity. Institutionally, strengthened collaboration between pesantren, local sharia financial institutions, and village authorities can reposition pesantren as centers of community economic literacy and empowerment. From a broader perspective, this initiative contributes a replicable model of Islamic microfinance literacy that integrates religious authority, community participation, and practical mentoring. Such a model offers valuable insights for future community engagement programs seeking to bridge the gap between Islamic economic ideals and the lived financial realities of rural Muslim communities.

2. METHOD

This community engagement program was designed using a participatory planning approach grounded in the socio-economic realities of rural pesantren in Probolinggo and Bondowoso, East Java. The planning phase emphasized alignment between community needs, institutional capacities, and Islamic microfinance principles [16], [17]. A structured activity framework was developed collaboratively with pesantren leaders and local sharia microfinance institutions to ensure contextual relevance and feasibility. Table 1 summarizes the comprehensive planning activities, objectives, stakeholders involved, instruments used, and expected outputs. Such systematic planning is essential in community-based programs to ensure coherence between objectives and measurable outcomes, particularly in faith-based economic empowerment initiatives. Prior studies on participatory community service underscore that detailed planning frameworks enhance program ownership and sustainability [18], [19]. Therefore, this phase established a solid foundation for effective implementation.

The program design phase focused on translating identified needs into a structured and adaptive intervention model. Needs mapping revealed limited understanding of Islamic financial contracts and minimal engagement with formal sharia institutions, guiding the formulation of targeted learning outcomes. The strategy combined socialization, capacity-building training, and sustained mentoring, reflecting best practices in community empowerment literature. Program activities were sequenced to move participants from awareness to practice, ensuring gradual skill acquisition. This design was informed by community-based learning theories emphasizing experiential and context-sensitive approaches. Consequently, the planning stage concluded with a clear operational roadmap, integrating timelines, roles, and risk mitigation strategies to support effective program delivery within pesantren environments [5], [7].

Multiple sources of information were utilized to ensure program credibility and contextual accuracy. Primary sources included pesantren administrators, adult santri, alumni, and micro-entrepreneurs participating in the program. Institutional partners such as local BMTs, sharia cooperatives, and zakat institutions contributed technical expertise and practical insights. Facilitators comprised academics with backgrounds in Islamic economics and community development, alongside practitioners experienced in microfinance operations. Secondary sources included training modules, Islamic finance guidelines, OJK reports, and pesantren administrative documents. Drawing on diverse information sources strengthened triangulation and enhanced the program’s responsiveness to community dynamics, consistent with methodological recommendations in community engagement research [20], [21].

Table 1. Planning activities framework

No.	Activity	Objective	Stakeholders	Instruments	Expected Output
1	Initial coordination	Align program goals	Pesantren leaders, BMT, village officials	Meeting notes	Shared commitment
2	Needs assessment	Map literacy gaps	Santri, micro-entrepreneurs	Questionnaires	Needs profile
3	Focus group discussion	Validate findings	Participants, facilitators	FGD guide	Priority issues
4	Module development	Contextualize learning	Academic team, practitioners	Draft modules	Literacy module
5	Program scheduling	Ensure feasibility	All partners	Activity timeline	Implementation plan

Program implementation was conducted through sequential stages: socialization, training, mentoring, and facilitation. Socialization sessions introduced foundational concepts of Islamic economics and microfinance. Training workshops emphasized applied learning through simulations of *akad* contracts and basic business financial management. The mentoring phase extended over four to six weeks, enabling hands-on assistance in accessing sharia financial services, including savings and financing applications. Interventions were delivered using participatory methods such as group discussions, case-based learning, and peer reflection. This approach aligns with evidence suggesting that sustained mentoring fosters behavioral change more effectively than one-off training sessions. Thus, implementation focused on transforming knowledge into practice [11], [12].

Program evaluation employed a mixed-methods approach to assess both process and outcomes. Quantitative evaluation included pre- and post-tests measuring changes in Islamic microfinance literacy. Qualitative methods involved observation, participant reflection, and semi-structured interviews to capture experiential insights and behavioral shifts. Monitoring was conducted continuously throughout implementation to identify challenges and adaptive responses. Final evaluation sessions with partners generated recommendations for program refinement and sustainability. Such multi-layered evaluation frameworks are widely endorsed in community service literature as they provide robust evidence of impact and inform future program replication. Overall, evaluation findings served as the basis for reflective learning and institutional strengthening.

3. RESULTS

3.1. Planning readiness and program design outcomes

This section focuses on the planning phase outcomes, which were deliberately structured using a backward design approach. Rather than beginning with activities, the planning process started by defining intended community outcomes, followed by the formulation of indicators, instruments, and preparatory actions required to achieve those outcomes. This approach ensured that program design remained outcome-oriented, measurable, and responsive to pesantren-based socio-economic realities. The planning phase did not merely function as an administrative prerequisite but emerged as a critical stage in shaping program relevance, feasibility, and sustainability. As shown in Table 2, planning results demonstrate a high level of readiness across contextual alignment, institutional collaboration, learning design, and evaluation preparedness, indicating that foundational conditions for effective implementation were systematically established prior to field execution.

Table 2. Planning results matrix

No	Outcome	Indicator	Activity	Instrument	Target	Output
1	Literacy	Needs map	Survey & FGD	Ques/FGD	≥90%	100%
2	Alignment	Partner support	Meetings	MoU/Notes	≥3	5
3	Learning	Modules ready	Co-design	Draft/Review	1	3
4	Timeline	Activity plan	Workshop	Gantt	6–8 wk	7 wk
5	Readiness	Eligible participants	Selection	Forms	30–40	38
6	Applied	Simulations	Scenario	Cases	≥3	5
7	Monitoring	Eval tools	Dev tools	Pre–post	Valid	Valid
8	Sustainability	Linkages	Mapping	Network	≥1	3

Numerically, the planning phase in Table 2 achieved full completion across all predefined indicators. Needs assessment activities covered 100% of registered participants (n = 38), exceeding the minimum target of 90%. Institutional collaboration surpassed expectations, with five partners actively involved, compared to the initial target of three. In terms of learning preparation, three thematic literacy modules were developed, exceeding the single-module target. The finalized implementation plan spanned seven weeks, aligning precisely with the planned six-to-eight-week framework. Participant selection achieved 95% eligibility compliance based on predefined criteria. Simulation preparedness was notably strong, with five Islamic contract scenarios designed, compared to the target of three. Evaluation readiness was confirmed through the validation of both pre- and post-test instruments. Finally, sustainability planning identified three institutional linkage pathways, tripling the minimum expected outcome.

The robustness of the planning results reflects the strategic value of backward design in community engagement programs. By prioritizing intended outcomes, the planning process mitigated common implementation risks such as misalignment between activities and community needs. The overachievement of several indicators—particularly in institutional partnerships and learning module development—suggests strong social legitimacy and co-ownership within the pesantren ecosystem. Theoretically, these findings support participatory planning frameworks that emphasize co-creation and contextual embeddedness. Practically, the presence of multiple sustainability pathways indicates that planning extended beyond short-term intervention toward institutional continuity. From an applied perspective, this level of planning readiness enhances the likelihood that implementation activities translate into measurable behavioral change. Thus, this finding confirms that careful, outcome-driven planning functions not merely as preparation, but as an active determinant of program effectiveness and scalability [5], [10], [21].

3.2. Implementation effectiveness and outcome attainment

This section presents the empirical outcomes of the implementation phase, assessed through a backward design lens that emphasizes outcome attainment rather than activity completion alone. Implementation was structured to translate planning readiness into measurable behavioral, cognitive, and institutional changes among pesantren-based participants. The focus of this phase extended beyond knowledge transfer toward applied competence, financial confidence, and institutional engagement. As reflected in Table 3, implementation outcomes were systematically captured through attendance records, literacy assessments, simulation rubrics, mentoring logs, and institutional documentation. This results section demonstrates how participatory learning, sustained mentoring, and institutional facilitation functioned collectively to operationalize Islamic microfinance literacy within the everyday economic practices of santri and local micro-entrepreneurs.

Table 3. Implementation results matrix

No	Outcome	Indicator	Activity	Method	Target	Result
1	Awareness	Attendance	Socialization	Log/Obs	≥80%	92%
2	Literacy	Score gain	Workshop	Pre–post	≥70%	46→78%
3	Application	Simulation	Akad sim	Rubric	≥70%	76%
4	Confidence	Self-efficacy	Discussion	Reflection	≥65%	71%
5	Access	Linkage	Mentoring	Logs	≥60%	63%
6	Practice	Adoption	Application	Forms	≥50%	58%
7	Collaboration	Group form	Facilitation	Agreement	≥1	2
8	Retention	Participation	Mentoring	Tracking	≥75%	87%
9	Institution	Engagement	Joint act	MoM	≥3	5

Quantitatively, implementation outcomes in Table 3 exceeded most predefined benchmarks. Average participant attendance reached 92%, surpassing the 80% target, with a retention rate of 87% across the mentoring phase. Islamic microfinance literacy scores improved substantially, with mean comprehension increasing from 46% in pre-tests to 78% in post-tests. Simulation-based assessments showed that 76% of participants met competency criteria in applying core *akad* concepts, exceeding the 70% benchmark. Self-reported financial confidence was expressed by 71% of participants. Institutional linkage indicators revealed that 63% initiated formal engagement with sharia microfinance institutions, while 58% adopted halal financial practices such as savings or financing applications. Two pesantren-based micro-enterprise groups were formed, doubling the minimum target. Institutional participation also remained strong, with five partners actively involved throughout implementation.

The implementation results underscore the effectiveness of backward design in ensuring coherence between learning objectives and community-level outcomes. The significant improvement in literacy scores and practical competence validates experiential and simulation-based learning models emphasized in community empowerment theory. High retention and attendance rates indicate strong contextual relevance and social legitimacy within the pesantren environment. Theoretically, these findings align with adult learning and participatory engagement frameworks, which posit that sustained mentoring is critical for behavioral transformation. Practically, the successful initiation of institutional linkages demonstrates that literacy interventions can function as gateways to financial inclusion when paired with facilitative support. The formation of multiple micro-enterprise groups further suggests emergent collective agency. Overall, this finding illustrates that implementation effectiveness is not merely a function of activity intensity, but of intentional alignment between outcomes, methods, and institutional ecosystems [9], [20].

3.3. Monitoring, evaluation, and evidence of program consolidation

This section examines the monitoring and evaluation outcomes of the program, emphasizing consolidation rather than immediate output attainment. Using a backward design framework, evaluation activities were structured to assess whether intended impacts—particularly sustained literacy, behavioral consistency, and institutional integration—were maintained beyond the active implementation phase. Monitoring was conducted through a combination of delayed assessments, follow-up surveys, institutional records, and reflective documentation. This results section shifts analytical focus from “what was delivered” to “what endured,” positioning monitoring and evaluation as critical mechanisms for validating program effectiveness. As illustrated in Table 4, evaluation findings demonstrate that several key outcomes were not only achieved during implementation but also retained, adapted, and institutionalized within the pesantren-based microfinance ecosystem.

Table 4. Monitoring and evaluation results matrix

No	Impact	Indicator	Focus	Source	Benchmark	Result
1	Literacy	Retention	Durability	Post-test	≥70%	73%
2	Behavior	Consistency	Repetition	Survey	≥60%	61%
3	Institution	Active link	Interaction	Records	≥50%	57%
4	Decision	Accuracy	Akad fit	Re-test	≥65%	69%
5	Reflexivity	Reflection	Awareness	Logs	≥70%	74%
6	Collaboration	Group act	Meetings	Logs	≥2	3
7	Facilitation	Adaptation	Feedback	Notes	≥2	4
8	Partner	Satisfaction	Relevance	Interview	≥70%	82%
9	Scalability	Replication	Transfer	Workshop	≥1	2

Numerically, evaluation results in Table 4 indicate moderate to strong consolidation of program outcomes. Literacy retention reached 73%, slightly exceeding the 70% benchmark, based on delayed post-test scores. Behavioral consistency in applying Islamic microfinance practices was reported by 61% of participants, meeting the predefined threshold. Institutional engagement remained active for 57% of participants, as verified through BMT and LAZ records. Accuracy in selecting appropriate *akad* during reassessment improved to 69%. Reflective awareness was documented in 74% of participant logs. Group-level collaboration remained active, with an average of three meetings per group. Facilitators recorded four adaptive mentoring adjustments, surpassing the minimum target. Partner satisfaction reached 82%, while two scalable program models were proposed, doubling the replication benchmark.

The monitoring and evaluation results affirm the strategic role of backward design in extending program impact beyond initial intervention phases. Literacy retention and behavioral consistency suggest that learning outcomes were sufficiently internalized, aligning with adult learning theories emphasizing reflection and repetition. The persistence of institutional linkages underscores the importance of embedding community service programs within existing socio-religious structures. Theoretically, these findings support evaluation models that prioritize durability and adaptability over short-term performance metrics. From an applied standpoint, high partner satisfaction and the emergence of multiple scalable models indicate strong institutional resonance and transferability potential. Moreover, the program's adaptive mentoring responses reflect reflexive praxis, enabling continuous improvement. Collectively, this finding demonstrates that effective monitoring and evaluation transform community service initiatives into sustainable, learning-oriented interventions capable of informing future replication and policy integration [12], [14].

4. DISCUSSION

The findings of this community engagement initiative demonstrate substantial practical and social implications for pesantren-centered economic empowerment. One of the most salient outcomes is the transformation of Islamic microfinance literacy from abstract doctrinal knowledge into actionable economic practice. Participants not only acquired conceptual understanding of sharia financial principles but also began to apply these principles in daily financial decisions. Socially, this shift contributed to reduced reliance on informal debt mechanisms and strengthened trust in local sharia financial institutions. The program functioned as a mediating space between religious norms and economic behavior, enabling pesantren to reclaim their role as moral as well as economic reference points. However, the program also revealed functional limitations, particularly among participants with deeply entrenched informal financial habits, indicating that literacy alone does not immediately dismantle structural dependency. Overall, the initiative illustrates how community-based literacy programs can simultaneously empower individuals and reconfigure local economic norms [5], [22].

The underlying mechanisms that shaped these outcomes are closely linked to the program's structural design and delivery approach. The integration of pesantren leadership, local microfinance institutions, and village authorities created a multilayered support system that legitimized the intervention socially and institutionally. This structure reduced resistance toward formal financial systems, which are often perceived as distant or complex. Moreover, the use of participatory and simulation-based learning fostered experiential understanding, aligning with adult learning theories that emphasize relevance and practice. The gradual sequencing of activities—from awareness-building to mentoring—allowed participants to internalize concepts incrementally. Nevertheless, the dependence on facilitator intensity and interpersonal trust highlights a structural vulnerability: without sustained institutional commitment, such gains risk attenuation. These patterns suggest that program effectiveness is less a function of content delivery and more a product of relational and institutional embeddedness [11], [23].

Another significant implication lies in the program's capacity to foster collective economic agency within pesantren communities. Beyond individual literacy gains, the emergence of peer-based micro-enterprise groups indicates a shift toward collaborative economic behavior. Practically, these groups functioned as informal learning hubs where participants exchanged experiences, discussed challenges, and reinforced sharia-compliant practices. Socially, collective engagement mitigated feelings of financial isolation and enhanced mutual accountability, which is particularly important in rural micro-enterprise contexts. At the same time, the program revealed disfunctional tendencies, such as uneven participation within groups and reliance on more confident members. This underscores that collective empowerment is neither automatic nor evenly distributed. Nonetheless, the formation of such groups demonstrates that literacy interventions can catalyze social capital formation when designed to encourage interaction and shared problem-solving [9], [24].

The emergence of collective outcomes can be traced to specific relational and procedural mechanisms embedded in the program. Facilitated group discussions and mentoring sessions created structured opportunities for peer interaction, while shared simulations of Islamic financial contracts normalized collaborative decision-making. The pesantren setting itself functioned as a cultural anchor, providing a shared moral framework that facilitated trust and cooperation. Additionally, the presence of institutional partners during group activities signaled long-term support, reinforcing group sustainability. However, patterns of uneven engagement reflect pre-existing social hierarchies and varying levels of economic confidence among participants. These dynamics suggest that collective mechanisms require deliberate facilitation strategies to prevent dominance by a few actors. Thus, while group-based approaches enhance social learning, they must be accompanied by inclusive facilitation to ensure equitable participation [10], [25].

A further implication of the program is its contribution to institutional strengthening and local financial ecosystem integration. The sustained engagement between pesantren, BMTs, and zakat institutions repositioned these entities as accessible and responsive economic partners. Practically, this translated into increased initiation of savings and financing relationships, while socially it enhanced institutional credibility within the community. The program thereby functioned as a bridge between grassroots economic actors and formal sharia financial institutions. Yet, institutional limitations also surfaced, including administrative rigidity and limited product customization for micro-scale enterprises. These constraints occasionally slowed participant engagement and highlighted gaps between institutional procedures and community expectations. Even so, the strengthened relational ties indicate that community service initiatives can serve as effective entry points for institutional reform and adaptation [8], [26].

The mechanisms driving institutional outcomes are rooted in the program's facilitative rather than directive orientation. By positioning institutions as partners rather than service providers, the program encouraged reciprocal learning between practitioners and community members. Continuous feedback loops—captured through mentoring logs and reflective sessions—enabled institutions to adjust communication strategies and service delivery. This aligns with governance-oriented community engagement models that emphasize co-production and adaptability. However, the reliance on personal relationships over formal agreements exposes a scalability challenge, as institutional responsiveness may fluctuate with personnel changes. These patterns suggest that while facilitative mechanisms enhance short-term integration, long-term sustainability requires formalized institutional commitments. Collectively, the discussion highlights that effective community-based Islamic microfinance programs depend on the alignment of literacy, collective agency, and institutional adaptability within culturally embedded frameworks [14], [27].

5. CONCLUSION

This community engagement program demonstrates that integrating Islamic microfinance literacy within pesantren ecosystems offers a viable and contextually grounded pathway for rural economic empowerment. A key lesson derived from the program is that literacy becomes transformative only when it is embedded in culturally legitimate institutions and accompanied by sustained mentoring. The program's primary strength lies in its backward-designed, community-based approach, which aligned intended outcomes with participatory learning, simulation of Islamic financial contracts, and institutional facilitation. By bridging religious values, practical financial knowledge, and local microfinance institutions, the initiative contributed a replicable model of pesantren-centered economic empowerment. This model advances community service practice by moving beyond information dissemination toward experiential, relationship-driven, and outcome-oriented empowerment strategies.

Despite these strengths, the program faced limitations related to time constraints, participant heterogeneity, and varying institutional readiness. Short implementation cycles limited deeper behavioral consolidation for participants with entrenched informal financial practices. Additionally, reliance on intensive facilitation poses challenges for scalability without long-term institutional commitment. These limitations indicate the need for follow-up programs that extend mentoring duration, incorporate digital support tools, and strengthen formal agreements with sharia financial institutions. Future community engagement initiatives should focus on longitudinal accompaniment, capacity building for pesantren-based facilitators, and policy-level integration to ensure sustainability and broader replication of Islamic microfinance literacy interventions.

ACKNOWLEDGMENTS

The author gratefully acknowledges pesantren communities, colleagues, and institutional partners who contributed to this community engagement initiative.

FUNDING INFORMATION

Authors state no funding involved.

AUTHOR CONTRIBUTIONS STATEMENT

Nisma: conceptualization (lead), program implementation (lead), community facilitation (lead), writing – original draft (lead), writing – review and editing (lead).

CONFLICT OF INTEREST STATEMENT

Authors state no conflict of interest.

INFORMED CONSENT

We have obtained informed consent from all individuals included in this study.

ETHICAL APPROVAL

This manuscript related to human use has been complied with all the relevant national regulations and institutional policies in accordance with the tenets of the Helsinki Declaration and has been approved by the authors' institutional review board or equivalent committee.

DATA AVAILABILITY

Data availability is not applicable to this article as no new data were created or analyzed in this study.

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