



EFFECTIVENESS OF DISTRIBUTION OF BAZNAS MICROFINANCE VILLAGE BUSINESS FUNDS TO MUSTAHIQ: OPPORTUNITIES AND CHALLENGES

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Abstrak

Pengabdian ini memiliki tujuan menganalisis efektivitas, peluang, serta tantangan program penyaluran dana usaha BAZNAS Microfinance Desa (BMD) Tulungagung dalam pemberdayaan pelaku Usaha Mikro Kecil Menengah (UMKM) rentan. Desain pengabdian masyarakat menerapkan model pemberdayaan ekonomi, yang berfokus pada peningkatan kapasitas individu dan kelompok melalui akses terhadap sumber daya, pelatihan, dan pasar untuk mencapai kemandirian ekonomi yang inklusif dan berkelanjutan. Tahapan kegiatan pengabdian masyarakat ini adalah identifikasi masalah, perencanaan kegiatan, implementasi dilanjutkan dengan penyaluran dana usaha kepada Kelompok Bantuan Mustahiq, pemantauan dan evaluasi berkala. Hasil penelitian ini penyaluran dana melalui skema akad qardhul hasan (pinjaman tanpa bunga) efektif mengatasi masalah permodalan dan mendukung keberlangsungan usaha mitra. Efektivitas ini ditopang oleh implementasi Maqashid Syariah yang diwujudkan melalui pendampingan spiritual dan fasilitas legalitas usaha. BMD tidak hanya memberikan modal, tetapi juga membangun ekosistem pendampingan holistik. Adapun, tantangan yang di hadapi BMD meliputi risiko kredit tanpa agunan, dan rendahnya kapasitas manajerial mitra. Keberlanjutan program BMD memerlukan penguatan jangka panjang agar tercapai visi menjadikan mustahiq sebagai muzakki. Secara keseluruhan, dari kegiatan pengabdian ini berkontribusi pada peningkatan kapasitas usaha, penguatan ekosistem UMKM di lingkup Tulungagung, serta transformasi mustahiq menjadi muzakki sebagai implementasi keberlanjutan program BMD.

Kata kunci: *Modal Usaha; BAZNAS Microfinance Desa; Maqashid Shariah.*

Abstract

This community service aims to analyze the effectiveness, opportunities, and challenges of the BAZNAS Microfinance Desa (BMD) Tulungagung fund distribution program in empowering vulnerable Micro, Small, and Medium Enterprises (MSMEs). The community service design applies an economic empowerment model, which focuses on building the capacity of individuals and groups through access to resources, training, and markets to achieve inclusive and sustainable economic self-sufficiency. The stages of this community service activity are problem identification, activity planning, implementation followed by the distribution of business funds to the Mustahiq Assistance Group, periodic monitoring and evaluation. The results of this study indicate that the distribution of funds through the Qardhul Hasan scheme (interest-free loans) is effective in addressing capital constraints and supporting the sustainability of partner businesses. This effectiveness is supported by the implementation of Maqasid al-Sharia, as manifested through spiritual mentoring and legal support for business. BMD not only provides capital but also builds a holistic mentoring ecosystem. The challenges faced by BMD include unsecured credit risk and partners' limited managerial capacity. The sustainability of the BMD program requires

long-term strengthening to achieve the vision of transforming mustahiq into muzakki. Overall, this community service activity contributes to increasing business capacity, strengthening the MSME ecosystem in the Tulungagung area, and transforming mustahiq into muzakki, thereby implementing the BMD program's sustainability objectives.

Keywords: Business Capital;-BAZNAS Microfinance Village; Maqashid Shariah.

INTRODUCTION

The most urgent issues in every country, including Indonesia, are poverty. According to data from the Central Bureau of Statistics, the number of poor people in Indonesia in September 2024 reached 24.06 million. Compared to March 2024, the number of poor people decreased by 1.16 million. Compared with March 2023, the number of poor people decreased by 1.84 million. The percentage of poor people in September 2024 was recorded at 8.57 percent, down 0.46 percentage points from March 2024 and down 0.79 percentage points from March 2023 (BPS, 2024) based on Figure 1.

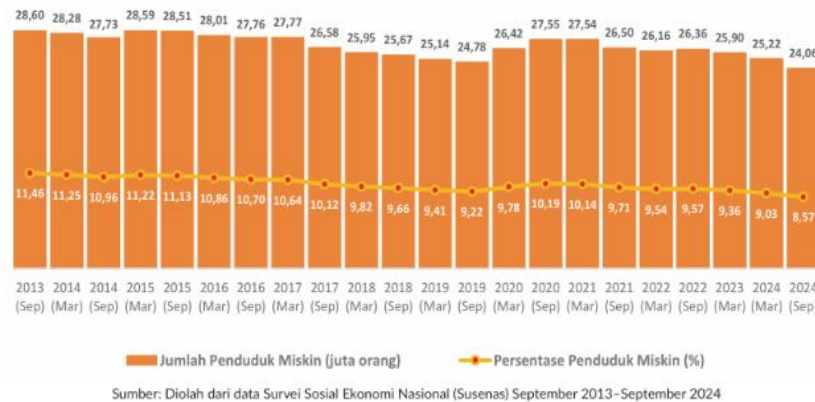


Figure 1. Percentage of Poor Population 2024

Source: Central Bureau of Statistics, 2025

The high poverty rate is a multidimensional problem that can trap individuals in a vicious cycle of poverty. Poverty is a fundamental factor for individuals, limiting their mobility, including in conducting business activities. As a driver of the economy, MSMEs can create a multiplier effect, supporting employment, poverty alleviation, and stimulating local economic growth, contributing to the economic base. Referring to the development of MSMEs in Tulungagung in 2024, the number of MSMEs in Tulungagung is projected to reach 259,897, consisting of industries ranging from food and beverages to the service sector. This number represents a significant increase from 2020, when there were only 64,144 MSMEs (BPS Tulungagung, 2025).

However, the decline in MSME development is influenced not only by the level of poverty among entrepreneurs but also by limited access to capital and conventional financing that emphasizes interest rates and collateral, which can put pressure on entrepreneurs. Capital constraints are a frequently encountered problem. Capital plays a crucial role in supporting business productivity, including the purchase of raw materials and equipment, which in turn affects business

sustainability. This is in line with findings (Kumari, 2025) that MSME growth is hampered by limited access to finance and markets, business licensing and taxation regulations, and technology and skills gaps. Financial literacy can overcome challenges in accessing financing (Talip & Wasiuzzaman, 2023).

The presence of Islamic finance can increase opportunities and potential for financing business actors, given its characteristics of interest-free and collateral-free financing and an emphasis on fairness and inclusiveness. This is achieved through Islamic Social Finance's role as an alternative to address financial challenges, as it prioritizes the principle of *Ta'awun*. Islamic social finance produces effective poverty alleviation strategies, contributing to wealth redistribution, social justice, and sustainable development (Azeemi et al., 2023). This shows that ISF can serve as a solution and alternative for vulnerable groups, whose development can be used to address contemporary issues that affect the poor and to generate capital.

Seeing the potential of ZIS and DSKL at the national level, reaching Rp 326.7 trillion. This is a hope for the creation of community welfare. BAZNAS makes various efforts to achieve optimal ZIS fund collection and holds various programs such as Health, Education, Capital Assistance, and so on, which are expected to be right on target to mustahiq (BAZNAS, 2025c). The form of real contribution to the implementation of Islamic Social Finance Instruments through Baznas Microfinancing Village is part of a program organized by BAZNAS in increasing microfinance access for business actors that has been implemented in several provinces in Indonesia, including in Tulungagung Regency since October 2024. The following is the financing allocation that has been implemented by Baznas Microfinance Village (BMD), Tulungagung described in Table 1.

Table 1. Distribution of Zakat Funds from Baznas Microfinance, Tulungagung Village (Million Rupiah)

Year	Month	Financing Zakat Fund	Association Fund Financing	Number of Partners L P	
2024	October	133.6 00.000		16	67
2024	November	167,800,000		13	79
2024	December	228,600,000		20	102
2025	January	34,400,000		1	18
2025	February	61.200.000		9	24
2025	Maret	273.600.000		21	116
2025	April	45.700.000		1	22
2025	Mei	34.300.000		6	11
2025	Juni	20.800.000	80.700.000	8	34
2025	Juli	-	-	-	-
2025	Agustus	-	47,300,000	2	18
2025	September	-	25,100,000	-	14
		1,000,000,000	153,100,000	97	505

Source: Baznas Village Microfinance (BMD) Tulungagung, 2025

Overall, the Tulungagung Village Microfinance Agency (BMD) has provided business capital financing for MSMEs totaling IDR 1 billion and group fund financing totaling IDR 153,100,000, distributed to 602 business partners.



Disbursed business capital is used by business owners to fund operations and purchase operational needs. Furthermore, the Village Microfinance Agency (BMD) offers halal certification services, marketing assistance, and participation in bazaars organized by the Tulungagung Regency government. The program aims to maximize the potential of zakat, which is distributed not only as capital but also to ensure the sustainability of the partners' businesses. Therefore, the Village Microfinance Agency (BMD) is positioned as a financing institution for business owners while simultaneously encouraging their productivity through mentoring activities. Therefore, this can be addressed by optimizing Zakat, Infaq, and Sedekah, including the important role of ISF in supporting economic resilience (Mubarak et al., 2024).

Due to the heterogeneity of business actors and their distinct characteristics, the distribution of business capital has different effects on them. This empowerment is carried out through a series of activities with socialization, field assessment, post-financing assistance, including supporting facilities for business productivity through halal certification services and bazaar activities by adopting the Economic Empowerment Model. Although similar community service activities exist, this activity integrates financing distribution activities, field reviews, and assistance to assess BMD's performance in financing distribution. This empowerment activity is intended to further assess the effectiveness of financing distribution by Baznas Microfinance Desa (BMD) Tulungagung to its partners. This can serve as a basis for evaluations that identify opportunities and challenges, ensuring optimal business capital distribution and strengthening the effectiveness of the Baznas Microfinance Desa program.

METHODS

This study identifies the effectiveness of business capital distribution specifically for vulnerable entrepreneurs in Tulungagung Regency. It examines the opportunities and challenges of programs implemented by BAZNAS Village Microfinance (BMD) to promote financial independence and enhance problem-solving capacity. Mustahiqs (capital recipients) often face real challenges, such as limited marketing networks, intense competition, and business capital management constrained by low literacy and understanding. This identification effort involves actively understanding the needs of Mustahiq through socialization, mentoring, and market access analysis, all of which are essential to improving business capabilities and income. In this activity, BMD and the researchers act as facilitators who help map needs and enhance partner capacity.

The community service design applies the Economic Empowerment Model, which focuses on enhancing the capacity of individuals and groups through access to resources, training, and markets to achieve inclusive and sustainable economic independence. This activity was conducted at BMD Tulungagung from September 15 to October 10, 2025, and included socialization and monitoring. Stages of This Community Service Activity:

First, the implementation of the Economic Empowerment Model begins with socialization and a rapid assessment of prospective partner beneficiaries. Through this activity, prospective partners are provided with an understanding of the program flow and the requirements that must be met, so that they can be followed up on or approved. This includes identifying the main issues of MSMEs, business legality, finances, and market reach. At this stage, the facilitator plays a role in verifying business feasibility and mapping the support needs.

Second, based on the results of the identification that has been carried out, the service provider obtained several pieces of necessary information. The next step undertaken by the service provider is activity planning with the BMD Tulungagung management. This planning includes determining the financing scheme, preparing a mentoring plan, and defining the forms of intervention that will be provided to partners (such as business management mentoring, financial literacy improvement, and business legality facilitation).

Third, from all the approved assessment stages, the implementation phase proceeds with the distribution of business funds to the Mustahiq Assistance Group (KBM) as well as intensive post-financing support. This intervention includes monitoring the utilization of business funds, assisting with business administration, facilitating the Business Identification Number (NIB) and Halal certification, as well as strengthening market access.

Lastly, periodic monitoring and evaluation are conducted to assess the appropriateness of fund usage and to identify challenges encountered by partners. The evaluation of community service activities focuses on changes in partners' capacities, such as improvements in business management, discipline in loan repayment, and the strengthening of business sustainability. The evaluation results are used to assess the effectiveness of financing distribution and serve as a basis for reflection and recommendations to enhance the BMD program.

Data collection was carried out participatively through triangulation, including in-depth interviews to reflect the partners' experiences during mentoring, participatory observation in the field (especially during rapid assessment and post-funding monitoring), business mentoring and monitoring, as well as documentation studies (financial reports, activity news) during the BMD activities (Hardani et al., 2020). The data analysis technique was conducted following an adaptation of the Miles, Huberman, and Saldana model (Rachmad et al., 2024), which includes simplifying field findings relevant to the service objectives, namely to identify the effectiveness of business capital disbursement through direct field reviews, presenting data narratively to illustrate the mentoring process and activities during the service, and drawing conclusions that emphasize the achievements of the activities, implementation challenges, and implications for the sustainability of the BMD program. With this method, it is expected that community service activities will be able to provide an operational overview of the



implementation of the Economic Empowerment Model in the ISF context, while also demonstrating the tangible contribution of BMD assistance in enhancing the capacity and independence of the beneficiaries.

RESULTS AND DISCUSSION

Result

The results of the implementation of the business fund distribution program by BAZNAS Village Microfinance (BMD) show that business capital financing has a real impact on the business development of fostered partners. Based on the results of field observations, most of BMD's partner business actors previously experienced capital limitations which had a direct impact on low production capacity, equipment limitations, difficulty obtaining raw materials, and weak product competitiveness. This condition results in a stagnant business and difficulty in developing.

Post-financing disbursement observations show an increase in business activities, both in terms of production and business management. The financing funds are used in accordance with the proposals submitted, especially for the purchase of raw materials, production equipment, and business operational needs. In addition, fostered partners have also begun to show increased awareness of the importance of more structured business management, especially after receiving intensive assistance from the BMD team. The results of interviews with business actors show that BMD financing is felt to be very helpful in reducing financial pressure. One of the fostered partners, Claranita Andiani, a marine fish marinade business actor, stated:

"Before getting help from BMD, I had difficulty buying plastic presses and raw materials. After getting capital, the business becomes smoother. What I feel the most is that there is no interest and there is also assistance, especially for marketing and management of halal certificates."

In addition to having an impact on the capital aspect, the results of field observations show that BMD's business fund distribution program also contributes to changes in the work patterns and business behavior of fostered partners. Before receiving financing, most partners run their businesses informally without clear financial records. After participating in the assistance provided by the BMD team, the fostered partners began to implement simple records related to income, expenses, and use of business capital. This change can be seen from the increasing awareness of partners to separate business and household finances, so that business cash flow becomes more controlled.

The results of the observation also show that there is an improvement in the quality of the facilities and business infrastructure of the fostered partners. Some business actors who previously used simple and less feasible equipment,

after receiving financing were able to replace or add more adequate production equipment. This condition has a direct impact on the efficiency of the production process and the consistency of product quality. For example, processed food business actors are able to increase daily production capacity and improve product packaging to make it more hygienic and attractive to consumers.

Other interviews with fostered partners also revealed that before receiving capital for his main business, he worked as a cleaner, which was his main source of income. This is due to business constraints that require him to continue working as a janitor every day. He responded to BMD's assistance in developing his side business, namely selling clothes in the market. He emphasized that BMD provides interest-free financing, relying only on honesty and discipline in repaying loans. He believes that the BMD program is very helpful for people like him as described in Figure 2.



Figure 2. Business Actor (Business Partner)

In this community service activity, the team of community services encountered several aspects of the management of productive zakat (funding sources for *mustahiq*) undertaken by BMD. Zakat can stimulate the economy in both the short and long term, depending on the management process. Zakat is often regarded as an instrument for wealth redistribution. Zakat can become a means for welfare if implemented through a productive zakat scheme conducted wisely so as to minimize or prevent poverty. The utilization of productive zakat has the noble goal of "enabling the beneficiaries (*mustahiq*) to become contributors (*muzakki*).\" However, the implementation of zakat utilization is not easy; it requires a long period of time and regular guidance so that the empowered recipients (*mustahiq*) can eventually become contributors (*muzakki*).

The program implementation phase begins with a comprehensive administrative selection mechanism. At this stage, the researcher acts as an assistant in verifying the validity of the prospective beneficiaries' data. In the process, the researcher verifies several documents that are required according to

BMD regulations, including checking the completeness of formal documents, validating the category of business types, and conducting an in-depth review of the details of needs and financial reports. The analysis carried out serves as a crucial foundation to determine the feasibility of the prospective recipients' businesses, whether the verification process can be followed up with a field survey or must be rejected to mitigate financing risks from the outset. At this stage, the researcher encountered various types of potential businesses.

Following the financing approval, activities proceed to the stage of socialization and formalization of commitments. The BMD manager facilitates partner group meetings for the signing of agreements, which include the schedule of installments and the implementation of a joint liability system as a form of social collateral. Once an agreement is reached between both parties, BMD collaborates with researchers to provide intensive field assistance. This monitoring aims to ensure the partners' integrity in utilizing the capital in accordance with their proposals, as well as to anticipate potential misuse of funds (side-streaming) that could hinder business development as described in Figure 3.



Figure 3. Post-Financing Socialization Activities

The mentoring program also results in increased awareness of partners on the importance of legality and product standards. The results of the observation show that some fostered partners who previously did not understand the importance of Business Identification Number (NIB) and halal certification, began to actively participate in the process of managing business legality facilitated by the BMD team. This process encourages partners to better understand business administration requirements and production standards, which can ultimately increase consumer confidence in the products produced.

In addition to their supervisory functions, the roles of researchers and regional apparatus are also focused on enhancing the business capacity (capacity building) of their partner enterprises. Researchers provide assistance and

technical consultation related to business development, including facilitating legal compliance, such as the issuance of Business Identification Numbers (NIB) and Halal certification. This intervention is intended to ensure that micro-enterprises not only gain access to capital but also possess legal legitimacy and product standards capable of competing in broader markets, as described in Figure 4.



Figure 4. Post-Financing Monitoring

Regarding repayment risk management, challenges such as delays in installment payments are still encountered in practice, even though the financing schemes offered are free of interest and usury. In addressing these constraints, the collection approach implemented by the team is persuasive and humane. The main focus is not on pressure, but on reminding partners of their initial commitments and providing constructive solutions for those experiencing liquidity difficulties, thereby ensuring that problem resolution maintains a good relationship between the institution and its partners.

As an effort to ensure business sustainability, the role of mentoring is expanded through the integration of partners into the marketing ecosystem. BMD and researchers actively facilitate partners to participate in various exhibitions and MSME events organized by relevant agencies. This participation is a strategic step to increase product exposure (brand awareness) and expand market reach, which is ultimately expected to boost sales revenue and the economic independence of partners.

Finally, the role of BMD is expanded through the integration of partners into a larger marketing ecosystem. BMD actively facilitates its assisted partners to participate in various institutional events and MSME exhibitions organized by the cooperatives and micro-enterprise departments. Participation in these exhibitions is strategically aimed at increasing product exposure (brand awareness) and expanding the market reach of partners. This step represents a tangible form of optimizing BMD's role in ensuring business sustainability and boosting partners'



sales revenue, so that the impact felt by partners is not only immediate financial gains but also long-term business growth.

Assisting fostered partners in MSME exhibition activities is a form of implementation of community service programs that are oriented towards strengthening market access and increasing product competitiveness. In this activity, fostered partners are facilitated to participate directly in exhibition events organized by local governments and related agencies. The assistance is focused on product preparation, display arrangement, and communication strategies with consumers, so that partners gain practical experience in marketing products directly. The results of the activity show that the involvement of partners in MSME exhibitions not only increases product exposure to the wider community, but also strengthens the confidence and motivation of partners in developing businesses, as well as opening up business networking opportunities with other MSME actors and related stakeholders as explained in Figure 5.



Figure 5. Partner Assistance at the MSME Exhibition Event

Field assistance activities at the MSME bazaar in Rejotangan District show the active involvement of fostered partners in marketing products directly to consumers. Partners are assisted in the process of product arrangement, service to buyers, and transaction management during bazaar activities. Based on the results of observations, the products on display have been packaged more neatly and attractively, thereby increasing visual appeal for visitors. This assistance provides practical experience for fostered partners in understanding market dynamics, building communication with consumers, and expanding marketing networks. This MSME bazaar activity is a strategic means to increase product exposure and strengthen the confidence of partners in developing their business sustainably, as documented in Figure 6.



Figure 6. Field Assistance for MSME Bazaar Activities in Rejotangan

The implementation carried out by BMD using a financing model based on *qardhul hasan* faces significant challenges in the field. The risk is apparent when lending funds to micro or small entrepreneurs with diverse backgrounds. This financing risk is not secured by collateral, relying solely on honesty and willingness to repay. This risk is exacerbated by the numerous challenges faced by the micro-entrepreneurs themselves. Consequently, the institution is confronted with practical challenges such as low repayment rates and problematic clients whose funds have been depleted and are unable to repay.

Another fundamental challenge is operational sustainability. Since BMD operates on a not-for-profit basis and does not take margins or interest from *qardhul hasan* financing under the principle of *ta'awun* (mutual assistance), the institution does not generate income from its primary financing activities. This poses a significant challenge in covering its operational distribution costs. As the institution's business fund has a vision of maximizing public benefit, BMD is fully dependent on centralized funding sources. Salaries or management fees, for example, are directly provided by BAZNAS RI and are not allowed to charge costs or earn profits from the assisted partners. In general, the institution's operations are supported by initial capital, ZIS funds (*Zakat, Infaq, Sadaqah*), and voluntary donations from members specifically intended to support the institution's operational activities. Dependence on non-productive funds presents challenges for scalability and long-term sustainability.

Discussion

The results of the field findings show that the distribution of business funds by BAZNAS Village Microfinance (BMD) can be categorized as effective in



supporting the development of micro businesses of fostered partners. This effectiveness is not only measured by the distribution of financing funds (Kurniawan & Astuti, 2025), but also from the real impact felt by business actors, both in economic and social aspects (Salsabiela & Shoqidin, 2022). This is in line with the view of Sodikin, (2020) who states that the effectiveness of the program is determined by the extent to which the benefits and impact of the program can be felt by the beneficiaries.

The non-profit BMD financing model and *ta'awun principles* show compatibility with the concept of *maqashid syariah*, especially in maintaining *hifz al-mal* and *hifz al-nafs* (Pangestuti et al., 2024). Interest-free and unsecured financing through the *qardhul hasan* scheme has been proven to be able to protect business actors from exploitative financial practices, while preventing economic losses due to excessive interest costs (Munir, 2023). The field findings strengthen the argument that sharia-based financing not only serves as asset protection, but also as an instrument of economic empowerment (Damaya et al., 2023).

In addition to the aspect of asset protection, the mentoring approach carried out by BMD reflects the implementation of *hifz al-nafs* in the modern context (Cahyaning & Salama, 2024), namely the protection of the dignity and psychological well-being of business actors (Cahyaning & Salama, 2024). A persuasive and educational approach to collection, without pressure or threats, is in line with the findings of Wahab, (2021) who affirms that ethics-based financial practices can minimize negative psychological impacts on small business actors.

The effectiveness of financing is also strengthened by the integration of sustainable business assistance. Assistance in the form of increasing business literacy, facilitating halal certification, and marketing support has been proven to be able to increase the capacity and confidence of fostered partners (Hanun et al., 2024). These findings are in line with the research of Sapa & Amani, (2022), which states that mentoring is a key factor in maintaining the sustainability of sharia financing-based microbusinesses.

However, the results of this service also reveal structural challenges in the management of *qardhul hasan* financing, especially related to financing risks and the sustainability of institutional operations. BMD's reliance on ZIS funds and donations leads to limitations in the scalability of the program. This finding corroborates the results of research by Hanifah et al., (2025) which emphasizes the need for intensive monitoring and institutional capacity strengthening so that zakat-based empowerment programs can be sustainable.

Overall, these findings show that the effectiveness of distributing BMD funds does not only lie in the aspect of capital financing, but also in a holistic approach that integrates mentoring, sharia ethics, and strengthening business capacity (Wahab, 2021). This approach supports the long-term goal of *mustahiq* empowerment to be able to develop independently and sustainably, in line with

the concept of transforming mustahiq into muzakki as affirmed in empowerment theory (Kasanah & Setyawan, 2024).

CONCLUSIONS AND SUGGESTION

The distribution of business capital carried out by BAZNAS Microfinance Desa Tulungagung has proven effective in empowering mustahiq or MSME actors, and BMD has even become an alternative financing option that implements interest-free. The effectiveness achieved by BMD is due to the application of the qardhul hasan contract (interest-free), which aligns with the Maqashid Shariah, namely protecting the assets (*hifz al-mal*) of partners from the traps of moneylenders or illegal loans, as well as maintaining dignity (*hifz al-nafs*) through a harmonious and persuasive collection approach. Another factor that is an advantage of the BMD Program is the holistic empowerment model that not only provides financial capital but also includes spiritual guidance, facilitation of business legality (NIB and Halal Certification), and marketing. However, among its advantages, there are hindering factors such as inherent challenges due to the high risk of unsecured financing and the low financial literacy of the partners.

Based on the analysis of opportunities and challenges identified, the following recommendations are made for this activity, as BMD needs to optimize the strengthening of a more inclusive screening and risk management system through strengthening joint liability groups to minimize the risk of default. Furthermore, partners are expected to improve discipline in simple financial record-keeping and fully commit to the mentoring provided so that their businesses can grow from micro-scale to independent enterprises. Furthermore, further service will optimize the use of digital technology as a means of screening and application-based financial literacy.

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