

Strengthening the role of Village-Owned Enterprises (BUMDes) in South Sumatra through Islamic social entrepreneurship

Rizqi Anfanni Fahmi^{1,2}, & Maya Panorama³

¹Program Studi Peradaban Islam (S3), Universitas Islam Negeri Raden Fatah Palembang, Kota Palembang, Indonesia

²Program Studi Ekonomi Syariah (S1), Universitas Islam Indonesia, Kab. Sleman, Indonesia

³Program Studi Ekonomi Syariah (S2), Universitas Islam Negeri Raden Fatah Palembang, Kota Palembang, Indonesia

ABSTRAK

Introduction

Village-Owned Enterprises (Badan Usaha Milik Desa abbreviated BUMDes in Bahasa Indonesia) play a vital role in rural development in Indonesia. However, in South Sumatra, the majority of these enterprises face persistent challenges related to governance, financial sustainability, and community engagement. Despite substantial government funding, only a small fraction of Village-Owned Enterprises operate effectively. Given the region's predominantly Muslim population, there is significant potential to enhance Village-Owned Enterprises through faith-driven economic models grounded in Islamic principles.

Objectives

This study aims to explore how the integration of Islamic Social Entrepreneurship can strengthen Village-Owned Enterprises in South Sumatra. It examines the alignment between Islamic ethical values and key factors that determine enterprise success, such as government support, professional management, and active community participation.

Method

The study adopts a qualitative library research method, relying on content analysis of peer-reviewed literature, government reports, and empirical case studies published between 2014 and 2024. The data were organized into thematic categories to assess how Islamic principles—including economic justice, religious-based ethics, and Islamic philanthropy—can be applied to improve the performance and sustainability of Village-Owned Enterprises.

JEL Classification:

O18, P25, R51, Z12

KAUJIE Classification:

H5, N5, R61, R62

ARTICLE HISTORY:

Submitted: December 30, 2024

Revised: March 22, 2025

Accepted: April 15, 2025

Published: May 25, 2025

KEYWORDS:

Islamic social entrepreneurship; rural development; South Sumatra; Village-Owned Enterprises

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Contact: Rizqi Anfanni Fahmi ✉ rizqi.anfanni@uii.ac.id

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PUBLISHER'S NOTE: Universitas Islam Indonesia stays neutral with regard to jurisdictional claims in published maps and institutional affiliations.



Results

The findings indicate that Islamic Social Entrepreneurship provides a holistic framework for transforming Village-Owned Enterprises into transparent, accountable, and socially impactful institutions. The application of values such as trustworthiness, economic jihad, and community-oriented governance enhances public trust and operational resilience. Islamic financial instruments, including zakat and waqf, offer viable alternatives to conventional funding, reducing dependency on external aid. Moreover, real-world case studies have demonstrated that integrating Islamic values into enterprise governance results in higher community participation, more efficient management, and stronger economic outcomes.

Implications

This study underscores the strategic potential of embedding Islamic ethics in rural enterprise development. Strengthening partnerships between Village-Owned Enterprises, Islamic philanthropic organizations, and local governments can build inclusive business ecosystems. This approach not only promotes poverty alleviation but also enhances financial independence and community empowerment in Muslim-majority regions.

Originality/Novelty

This research fills a critical gap by proposing Islamic Social Entrepreneurship as a culturally relevant and scalable model for improving Village-Owned Enterprises. Unlike prior studies, which focused solely on economic or managerial dimensions, this study introduces a religiously grounded governance framework that integrates Islamic values with local potential, offering a novel contribution to both entrepreneurship and development studies.

CITATION: Fahmi, R. A. & Panorama, M. (2025). Strengthening the role of Village-Owned Enterprises (BUMDes) in South Sumatra through Islamic social entrepreneurship. *Journal of Islamic Economics Lariba*, 11(1), 1-24. <https://doi.org/10.20885/jielariba.vol11.iss1.art1>

INTRODUCTION

The Village-Owned Enterprises (BUMDes) in South Sumatra have not been able to operate optimally. Out of the 3,263 existing villages, there are over 2,500 registered BUMDes. However, in 2021, only two BUMDes were functioning effectively (Inge, 2021). It is worth noting that in the same year, there was a budget of 2.7 trillion Indonesian Rupiah allocated for village funds in South Sumatra (Kementerian Keuangan RI, 2020). Although these village funds can be utilized for BUMDes development, most villages allocate the funds for village infrastructure development and administrative operations (Rizal, 2022). Thus, there are challenges in the management of BUMDes in South Sumatra.

Effective management of BUMDes can stimulate rural economies and improve the welfare of rural communities. Several BUMDes have proven successful in enhancing the well-being of village residents. For instance, BUMDes Payang Sejahtera in East Kalimantan was able to employ 250 villagers with salaries exceeding one million

Indonesian Rupiah, resulting in a reduction in the number of recipients of Direct Cash Assistance from 120 to 12 individuals ([Budiariis, 2021](#)). Similarly, Bumdes Panggung Lestari in Bantul created job opportunities for 167 people through various business units, generating billions in revenue ([Tavianto, 2022](#)). Furthermore, BUMDes also contribute to village governments, as exemplified by BUMDes Mitra Usaha Mulya Rokan Hulu, which donated Rp 143 million to the Village Own-Source Revenue (PADes). BUMDes Niagara in Bandung Regency even averaged a contribution of Rp 600 million per year to PADes ([Aminuddin A.S., 2021](#)). Hence, BUMDes possess significant potential and play a substantial role in improving rural economies.

Existing studies on Village-Owned Enterprises (BUMDes) predominantly explore organizational structures, empowerment models, and business management strategies ([Andriana et al., 2021](#); [Ginanjari et al., 2020](#)). Previous research has emphasized the need for accountability and financial transparency in BUMDes operations ([Asis et al., 2020](#); [Gandhiadi, 2021a](#); [Hendriani et al., 2019](#)). Additionally, BUMDes have been widely recognized for their role as social innovators, particularly in driving rural economic empowerment and enhancing community resilience.

However, despite extensive discussions on these aspects, existing literature lacks a comprehensive framework for integrating Islamic values into BUMDes development. Studies have yet to explore how Islamic Social Entrepreneurship (ISE) can serve as a transformative model to strengthen the social and economic impact of BUMDes. While several studies discuss social innovation within BUMDes ([Dilham et al., 2020](#); [Fafurida et al., 2022](#); [Kamariah et al., 2021](#)), few have examined how Islamic principles such as zakat, waqf, and sadaqah can be leveraged to support BUMDes sustainability.

Moreover, most research on BUMDes remains geographically and contextually fragmented, often focusing on case studies from specific regions (e.g., East Kalimantan, Bantul, and Rokan Hulu) without a broader framework applicable across different socio-economic settings. In South Sumatra, where 97% of the population is Muslim ([Satu Data Kementerian Agama Republik Indonesia, 2021](#)) incorporating an Islamic social entrepreneurship approach could provide a culturally embedded solution to existing BUMDes challenges.

This study fills the research gap by introducing Islamic Social Entrepreneurship (ISE) as a strategic framework for strengthening BUMDes in South Sumatra. By integrating the maqashidiy paradigm, which emphasizes faith, social welfare, wealth creation, and sustainable innovation ([Sabian & Ismail, 2021](#)), this paper proposes an alternative approach to enhance the financial and social sustainability of BUMDes through an Islamic-driven model. The spirit of ISE goes beyond pursuing mere profits and emphasizes improving the socio-economic well-being of communities ([Mulyaningsih & Ramadani, 2017](#)). Therefore, utilizing the concept of Islamic Social Entrepreneurship is highly relevant for strengthening BUMDes in South Sumatra.

This paper argues that strengthening BUMDes in South Sumatra requires not only structural, organizational, and entrepreneurial approaches but also a cultural approach based on Islamic values that are deeply embedded in the Malay society of South Sumatra. The application of the concept of Islamic Social Entrepreneurship



provides a new alternative for empowering BUMDes managed by the majority of Muslims. This study can serve as a reference for policymakers to determine the direction for optimizing the role of BUMDes in improving the welfare of rural communities, with a distinct emphasis on the application of Islamic Social Entrepreneurship.

LITERATURE REVIEW

The Roles of Village-Owned Enterprises (BUMDes)

Village-Owned Enterprises (BUMDes) play a crucial role in promoting rural entrepreneurship and driving rural economic development by effectively utilizing locally owned resources (Kania et al., 2021). These enterprises serve as catalysts for economic growth, managing and harnessing the economic potential of villages, ultimately leading to increased economic prosperity (Bahtiar et al., 2021). Especially in challenging times such as the COVID-19 pandemic, BUMDes are expected to play a vital role in revitalizing the village economy and contributing to economic recovery (Sofianto & Risandewi, 2021). Furthermore, BUMDes are instrumental in empowering the farming community and enhancing community empowerment initiatives within the village (Razak & Sofyan, 2020).

Through their active involvement, BUMDes contribute to the development of village potential and work towards poverty alleviation efforts (Kania et al., 2021; Razak & Sofyan, 2020). By actively engaging young individuals and promoting their initiatives, BUMDes act as drivers of empowerment activities, inspiring and involving the youth in the economic progress of the village (Rivai et al., 2020). BUMDes can improve the welfare of the community when fully supported by the village government. Lastly, BUMDes also play a significant role in the development of sustainable tourism villages by adopting various approaches, including spatial planning, sectoral development, human resource enhancement, and the use of information technology. Through these strategies, BUMDes contribute to the establishment of thriving and sustainable tourism ecosystems within the villages.

Village-owned enterprises, commonly known as BUMDes, have emerged as essential components of community empowerment and rural economic development strategies. These enterprises have demonstrated their potential to stimulate rural entrepreneurship, tap into locally owned resources, and uplift the socioeconomic conditions of rural communities (Kania et al., 2021; Razak & Sofyan, 2020). The successful implementation of BUMDes programs has been attributed to their ability to explore and empower community members, facilitate capacity building, and garner support and involvement from various stakeholders.

Research conducted in diverse regions of Indonesia highlights the positive impact of BUMDes programs on community empowerment. In North Sumatra, BUMDes programs based on social capital have played a crucial role in promoting economic activities within villages, thereby enhancing the overall well-being of the communities. Similarly, studies in gold mining areas in West Sumbawa have emphasized the importance of BUMDes in fostering partnerships, generating community income, and

creating employment opportunities, all of which contribute to sustainable poverty alleviation (Ibrahim et al., 2020).

However, the implementation of BUMDes programs is not without its challenges. Regulatory mismatches, limited availability of qualified human resources, and a lack of synergy between the village government and BUMDes have been identified as key obstacles that need to be (Kania et al., 2021; Razak & Sofyan, 2020). These challenges highlight the need for improved coordination and collaboration among stakeholders involved in BUMDes initiatives to ensure effective implementation and maximize the potential benefits.

To strengthen the role of BUMDes in community empowerment and rural economic development, it is crucial to align these enterprises with relevant policies and regulations. The Village Fund policy, derived from the state budget, presents an opportunity to support BUMDes programs and promote inclusive economic growth (Syafingi et al., 2020). By utilizing village funds for capital participation in BUMDes, communities can address their development and empowerment needs while adhering to existing regulations.

BUMDes have emerged as powerful mechanisms for community empowerment and rural economic development in Indonesia. Through their multifaceted approaches, including exploring local resources, empowering community members, and fostering stakeholder involvement, BUMDes programs have the potential to uplift rural communities and promote sustainable development. However, addressing challenges such as regulatory mismatches and resource limitations is crucial for optimizing the impact of BUMDes initiatives. By aligning these programs with relevant policies, such as the Village Fund policy, communities can unlock the full potential of BUMDes and foster inclusive and equitable growth.

BUMDes also play a crucial role in rural development and economic empowerment. These enterprises are designed to stimulate rural entrepreneurship and utilize local resources for economic growth. Research conducted in Garut Regency, West Java, Indonesia, highlighted the positive impact of BUMDes on rural entrepreneurship, emphasizing dimensions such as exploration, empowerment, capacity building, and stakeholder involvement (Kania et al., 2021). In Jembrana Regency of Bali, the establishment of Village-Owned Enterprises (BUMDes) supported by the local government and community participation has been proposed as a means to enhance entrepreneurship and improve business performance. Findings from a study conducted in Jembrana Regency revealed that entrepreneurial orientation significantly influenced the business performance of BUMDes, while social capital and the role of the government indirectly influenced business performance through entrepreneurial orientation (Gandhiadi, 2021). It suggests that fostering an entrepreneurial culture among BUMDes managers and strengthening social capital are essential for achieving optimal business performance and rural economic development.

The success of sustainable tourism village development in Ponggok Village, Central Java Province, Indonesia, was attributed to the adoption of various approaches, including the spatial approach, sectoral approach, human resources development,



and the use of information technology. Leadership, innovation, collaboration, and good village governance were identified as key factors contributing to the success of these approaches (Purnomo et al., 2020). The case of Ponggok Village demonstrates that the effective empowerment of communities and the active involvement of village governments are crucial in managing sustainable tourism development and fostering economic growth.

However, not all experiences with BUMDes have been uniformly positive. Observations and interviews conducted in rural areas near a gold mine on the island of Sumbawa, Indonesia, revealed challenges and imbalances in the role of BUMDes. Factors contributing to these imbalances included low-quality and unprofessional human resources, weak business management, and the lack of organization for economic potential (Ibrahim, 2020). These findings underscore the importance of addressing these challenges to maximize the positive impact of BUMDes and ensure balanced development.

To address issues and problems in rural areas, it is essential to consider governance aspects. Effective management frameworks for rural development should focus on strengthening information and public communication, enhancing systems and internal supervision, optimizing the role of BUMDes, and reinforcing spatial (Tarlani & Sirajuddin, 2020). By formulating strategic solutions based on these aspects, villages can achieve sustainable development and promote economic growth.

BUMDes has the potential to stimulate rural entrepreneurship and contribute to rural economic development. They provide opportunities for local communities to utilize their resources and foster economic growth. However, challenges in implementation, such as regulatory mismatches and limited human resources, need to be addressed. By enhancing the role of the government, strengthening social capital, and promoting collaboration among stakeholders, the performance of BUMDes can be optimized, leading to sustainable rural development and economic empowerment.

Islamic Social Entrepreneurship

Islamic social entrepreneurship is a relatively new concept within the field of social entrepreneurship and social enterprise theory and research. It represents an approach that combines entrepreneurial activities with Islamic principles and values. The term "Islamic" refers to social enterprises that operate within the norms of Islam, such as Sharia and religious/faith-based rules. Islamic social entrepreneurship is rooted in mutual relationship, altruism, and goodwill, emphasizing unity, trusteeship, and worship for the purpose of social justice and public interest (Mulyaningsih & Ramadani, 2017).

Almarri & Meewella (2015) argued Islamic Social Entrepreneurship was a double-bottom-line concept that encompasses dual objectives. The framework comprises four main themes to describe the essence of social entrepreneurship in the Islamic context. Firstly, the social purpose of Islamic Social Entrepreneurship involves actions that serve social objectives and employ novel solutions, such as social innovation. Secondly, these endeavors must also pursue commercial goals to ensure financial sustainability and employ innovative approaches to transform existing institutions or create new ones.

Thirdly, social entrepreneurship in the Islamic context should operate within established beliefs, values, institutional ideas, and existing social practices and structures. Fourthly, the religious aspects that influence the practice of social entrepreneurship in the Islamic context must also be considered.

The concept of religiosity, closely associated with Islamic Social Entrepreneurship, serves as the starting point for its fundamental principles. Abd Muin et al. (2015) proposed the following basic principles of Islamic Social Entrepreneurship:

1. Following the Islamic way of life (Aqidah, Sharia, and morality): Islamic Social Entrepreneurship is based on Islamic principles in all aspects. This involves a strong belief in religious teachings, practicing Sharia, and demonstrating good ethics in all actions and decisions.
2. The concept of Tawhid: Tawhid is a fundamental principle in Islam that refers to the belief in the oneness of Allah. In the context of Islamic Social Entrepreneurship, the concept of Tawhid involves understanding and practicing the six pillars of faith (Iman) and the five pillars of Islam (amal) as well as the concept of Ihsan (doing good with sincerity).
3. The concept of Khalifah: The concept of Khalifah in Islam refers to the role of human beings as representatives of Allah on Earth. In the context of Islamic Social Entrepreneurship, this concept encourages individuals to take responsibility as accountable leaders in creating goodness and social welfare in society.
4. The concept of Welfare: Islamic Social Entrepreneurship focuses on creating social welfare that encompasses economic, social, and spiritual aspects. Its main goal is to enhance the overall well-being of humanity in an Islamic manner.
5. The concept of Economic Jihad: This concept refers to the efforts to achieve economic well-being through halal and Islamic means. It involves the effective use of resources, fair distribution, and sustainable economic development.
6. The concept of Justice: Justice is an important value in Islam. In Islamic Social Entrepreneurship, this concept is translated into efforts to create a just and equitable system in the distribution of resources and benefits for the entire society.
7. The concept of al-Falah: al-Falah means seeking the pleasure of Allah, both in this world and the hereafter. In the context of Islamic Social Entrepreneurship, the primary goal is to achieve true success by taking actions that earn the pleasure of Allah and provide sustainable benefits to the community.
8. The concept of Zakat and Waqf: Zakat and Waqf are important instruments in Islamic Social Entrepreneurship. Zakat is the obligation to give a portion of wealth to those in need, while waqf involves dedicating wealth to the public interest and charity.

Boulven et al. (2018) offered a similar concept presenting twelve fundamental concepts of Islamic Social Entrepreneurship. Firstly, the concept of "*Amar ma'aruf wa nahi munkar*" refers to the responsibility of promoting goodness and preventing evil in



society. Islamic Social Entrepreneurship also involves the concept of well-being, where the primary goal is to enhance social welfare and meet the needs of the community. The concept of justice is also an important part, emphasizing the need to treat everyone fairly and equally. Additionally, the concept of "al-Falah" refers to success in this world and the hereafter, where Islamic Social Entrepreneurship aims to achieve both material and spiritual success. Islamic Social Entrepreneurship also encourages the development and improvement of social value providers, with a focus on creating sustainable social impact. The concept of "Khalifah" refers to the responsibility of stewards and caretakers of the Earth given by Allah. Concepts such as charity, endowment (waqf), grant (hibah), and zakat are also integral parts of Islamic Social Entrepreneurship, where Muslim entrepreneurs are expected to contribute and assist those in need.

Islamic Social Entrepreneurship also emphasizes the concepts of justice and balance in social and economic life. The concepts of well-being and social security are also emphasized, to reduce social inequality and provide protection to vulnerable communities. Furthermore, the concept of "economic jihad" refers to efforts to enhance community well-being through fair and ethical economic activities. Finally, the concepts of prayer and presence in the mosque are also essential in Islamic Social Entrepreneurship, highlighting the importance of spirituality and role modeling in business practices.

Three fundamental ideas emerge in the context of Islamic social entrepreneurship: 1) Fard-al Kifayah commitment; 2) the almsgiving model of zakat, infaq, sadaqah, and waqf (ZisWaf); 3) addressing market and government failures ([Mulyaningsih & Ramadani, 2017](#)). Muslim entrepreneurs have a compelled responsibility to create social welfare and address societal needs. They incorporate Islamic models of giving, such as waqf, into their business activities to support social value creation. Additionally, they tackle social problems that arise due to market and government failures by creating innovative solutions in areas like welfare, education, health, community development, and the environment.

Islamic social entrepreneurship aligns with the teachings of Islam, emphasizing the importance of achieving the pleasure and blessings of Allah, following the values and morals of Prophet Muhammad, and eliminating economic and social problems. It seeks to increase social values, strengthen relationships, redistribute wealth, and cultivate gratitude ([Asfiah et al., 2022](#)). By integrating the principles of trustworthiness and value creation into their entrepreneurial endeavors, Muslim entrepreneurs aim to create sustainable solutions and contribute to the economic and social well-being of their communities.

Islamic social entrepreneurship is rooted in Islamic teachings and emphasizes cooperation among Muslim entrepreneurs. The primary goal is not solely shareholder profitability but rather job creation and value generation for the community. This necessitates professionalism, accountability, efficiency, and collaboration among individuals and supporting agents. The vision is to contribute to the betterment of the ummah and share resources for the benefit of society ([Abdullah & Hoetoro, 2011](#)).

Islamic Social Entrepreneurship (ISE) is a comprehensive approach to social entrepreneurship that considers the principles of Syariah (Islamic law). Grounded in the teachings of the Qur'an and the Sunnah, ISE extends its focus beyond the temporal world, seeking the pleasure and blessings of Allah SWT in both the present and the hereafter. It aligns with the concept of al-Maqasid al-Syariah, which encompasses the religious, social, intellectual, lineage, and property aspects of Islamic life. As such, ISE plays a vital role in economic and social development within communities, guided by the following objectives:

1. To attain the pleasure and blessings of Allah SWT, serving as a fundamental motivation for ISE activities.
2. To emulate the values and morals of the Prophet Muhammad PBUH, using them as a guiding compass for charitable endeavors.
3. To combat the prevalent issue of usury through the establishment of ISE initiatives, providing ethical alternatives.
4. To address and resolve economic and social problems directly through the active involvement of Islamic social entrepreneurs (USBM).
5. To enhance social values within society, promoting virtues, compassion, and fairness in everyday life.
6. To tackle social challenges, particularly those affecting young people, through innovative ISE solutions.
7. To strengthen the bond of sillaturahmi (kinship and community ties) between USBM and the broader society.
8. To redirect wealth and profits towards assisting the poor and needy, fulfilling the Islamic obligation of charity.
9. To counteract the inherent greed associated with the relentless pursuit of material possessions.
10. To cultivate gratitude for the blessings bestowed by Allah SWT, recognizing them as a foundation for ISE endeavors (Muin et al., 2022)

Islamic social entrepreneurship is a growing field that combines entrepreneurial activities with Islamic principles and values. It encompasses a range of concepts and principles that aim to serve social objectives, promote justice, enhance well-being, and address economic and social challenges. The concepts of religiosity, justice, welfare, economic jihad, and the integration of zakat and waqf play integral roles in shaping Islamic social entrepreneurship. Muslim entrepreneurs are driven by a sense of responsibility to create social welfare, address societal needs, and contribute to the economic and social well-being of their communities. By integrating trustworthiness, value creation, and collaboration, Islamic social entrepreneurs strive to create sustainable solutions and improve the lives of individuals and society. This emerging field aligns with the teachings of Islam and seeks to achieve the pleasure and blessings of Allah while promoting social values and economic development. Islamic social entrepreneurship has the potential to make a positive impact by addressing market



and government failures, cultivating gratitude, and fostering a sense of unity within Muslim communities and beyond.

Research Gap

Existing research on Village-Owned Enterprises (BUMDes) has extensively examined their role in rural economic development, community empowerment, and financial sustainability. However, little attention has been given to the integration of Islamic Social Entrepreneurship (ISE) within BUMDes, despite its potential to enhance both economic and social impact. While prior studies have explored social entrepreneurship in BUMDes, the application of Islamic financial instruments such as zakat, waqf, and sadaqah remains underexplored. Given that South Sumatra has a predominantly Muslim population, incorporating ISE principles could provide a culturally relevant framework for strengthening BUMDes and ensuring their long-term sustainability. Furthermore, existing studies often focus on localized case studies without offering a scalable model that can be applied to broader socio-economic contexts. The role of Islamic financial institutions in supporting BUMDes also remains an area requiring deeper exploration.

This study addresses these gaps by proposing Islamic Social Entrepreneurship as a transformative model for optimizing BUMDes governance and financial structure. Unlike previous research that primarily focuses on business management and economic impact, this study explores how ISE principles—such as *maqashid al-shariah*, economic justice, and social responsibility—can be systematically integrated into BUMDes operations. By leveraging Islamic financial mechanisms as alternative funding sources, this study provides a novel approach to sustaining and scaling BUMDes beyond conventional business models. This research contributes to the discourse on Islamic entrepreneurship while offering practical recommendations for policymakers, BUMDes managers, and financial institutions to enhance the effectiveness and sustainability of village-owned enterprises.

METHOD

This study employs a qualitative library research design, systematically analyzing the role of Islamic Social Entrepreneurship (ISE) in strengthening Village-Owned Enterprises (BUMDes) in South Sumatra. The research follows a structured approach to ensure the validity and reliability of findings, utilizing content analysis as the primary analytical method.

The first stage involves literature identification and selection, where relevant sources—including peer-reviewed journal articles, books, government reports, and reputable news articles—are gathered from academic databases such as Scopus, Google Scholar, and DOAJ. The inclusion criteria for literature selection are: (1) publications focusing on BUMDes development in Indonesia, (2) studies on Islamic Social Entrepreneurship and its application in business models, and (3) empirical research or theoretical discussions related to Islamic economic frameworks. Only

sources published within the last ten years (2014–2024) are prioritized to ensure relevance to current economic conditions and policies.

The second stage involves categorizing and organizing data into four key themes: (1) critical success factors of BUMDes, (2) the integration of ISE principles into BUMDes governance, (3) the unique application of ISE in the socio-cultural context of South Sumatra, and (4) strategic recommendations for strengthening BUMDes through ISE. This classification ensures a focused analysis of how Islamic values and financial instruments—such as zakat, waqf, and sadaqah—can be leveraged to enhance BUMDes sustainability.

The third stage applies content analysis to examine patterns, themes, and relationships among the selected studies. This process involves an in-depth interpretation of textual data to identify conceptual linkages between ISE and rural economic development, allowing for the extraction of insights that contribute to the existing body of knowledge. Particular emphasis is placed on how ISE principles, including economic jihad, Islamic philanthropy, and religious-based entrepreneurship, can provide an alternative model for rural enterprise resilience.

The final stage involves synthesizing the findings into a structured discussion that bridges theoretical concepts with practical applications. The analysis highlights key challenges, opportunities, and policy implications for integrating ISE into BUMDes management. The study ultimately provides a conceptual framework that policymakers and stakeholders can adopt to enhance the effectiveness of village enterprises through Islamic economic principles.

RESULTS AND DISCUSSION

Success Factors Of BUMDes

The success of Village-Owned Enterprises (BUMDes) in Indonesia is fundamentally influenced by three key factors: the commitment of village governments, the professionalism of BUMDes management, and active community participation. These elements collectively determine the sustainability and effectiveness of BUMDes in fostering rural economic development.

Village Government's Commitment

The involvement of village governments is a determining factor in the establishment and growth of BUMDes. Government support includes providing seed funding, establishing regulatory frameworks, and facilitating business development. A strong commitment from local governments enhances the credibility and trust in BUMDes, ensuring that they align with village development plans and broader national economic policies. Empirical evidence suggests that villages with proactive government support tend to have more resilient and innovative BUMDes. For example, BUMDes Panggung Lestari in Bantul successfully expanded its operations due to strategic financial assistance and regulatory facilitation from local authorities (Lukmana, 2023; Taviyanto, 2022).



Professionalism of BUMDes' Management

Effective BUMDes require competent leadership and structured financial management to sustain operations and maintain transparency. Professional BUMDes managers should not only possess technical business knowledge but also demonstrate integrity, adaptability, and a strong commitment to community empowerment. Mismanagement often leads to inefficiencies, reducing BUMDes' potential to generate sustainable income. In cases such as BUMDes Mitra Usaha Mulya Rokan Hulu, the implementation of financial transparency mechanisms allowed the enterprise to manage a Rp 8 billion loan portfolio while contributing Rp 143 million to village revenue (PADes). The ability to manage finances effectively enhances public trust and secures long-term sustainability.

Village Community's Involvement

The active participation of the village community is integral to the success of BUMDes. When community members feel a sense of ownership and pride in BUMDes, they are more likely to provide support in the form of labor, resources, and market participation. This involvement fosters trust and cooperation, leading to a stronger social fabric and enhanced community solidarity.

The community's role extends to providing valuable feedback and suggestions, which can help improve decision-making processes and address operational challenges. Additionally, active community support creates market demand for BUMDes products and services, ensuring financial sustainability. Social capital, which includes networks, relationships, and trust within the community, is further strengthened through involvement, enabling collective efforts that benefit both the enterprises and the village. The success factors of Village-Owned Enterprises (BUMDes) in Indonesia can be categorized into three crucial aspects: the village government's commitment, BUMDes management professionalism, and the village community's involvement (Kusmulyono et al., 2023).

Relationship Between Islamic Social Entrepreneurship and Success Factors Of BUMDes

This study finds that the effectiveness of Village-Owned Enterprises (BUMDes) is closely linked to the principles of Islamic Social Entrepreneurship (ISE), which emphasize integrity, accountability, collaboration, professionalism, and local resource optimization. The application of ISE values in BUMDes governance contributes to creating more sustainable, competitive, and socially impactful enterprises.

Transparency, Accountability, and Honesty as Pillars of Governance Integrity

Transparency, accountability, and honesty serve as fundamental pillars in BUMDes governance, ensuring long-term sustainability. Within the ISE framework, the principles of shiddiq (truthfulness) and amanah (trustworthiness) require BUMDes managers to uphold high ethical standards. Transparency extends beyond financial reporting to include decision-making processes and equitable distribution of benefits to the village community. In this context, accountability aligns with the Islamic concept

of justice (*'adl*), ensuring that resources are allocated fairly and efficiently for the well-being of society (Abd Muin, 2015; Almarri & Meewella, 2015; Boulven et al., 2018).

The success of BUMDes Mitra Usaha Mulya in Rokan Hulu demonstrates how transparent financial management of an Rp 8 billion loan portfolio enabled the enterprise to contribute Rp 143 million to the Village Original Revenue (PADes). This transparency fostered greater public trust, leading to increased community participation (Media Center Kabupaten Rokan Hulu, 2023). Similarly, BUMDes Niagara in Bandung Regency allocated over 50% of its profits to the local community, while reinvesting the remainder into business development, exemplifying high ethical standards in financial management (Aminuddin A.S., 2021).

Furthermore, BUMDes Tirta Mandiri in Ponggok adopted an open financial reporting system, reinforcing a sense of communal ownership. This approach not only generated significant economic benefits but also strengthened social cohesion, reflecting the Islamic principle of justice (*'adl*). Consequently, transparency and accountability in BUMDes governance align with *maqashid al-shariah*, which aims to safeguard societal well-being.

Strategic Collaboration as the Key to Multi-Stakeholder Synergy

ISE emphasizes *ta'awun* (mutual cooperation) as a fundamental principle for building a sustainable business ecosystem. BUMDes success is not achieved in isolation but through synergistic partnerships with micro, small, and medium enterprises (MSMEs), private sector actors, Islamic financial institutions, and local governments (Almarri & Meewella, 2015). Strategic collaboration enables BUMDes to overcome resource and funding constraints. For instance, BUMDes Amanah Desa Bukit Gajah in Riau partnered with Bank Rakyat Indonesia (BRI) to provide capital and also mentorin to the palmoil farmers. This initiative boosted agricultural productivity and contributed to local economic development (Media Digital, 2024).

In Bantul, BUMDes Panggung Lestari established partnerships with local communities, MSMEs, and educational institutions, leading to the creation of 167 new jobs and the alleviation of poverty for 257 individuals (Lukmana, 2023). This exemplifies economic *jihad*, where local resources are optimized for the collective welfare of society, without violating Islamic ethical standards (Mulyaningsih & Ramadani, 2017). A similar collaborative approach was adopted by BUMDes Desa Kutuh in Bali, which engaged private companies and local government agencies to develop cultural and sports tourism ventures, including paragliding, generating annual revenue of Rp 50 billion. These cases illustrate how cross-sector partnerships can establish self-sufficient and globally competitive rural economies (Hasan, 2022).

Professionalism and Innovation as Foundations for Competitive Advantage

ISE promotes *ihsan* (excellence in service and performance) in business operations. Thus, professionalism in BUMDes management is crucial for developing a resilient and competitive business model (Mulyaningsih & Ramadani, 2017). A notable example of ISE-driven professionalism and innovation is BUMDes Payang Sejahtera in Kutai Kartanegara, which diversified its business portfolio by launching catering, laundry, and



agricultural transportation services. This expansion successfully reduced the number of direct cash aid recipients from 120 to only 12, demonstrating how strategic business diversification can lift communities out of poverty (Budiaris, 2021).

Similarly, BUMDes Tirta Abadi in Bojonegoro leveraged sustainable agricultural tourism to increase rural household incomes. (Pemkab Bojonegoro, 2020). By integrating modern farming techniques and community-based marketing strategies, the enterprise generated substantial socio-economic benefits, aligning with the ISE principle of *maslahah* (public benefit) (Boulven et al., 2018). In Sleman, BUMDes Amarta applied social innovation by allocating a portion of its business profits to scholarship programs, which not only strengthened community trust but also reinforced the social impact of the enterprise. Ethical innovation in Islamic entrepreneurship serves as a core strategy for creating sustainable competitive advantages while prioritizing social welfare.

The Uniqueness of Islamic Social Entrepreneurship in Strengthening BUMDes in South Sumatra

Islamic Social Entrepreneurship (ISE) plays a crucial role in strengthening Village-Owned Enterprises (BUMDes) in South Sumatra, as its principles align with key success factors such as social justice, economic empowerment, and community welfare (Mulyaningsih & Ramadani, 2017). The presence of 3,019 villages in South Sumatra (BPS Sumatera Selatan, 2019) indicates the vast potential for BUMDes development, yet many remain underperforming. Only a few, such as BUMDes Tanjung Raja Muara Enim, have successfully implemented innovative business strategies, like the bogasi fertilizer initiative (Kabar Muara Enim, 2020). This situation highlights the need for a systematic framework that enhances BUMDes performance through ISE-based approaches.

The integration of economic jihad, religiosity, and Islamic philanthropy (Abd Muin, 2015; Almarri & Meewella, 2015; Boulven et al., 2018). provides a strong foundation for BUMDes sustainability and socio-economic impact. Economic jihad represents the struggle for economic empowerment through ethical and sustainable means. In South Sumatra, where rural poverty stands at 11.53%, exceeding the national average of 9.03% (BPS Sumatera Selatan, 2019), SE principles can shift BUMDes focus from infrastructure-based projects to productive economic activities, including agriculture, halal food industries, and Islamic microfinance. A case study from BUMDes Panggung Lestari in Bantul, which successfully created 167 jobs and reduced poverty levels, demonstrates the potential for ISE-driven entrepreneurship to generate significant social impact (Lukmana, 2023). If similar strategies are implemented, BUMDes in South Sumatra could transform rural communities from welfare-dependent populations to self-sufficient economic actors.

Religiosity is another crucial factor in shaping ethical business practices, governance structures, and community engagement (Almarri & Meewella, 2015). As Indonesia ranks as the world's most religious nation (Febriani, 2024), integrating Islamic values into BUMDes operations can improve financial transparency, ethical decision-making, and public trust. Studies have shown that religious work ethics reduce

corruption risks and enhance business sustainability ([Nashori et al., 2002](#)). The case of BUMDes Tirta Mandiri in Ponggok, which implements community-driven financial reporting, highlights how Islamic governance principles foster long-term stakeholder trust and economic resilience. Ensuring community participation in BUMDes decision-making can significantly enhance the sustainability and accountability of village enterprises, making them more resistant to mismanagement and fraud.

Another critical aspect of ISE in BUMDes development is Islamic philanthropy, particularly Zakat, Infak, Sedekah, and Wakaf (ZISWAF), which provides alternative funding mechanisms beyond conventional loans. In 2023, South Sumatra collected over Rp 50 billion in ZIS funds, yet only Rp 900 million was allocated to economic programs, which successfully lifted 82 mustahik (beneficiaries) out of poverty ([BAZNAS, 2024](#)). This underutilization suggests a significant opportunity for strategic collaboration between BUMDes and zakat institutions. Models from other regions, such as Kediri, where ZISWAF funding is integrated into BUMDes capital, show that non-debt-based Islamic financing can provide long-term economic stability without burdening rural entrepreneurs. Strengthening ZISWAF-BUMDes partnerships can enhance financial independence and socio-economic impact, particularly in Muslim-majority areas like South Sumatra.

Despite the significant potential of ISE in transforming BUMDes, several challenges hinder effective implementation. One major issue is limited managerial capacity, as many BUMDes leaders lack formal training in Islamic finance, entrepreneurship, and strategic planning. Additionally, regulatory barriers create inconsistencies in zakat-BUMDes collaborations, limiting the effectiveness of Islamic social finance integration. Moreover, cultural resistance to shifting from a welfare mindset to an entrepreneurial mindset presents another obstacle. Overcoming these challenges requires structured training programs for BUMDes managers, legal frameworks that support zakat-financed enterprises, and grassroots education to encourage community participation. Partnerships with Islamic financial institutions, universities, and policymakers can play a crucial role in bridging knowledge gaps and ensuring policy alignment for long-term success.

The application of ISE in BUMDes governance offers a structured, faith-driven model for poverty alleviation, economic sustainability, and rural empowerment. By incorporating economic jihad, religiosity, and Islamic philanthropy, BUMDes can transition from state-dependent entities to self-sustaining social enterprises. This model is not only relevant for South Sumatra but also applicable to other Muslim-majority regions such as West Java, Aceh, and Riau, where similar socio-economic challenges persist. To maximize its impact, future policies should prioritize institutional training for BUMDes leaders, regulatory incentives for zakat-financed enterprises, and stronger public awareness campaigns on ISE-based business models. These efforts will position BUMDes as key drivers of inclusive and ethical economic development, ensuring long-term prosperity rooted in Islamic values.



Strengthening BUMDes Through an Islamic Social Entrepreneurship Approach

Islamic Social Entrepreneurship (ISE) offers a structured approach to strengthening the role of Village-Owned Enterprises (BUMDes) by integrating Islamic values into governance, financing, and business development. This approach not only prioritizes economic gains but also ensures social sustainability and community welfare. Several key strategies can be applied to enhance BUMDes, including strengthening the commitment of village governments through the principle of economic jihad, improving managerial professionalism based on religiosity, optimizing collaboration with Islamic philanthropic institutions, reinforcing Islamic branding, and integrating local potential and cultural identity through the principle of khalifah.

The commitment of village governments is a crucial factor in the successful management of BUMDes. The principle of economic jihad can serve as a foundation for village governments not only to play an administrative role but also to develop strategic, Sharia-based policies. This can be realized through the provision of qard hasan or mudharabah-based financing and the establishment of regulations that support Islamic microfinance (Effendi et al., 2024). Village governments can also facilitate partnerships between BUMDes and Islamic financial institutions to accelerate inclusive and Sharia-compliant economic growth (Hasbi et al., 2020). By implementing policies rooted in justice and maslahah, village governments can enhance the legitimacy and sustainability of BUMDes programs, including the utilization of zakat funds for economic development (Fatony et al., 2024).

In addition to government commitment, the professionalism of BUMDes managers is a key element that must be improved by adopting religious values. Principles such as amanah (trustworthiness), responsibility, and ihsan (excellence) in Islam can serve as guidelines for strategic decision-making and operational management (Hatta et al., 2023). By applying Sharia-based governance, managers can ensure that all business activities are conducted in a halal and transparent manner, thus increasing public trust. Islamic professionalism also allows managers to balance economic and social interests, as seen in various Islamic business models that emphasize social sustainability (Sakti et al., 2024). This can be achieved through Sharia-based managerial training and capacity-building programs to equip managers with the necessary knowledge and skills to integrate Islamic principles into business operations and community service (Siregar et al., 2023).

To enhance the financial sustainability of BUMDes, strengthening collaboration with Islamic philanthropic institutions is essential. The utilization of Zakat, Infak, Sedekah, and Wakaf (ZISWAF) funds can provide an alternative financing model that is more sustainable than conventional interest-based loans (Asyifa et al., 2025). In this regard, BUMDes can collaborate with the National Zakat Agency (BAZNAS) or other Islamic philanthropic organizations to channel productive zakat funds to micro-enterprises in the village. Cash waqf can also be used to develop village infrastructure, such as local markets or Sharia-compliant production facilities (Insawan, 2023). Moreover, managing ZISWAF funds transparently and leveraging digital literacy can increase their efficiency and broader economic impact (Fatony et al., 2024).

Islamic branding strategies can serve as a powerful tool to enhance the competitiveness of BUMDes products and services. Products marketed must reflect Islamic values such as halal, sustainability, and fairness in distribution, attracting consumers who prioritize ethical consumption (Polas et al., 2018). Islamic branding can be reinforced through digital marketing strategies, including social media and Islamic e-commerce platforms, to expand market reach and build emotional connections with consumers (Ameraldo et al., 2019). Additionally, educating the public on the social impact of consuming BUMDes products can significantly boost customer loyalty (Putra et al., 2023).

Finally, strengthening BUMDes can be achieved through the integration of local potential and cultural identity with the principle of khalifah. Villages in South Sumatra have substantial potential in cultural and nature-based tourism, as well as local products that can be developed to increase community income. Leveraging this potential while maintaining a balance between economic, social, and environmental sustainability aligns with the principle of maslahah in Islam (Sakti et al., 2024). Managing businesses based on local cultural values and Islamic principles can also result in unique products with strong market competitiveness, such as eco-friendly handicrafts that hold both economic and cultural significance for village communities (Putra et al., 2023).

By implementing an Islamic Social Entrepreneurship-based strategy, BUMDes can evolve into economic institutions that not only focus on profitability but also contribute to social development and rural community welfare. The successful implementation of these strategies will largely depend on synergy between village governments, BUMDes managers, Islamic financial institutions, Islamic philanthropic organizations, and active community participation. The integration of economic jihad, religiosity, Islamic philanthropy, Islamic branding, and local potential will create an inclusive and sustainable business ecosystem that drives rural economic growth in South Sumatra and beyond.

CONCLUSION

This study underscores the importance of strengthening the role of Village-Owned Enterprises (BUMDes) in South Sumatra through the integration of Islamic Social Entrepreneurship (ISE) principles. It highlights three key success factors for BUMDes: the commitment of village governments, the professionalism of BUMDes managers, and the active involvement of local communities. When synergized with the core characteristics of ISE—economic jihad, religiosity, and Islamic philanthropy—these factors form a holistic approach to achieving sustainable rural development.

The findings reveal that aligning BUMDes strategies with ISE principles not only bridges economic disparities but also enhances social cohesion and environmental sustainability. The integration of economic jihad ensures that BUMDes programs focus on poverty alleviation and economic self-reliance. Religiosity provides a foundation for professionalism based on integrity, transparency, and a commitment to community well-being. Meanwhile, Islamic philanthropy leverages resources such as zakat, waqf,



and sadaqah for productive economic activities, ensuring a more equitable distribution of benefits.

In practical terms, this approach advances rural entrepreneurship by offering a value-driven and spiritually grounded model that integrates economic objectives with religious aspirations. By adopting this strategy, BUMDes in South Sumatra can effectively mobilize local potential, reduce poverty, and strengthen community solidarity, transforming them into agents of socio-economic change. Future research could explore the long-term impact of this integration on broader rural ecosystems and develop a framework for replicating this strategy in other regions.

Limitation of the Study

While this study provides valuable insights into the integration of Islamic Social Entrepreneurship in Village-Owned Enterprises, it is not without limitations. First, the research is conceptual in nature and primarily based on secondary data gathered through literature review. As such, the findings rely on interpretations and patterns extracted from existing publications, policy documents, and case reports, which may not capture the full complexity of on-the-ground dynamics within each BUMDes.

Second, the study focuses exclusively on South Sumatra and assumes a relatively homogeneous religious and cultural environment. This focus, while necessary for contextual relevance, limits the generalizability of the findings to other provinces with more diverse populations or varying socio-economic challenges. Moreover, variations in local governance structures, institutional capacities, and community readiness for adopting Islamic economic principles could significantly influence implementation outcomes in different settings.

Third, the study does not include primary fieldwork or direct stakeholder input, such as interviews with BUMDes managers, village officials, or religious leaders, which could offer deeper insights into practical challenges and perceptions of ISE implementation.

These limitations suggest that while the framework proposed is theoretically robust and contextually relevant, its practical effectiveness remains to be empirically validated. Future research must therefore be conducted using field-based approaches to test, refine, and adapt the ISE-based governance model in diverse rural contexts.

Recommendations for Future Research

Future studies should build on the conceptual framework developed in this research by conducting empirical fieldwork to assess the practical application of Islamic Social Entrepreneurship within Village-Owned Enterprises. Mixed-method or qualitative research involving interviews, focus groups, and participatory observations with BUMDes stakeholders—including managers, community members, Islamic philanthropic organizations, and local governments—would provide a richer understanding of both enablers and barriers to implementing ISE principles.

Comparative case studies across multiple provinces could also illuminate regional variations and best practices. For instance, analyzing BUMDes in Aceh, West Java, or Riau—where Islamic identity is also strong—would help test the scalability and adaptability of the model. Additionally, researchers could examine the specific impact

of integrating *zakat*, *waqf*, and *sadaqah* funds into BUMDes capital structures, measuring their effects on financial sustainability and poverty reduction outcomes.

Moreover, future work should explore the role of digital innovation in promoting Islamic branding, ethical marketing, and financial transparency among BUMDes. Assessing how digital platforms, mobile apps, or Islamic e-commerce can enhance outreach and accountability could enrich the ISE framework further.

Lastly, interdisciplinary research that bridges Islamic economics, development studies, and entrepreneurship education could provide comprehensive policy recommendations to institutionalize ISE-based governance in national rural development agendas.

Author Contributions

Conceptualization	R.A.F. & M.P.	Resources	R.A.F. & M.P.
Data curation	R.A.F. & M.P.	Software	R.A.F. & M.P.
Formal analysis	R.A.F. & M.P.	Supervision	R.A.F. & M.P.
Funding acquisition	R.A.F. & M.P.	Validation	R.A.F. & M.P.
Investigation	R.A.F. & M.P.	Visualization	R.A.F. & M.P.
Methodology	R.A.F. & M.P.	Writing – original draft	R.A.F. & M.P.
Project administration	R.A.F. & M.P.	Writing – review & editing	R.A.F. & M.P.

All authors have read and agreed to the published version of the manuscript.

Funding

This study received no direct funding from any institution.

Institutional Review Board Statement

The study was approved by Program Studi Peradaban Islam (S3), Universitas Islam Negeri Raden Fatah Palembang, Kota Palembang, Indonesia.

Informed Consent Statement

Informed consent was not required for this study.

Data Availability Statement

The data presented in this study are available on request from the corresponding author.

Acknowledgments

The authors thank Program Studi Peradaban Islam (S3), Universitas Islam Negeri Raden Fatah Palembang, Kota Palembang, Indonesia, for administrative support for the research on which this article was based.

Conflicts of Interest

The authors declare no conflicts of interest.

Declaration of Generative AI and AI-Assisted Technologies in the Writing Process

During the preparation of this work, the authors used ChatGPT, DeepL, Grammarly, and PaperPal to translate from Bahasa Indonesia into American English and improve the clarity of the language and readability of the article. After using these tools, the authors reviewed and edited the content as needed and took full responsibility for the content of the published article.



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