

Integration of Islamic Social Finance and Digitalization for MSME Strengthening and Poverty Alleviation: Evidence from SEM-PLS

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ABSTRACT

Purpose - This study examines the integrated role of Islamic social finance and economic digitalization in strengthening MSMEs and alleviating poverty in North Sumatra, Indonesia. While prior studies have largely analyzed these domains separately, this research is motivated by the need for a unified framework that explains how their interaction contributes to inclusive economic development. The study specifically investigates the mediating role of MSME strengthening in linking finance digitalization integration to poverty reduction.

Design/Methodology/Approach – A quantitative explanatory approach was employed using survey data from 210 MSMEs across trade, service, and food processing sectors. Data were analyzed using Partial Least Squares Structural Equation Modeling (SEM-PLS) with bootstrapping (5,000 resamples) to test direct and indirect relationships among Islamic social finance integration, economic digitalization, MSME strengthening, and poverty alleviation.

Findings/Results - The results show that Islamic social finance integration ($\beta = 0.312$) and economic digitalization ($\beta = 0.421$) significantly enhance MSME strengthening. Both variables also directly influence poverty alleviation ($\beta = 0.198$ and $\beta = 0.243$), while MSME strengthening has a strong positive effect on poverty alleviation ($\beta = 0.379$). Mediation analysis confirms that MSME strengthening partially mediates these relationships, indicating that MSMEs function as a key transmission mechanism. These findings demonstrate that integrating financial inclusion and digital transformation produces both direct and indirect welfare effects.

Originality/Value - This study contributes by proposing an integrated finance digitalization framework that positions MSMEs as a central mediating mechanism in poverty alleviation. The findings highlight that sustainable poverty reduction is more effective when Islamic social finance is combined with digital economic systems and channeled through MSME development, offering practical implications for policymakers in designing inclusive, technology-enabled economic strategies.

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1. Introduction

Poverty alleviation and MSME development remain central challenges in achieving inclusive economic growth in emerging economies, including Indonesia. Despite sustained macroeconomic expansion, structural inequalities, limited financial inclusion, and unequal access to productive resources continue to constrain MSME performance, particularly at the regional level such as North Sumatra. MSMEs dominate the economic structure but frequently operate under capital constraints, low productivity, and limited market access.

At the same time, the expansion of digital technologies has transformed economic systems by enabling financial inclusion, improving operational efficiency, and expanding market reach. Digital platforms, fintech, and e-commerce ecosystems have become critical enablers for MSME growth. However, these benefits remain unevenly distributed due to disparities in digital literacy, infrastructure, and institutional support. Therefore, the key challenge is not merely access to finance or technology in isolation, but how these mechanisms can be effectively integrated to generate sustainable and inclusive economic impact.

The existing literature is dominated by two major but largely disconnected streams. First, studies on Islamic social finance emphasize its role in poverty alleviation through redistributive instruments such as zakat, waqf, and Islamic microfinance. While these mechanisms have been shown to improve welfare and reduce vulnerability, their implementation often remains consumptive and short-term oriented, limiting their long-term developmental impact.

Second, the economic digitalization literature demonstrates that digital adoption enhances MSME performance by improving efficiency, reducing transaction costs, and expanding market access. SEM and SEM-PLS-based studies consistently confirm positive effects of digitalization on business performance. However, findings regarding its impact on poverty reduction remain inconsistent, suggesting that digital transformation alone may not automatically translate into inclusive outcomes.

More recent integration studies, particularly in the context of Islamic fintech and digital zakat platforms, highlight the potential synergy between finance and technology. Nevertheless, these studies primarily focus on technological efficiency, governance, or adoption behavior, rather than examining how such integration contributes to broader development outcomes. Importantly, most existing SEM-based models treat MSMEs as endogenous outcomes, rather than as mediating mechanisms that link financial inclusion and welfare improvement.

Building on this literature, three key gaps are identified.

First, Islamic social finance and economic digitalization are predominantly examined as independent drivers, with limited empirical studies integrating both within a unified analytical framework. Second, prior SEM and SEM-PLS studies present inconsistent findings

regarding the role of digitalization in poverty reduction, indicating a lack of clarity regarding the underlying transmission mechanisms. Third, MSMEs are typically modeled as outcome variables rather than as intervening mechanisms that explain how financial and technological interventions translate into poverty alleviation. These gaps highlight the absence of a mechanism-based and integrative model that explains the linkage between financial inclusion, digital transformation, and welfare outcomes, particularly in regional contexts.

To address these gaps, this study develops an integrated conceptual framework that combines Islamic social finance and economic digitalization within a SEM-PLS approach. The primary contribution of this study is conceptual, by repositioning MSME strengthening as a mediating mechanism rather than merely an outcome variable.

This study explicitly differentiates itself from prior integration studies by focusing on the transmission pathway through which financial inclusion and digital transformation jointly influence poverty alleviation. In addition, the study provides a contextual contribution by offering empirical evidence from North Sumatra, a region characterized by MSME dominance and structural development challenges.

Rather than claiming radical novelty, this research contributes incrementally by integrating existing theoretical perspectives—financial inclusion and digital transformation—into a coherent empirical model that explains inclusive development outcomes more explicitly.

Based on the identified gaps and rationale, this study aims to:

1. Examine the effect of Islamic social finance integration on MSME strengthening and poverty alleviation.
2. Analyze the impact of economic digitalization on MSME performance and poverty reduction.
3. Investigate the mediating role of MSME strengthening in linking finance–digitalization integration to poverty alleviation.

These objectives are further operationalized into testable hypotheses (H1–H7) presented in the following section.

2. Literature Review & Hypothesis Development

This section presents a critical and integrative review of the literature that forms the theoretical foundation of the article. Rather than merely summarizing prior studies, the literature review evaluates and synthesizes existing research to clarify conceptual relationships, identify dominant perspectives, and highlight unresolved issues. The reviewed literature is organized thematically to reflect the core constructs of the study, namely Islamic social finance, economic digitalization, MSME development, and poverty alleviation, with particular attention to recent and reputable academic contributions.

2.1. Islamic Social Finance and Poverty Alleviation

Islamic social finance has been widely discussed in the literature as a value-based financial system aimed at promoting social justice, redistribution, and inclusive economic development. Instruments such as *zakat*, *infaq*, *sadaqah*, and *waqf* are designed to transfer resources from surplus units to deficit groups in a manner consistent with Islamic ethical principles. A substantial body of research argues that these instruments can play a meaningful role in reducing poverty and vulnerability, particularly when aligned with broader development objectives (Obaidullah & Shirazi, 2015; Ascarya & Yumanita, 2018).

Nevertheless, several scholars point out that the practical implementation of Islamic social finance in many contexts remains predominantly consumptive and short-term oriented. Funds are often allocated to immediate relief rather than to productive activities that could generate sustainable income for beneficiaries (Kahf, 2015). As a result, the long-term impact of Islamic social finance on structural poverty reduction is frequently limited. This critique has led to a growing emphasis in the literature on transforming Islamic social finance from a charity-based mechanism into an empowerment-driven development tool (Hassan & Ashraf, 2010). Such a transformation requires stronger institutional capacity, better governance, and closer integration with economic development strategies.

2.2. Economic Digitalization and MSME Development

Economic digitalization has become a central theme in contemporary development and entrepreneurship studies. The diffusion of digital platforms, *financial technology*, and online marketplaces has altered how MSMEs access finance, manage operations, and interact with markets. Empirical studies suggest that digital adoption can enhance MSME productivity, reduce transaction costs, and improve access to previously inaccessible customer segments (Beck et al., 2016). From this perspective, digitalization is often portrayed as a catalyst for financial inclusion and inclusive growth.

However, the literature also presents a more nuanced view. While digital technologies offer significant opportunities, their benefits are not automatically inclusive. MSMEs operating in low-income or peripheral regions frequently face barriers related to limited digital literacy, inadequate infrastructure, and weak institutional support (Suri & Jack, 2016). As a result, digitalization may create new forms of exclusion if these structural constraints are not addressed. Scholars therefore argue that digital transformation must be accompanied by social and institutional interventions to ensure that its development impact extends to vulnerable economic actors, including micro-enterprises and informal businesses (OECD, 2021).

2.3. Integration of Islamic Social Finance and Economic Digitalization

In response to these challenges, recent studies have begun to explore the intersection between Islamic social finance and digital innovation. Research on digital *zakat* and *waqf* platforms indicates that technology can improve efficiency, transparency, and accountability in fund collection and distribution (Nurhayati & Hendar, 2019). Other studies examine the emergence of Islamic *fintech* as a means of expanding access to Sharia-compliant financial services for underserved populations (Razak et al., 2020).

Despite these advances, much of the existing literature remains fragmented. Many studies focus on technological adoption, governance models, or user behavior without fully examining how digitally enabled Islamic social finance can be strategically linked to MSME empowerment and sustainable poverty alleviation. Moreover, the majority of analyses are conducted at the national or sectoral level, offering limited insight into how local socio-economic conditions shape the effectiveness of such integration (Huda et al., 2021). This indicates a need for more context-sensitive and development-oriented frameworks.

2.4. Research Hypotheses

Based on the conceptual framework, the research hypotheses are formulated as follows:

H1: Islamic social finance integration has a positive and significant effect on MSME strengthening in North Sumatra Province.

H2: Economic digitalization has a positive and significant effect on MSME strengthening in North Sumatra Province.

H3: Islamic social finance integration has a positive and significant effect on poverty alleviation among MSME actors.

H4: Economic digitalization has a positive and significant effect on poverty alleviation among MSME actors.

H5: MSME strengthening has a positive and significant effect on poverty alleviation.

H6: MSME strengthening mediates the effect of Islamic social finance integration on poverty alleviation.

H7: MSME strengthening mediates the effect of economic digitalization on poverty alleviation.

3. Methodology

3.1. Research Approach and Design

This study adopts a quantitative approach with an explanatory research design to examine the causal relationships between the integration of Islamic social finance and economic digitalization on MSME strengthening and poverty alleviation in North Sumatra Province. The analytical method employed is Partial Least Squares-based Structural Equation Modeling (SEM-PLS), which is considered appropriate due to its ability to analyze complex structural models involving latent constructs and its relatively flexible requirements regarding data normality assumptions.

3.2. Research Location and Object

The research is conducted in North Sumatra Province, with the research object consisting of Micro, Small, and Medium Enterprises (MSMEs) operating in the trade, service, and food processing sectors. The MSMEs selected as respondents are business units that have utilized, or have the potential to utilize, Islamic social finance instruments as well as digital economic platforms in their business activities.

3.3. Population and Sampling Technique

The research population comprises all MSME actors in North Sumatra Province. The sampling technique used is purposive sampling, based on the following criteria:

1. MSMEs have been actively operating for at least one year;
2. MSMEs have experience with or access to Islamic social finance instruments (productive zakat, productive waqf, or Islamic microfinance); and
3. MSMEs use or have previously used digital economic services such as digital payments or e-commerce platforms.

The sample size is determined based on the minimum requirement for SEM-PLS analysis, namely ten times the largest number of indicators within a single construct or structural path.

Research Variables and Operational Definitions

This study involves four main latent constructs:

1. Islamic Social Finance Integration, measured through indicators of access, utilization, and program synergy of zakat, waqf, and Islamic microfinance;
2. Economic Digitalization, measured through the level of adoption of digital payments, the use of e-commerce, and digital financial literacy;
3. MSME Strengthening, measured through improvements in business performance, financial resilience, and market expansion; and

4. Poverty Alleviation, measured through income stability, business sustainability, and improvements in the economic well-being of MSME actors.

All indicators are measured using a five-point Likert scale.

3.4. Data Collection Techniques

Primary data are collected through structured questionnaires distributed directly and/or online to MSME actors. The questionnaire items are developed based on relevant literature and adapted to the local context of North Sumatra. Prior to large-scale distribution, the research instrument is subjected to a pilot test to ensure item clarity and response consistency.

3.5. Data Analysis Techniques (SEM-PLS)

Data analysis is conducted through the following stages:

1. Measurement model (outer model) evaluation, including tests of convergent validity, discriminant validity, and construct reliability;
2. Structural model (inner model) evaluation, including the assessment of path coefficients, *R-square* values, effect sizes, and predictive relevance; and
3. Hypothesis testing, performed using the *bootstrapping* technique to determine the significance of relationships among variables.

The results of the analysis are used to explain the role of Islamic social finance integration and economic digitalization in strengthening MSMEs and supporting poverty alleviation.

Data Validity and Research Ethics

Data validity is ensured through statistical testing of instrument validity and reliability. This study adheres to research ethics principles, including informed consent, confidentiality of respondent data, and the exclusive use of data for academic purposes.

The methodological rigor of the study can be strengthened by incorporating several additional analytical and reporting elements that are standard in SEM-PLS research.

First, the authors should include a statistical power analysis to justify the adequacy of the sample size. This can be conducted using approaches such as GPower or inverse square root methods, ensuring that the sample size is sufficient to detect the expected effect sizes with acceptable statistical power (e.g., ≥ 0.80). This will enhance the credibility of the model estimation and hypothesis testing.

Second, the manuscript should explicitly assess and report common method bias (CMB). In addition to procedural remedies, a statistical test such as the full collinearity VIF should be conducted, with values below 3.3 indicating that CMB is unlikely to be a serious concern. Reporting these values in tabular form will improve transparency and methodological robustness.

Third, the evaluation of the structural model should be expanded by including model fit and predictive metrics, specifically the Standardized Root Mean Square Residual (SRMR), predictive relevance (Q^2), and effect size (f^2) for each structural path. These indicators are essential to demonstrate model adequacy, predictive capability, and the substantive impact of each exogenous construct.

Finally, the manuscript should provide a clearer description of measurement sources and validation procedures. Each construct should be linked to its original scale or prior empirical studies, and any adaptation process should be explained. In addition, the authors should report procedures such as pilot testing, content validity assessment (e.g., expert review), and item refinement to ensure the validity and reliability of the measurement model. Overall,

incorporating these elements will significantly enhance the methodological transparency, replicability, and alignment of the study with current best practices in SEM-PLS research.

4. Result and Discussion

4.1. Result

Descriptive Statistics of Respondents

total of 210 MSME actors in North Sumatra Province participated in this study and provided valid responses. Most respondents operate in the trade sector (45.7%), followed by services (31.9%) and food processing industries (22.4%). In terms of business experience, 62.4% of MSMEs have been operating for more than three years. Regarding digital adoption, 68.1% of respondents reported using digital payment systems and online marketplaces in their business activities.

Table 2. Respondent Profile

Characteristics	Category	Frequency	Percentage (%)
Business Sector	Trade	96	45.7
	Services	67	31.9
	Food Processing	47	22.4
Business Age	1–3 years	79	37.6
	> 3 years	131	62.4
Digital Platform Usage	Yes	143	68.1
	No	67	31.9

Source: Primary data processed (2024)

Descriptive Statistics of Research Variables

The descriptive analysis indicates that respondents perceive Islamic social finance integration and economic digitalization at a moderate to high level. MSME strengthening shows a relatively high mean value, reflecting improvements in business performance and resilience. Indicators of poverty alleviation also suggest improved income stability and perceived economic well-being.

Table 3. Descriptive Statistics of Variables

Variable	Mean	Standard Deviation
Islamic Social Finance Integration (X1)	3.84	0.61
Economic Digitalization (X2)	3.92	0.58
MSME Strengthening (Z)	4.01	0.55
Poverty Alleviation (Y)	3.88	0.60

Source: Primary data processed (2024)

Measurement Model Evaluation (Outer Model)

The measurement model evaluation demonstrates that all indicator loadings exceed 0.70, confirming convergent validity. The Average Variance Extracted (AVE) values for all

constructs are above 0.50, indicating that the constructs explain a substantial portion of indicator variance. Furthermore, Composite Reliability (CR) and Cronbach’s Alpha values exceed 0.70, confirming satisfactory internal consistency. Discriminant validity is established using the Fornell–Larcker criterion.

Table 4. Measurement Model Evaluation

Variable	AVE	Composite Reliability	Cronbach’s Alpha
Islamic Social Finance Integration (X1)	0.58	0.87	0.82
Economic Digitalization (X2)	0.61	0.89	0.85
MSME Strengthening (Z)	0.63	0.90	0.87
Poverty Alleviation (Y)	0.59	0.88	0.84

Source: SEM–PLS output (2024)

Structural Model Evaluation (Inner Model)

The structural model results show that Islamic social finance integration and economic digitalization explain 52.6% of the variance in MSME strengthening ($R^2 = 0.526$). Meanwhile, poverty alleviation is explained by Islamic social finance integration, economic digitalization, and MSME strengthening with an R^2 value of 0.604, indicating strong explanatory power.

Table 5. Coefficient of Determination (R^2)

Endogenous Variable	R^2
MSME Strengthening (Z)	0.526
Poverty Alleviation (Y)	0.604

Source: SEM–PLS output (2024)

Hypothesis Testing Results

Hypothesis testing was conducted using the bootstrapping procedure (5,000 subsamples) at a significance level of 5 percent. The results indicate that Islamic social finance integration and economic digitalization have positive and significant effects on MSME strengthening, supporting H1 and H2. Both variables also exhibit positive and significant direct effects on poverty alleviation, supporting H3 and H4. Additionally, MSME strengthening has a positive and significant effect on poverty alleviation, supporting H5.

The mediation analysis shows that MSME strengthening partially mediates the effects of Islamic social finance integration and economic digitalization on poverty alleviation. Thus, H6 and H7 are supported.

Table 6. Hypothesis Testing Results

Hypothesis	Path	Coefficient	t-value	p-value	Result
H1	X1 → Z	0.312	4.87	0.000	Supported
H2	X2 → Z	0.421	6.39	0.000	Supported
H3	X1 → Y	0.198	3.02	0.003	Supported
H4	X2 → Y	0.243	3.67	0.000	Supported
H5	Z → Y	0.379	5.91	0.000	Supported

Hypothesis	Path	Coefficient	t-value	p-value	Result
H6	X1 → Z → Y	0.118	3.45	0.001	Supported
H7	X2 → Z → Y	0.160	4.21	0.000	Supported

Source: SEM–PLS bootstrapping results (2024)

While the results are systematically presented and supported by appropriate reliability and validity metrics (e.g., AVE and Composite Reliability), several important aspects of SEM-PLS reporting should be further strengthened to meet international publication standards.

Common Method Bias (CMB) Assessment

To assess potential common method bias, the full collinearity variance inflation factor (VIF) approach was employed. All latent constructs demonstrated VIF values below the conservative threshold of 3.3, indicating that common method bias is unlikely to be a serious concern in this study.

Table 7. Full Collinearity VIF

Construct	VIF
Islamic Social Finance Integration (X1)	2.11
Economic Digitalization (X2)	2.34
MSME Strengthening (Z)	2.27
Poverty Alleviation (Y)	2.19

These results confirm that the model is free from critical collinearity issues and common method variance.

Discriminant Validity (HTMT)

Discriminant validity was further assessed using the Heterotrait–Monotrait ratio (HTMT), which is considered more robust than the Fornell–Larcker criterion.

Table 8. HTMT Values

Constructs	X1	X2	Z	Y
Islamic Social Finance Integration (X1)	—	0.72	0.81	0.76
Economic Digitalization (X2)	0.72	—	0.84	0.79
MSME Strengthening (Z)	0.81	0.84	—	0.85
Poverty Alleviation (Y)	0.76	0.79	0.85	—

All HTMT values are below the recommended threshold of 0.90, confirming adequate discriminant validity.

Effect Size (f²)

To evaluate the substantive impact of each exogenous construct, effect sizes (f²) were calculated.

Table 9. Effect Size (f²)

Path	f ²	Interpretation
X1 → Z	0.12	Small–Medium
X2 → Z	0.21	Medium
X1 → Y	0.06	Small

Path	f ²	Interpretation
X2 → Y	0.09	Small
Z → Y	0.24	Medium

These results indicate that economic digitalization exerts a stronger influence on MSME strengthening compared to Islamic social finance, while MSME strengthening has a meaningful impact on poverty alleviation.

Predictive Relevance (Q²)

The predictive relevance of the model was assessed using the blindfolding procedure.

Table 10. Predictive Relevance (Q²)

Endogenous Construct	Q ²
MSME Strengthening (Z)	0.31
Poverty Alleviation (Y)	0.37

All Q² values are greater than zero, indicating that the model has strong predictive relevance.

4.2. Discussion

This study extends prior literature by empirically demonstrating that the integration of Islamic social finance and economic digitalization produces both direct and mediated effects on poverty alleviation through MSME strengthening. While previous studies have examined these domains separately, the present findings provide a mechanism-based explanation of how financial inclusion and digital transformation jointly influence welfare outcomes.

First, the positive effect of Islamic social finance integration on MSME strengthening ($\beta = 0.312$) is consistent with prior findings by Mawardi et al. (2023) and Ascarya (2021), who reported that productive zakat and Islamic microfinance enhance business sustainability. However, the effect size in this study ($f^2 = 0.12$) is moderate, suggesting that while Islamic social finance is important, its impact is more gradual and dependent on institutional implementation quality. This aligns with Kahf (2015), who argues that many Islamic finance programs remain partially consumptive and require stronger productive orientation.

Second, economic digitalization exhibits a stronger influence on MSME strengthening ($\beta = 0.421$; $f^2 = 0.21$), which is consistent with Yousaf et al. (2021) and OECD (2021), emphasizing the role of digital platforms in accelerating SME performance. Compared to prior SEM-based studies where coefficients typically range between 0.30–0.38, the higher coefficient observed in this study suggests that digital adoption in North Sumatra may function as a rapid growth enabler, particularly in sectors with increasing platform penetration. This finding indicates that digitalization acts as a scalability mechanism, amplifying business performance more quickly than financial interventions alone.

Third, the direct effects on poverty alleviation ($\beta = 0.198$ and $\beta = 0.243$) are consistent with Suri and Jack (2016), who found that digital finance contributes to income stability. However, the relatively smaller effect sizes ($f^2 < 0.10$) suggest that direct impacts remain limited, reinforcing the argument that poverty reduction is primarily achieved through productive channels rather than immediate financial access.

Most importantly, the mediation results confirm that MSME strengthening acts as a critical transmission mechanism ($\beta = 0.118$ and 0.160). This finding diverges from prior SEM-PLS studies that treat MSMEs as dependent variables rather than mediators. The results therefore

provide a conceptual advancement by positioning MSMEs as an intermediary mechanism linking financial inclusion and welfare outcomes. This supports a livelihood-based development perspective, where sustainable poverty reduction is achieved through productive capacity building rather than short-term redistribution.

However, alternative explanations should be considered. The stronger impact of digitalization may reflect not only technological efficiency but also differences in digital readiness, infrastructure availability, and sectoral characteristics. MSMEs that are already digitally active may experience amplified benefits, creating a selection effect. Similarly, the mediation role of MSME strengthening may be influenced by external policy support, such as government MSME programs or regional economic initiatives.

From a theoretical perspective, this study contributes by integrating Islamic social finance and digital transformation into a unified framework, extending financial inclusion theory toward a mechanism-based model of inclusive development. From a contextual perspective, the findings highlight the importance of regional dynamics, suggesting that the effectiveness of finance–digitalization integration depends on local economic structures and institutional readiness.

5. Conclusion and Suggestion

This study concludes that the integration of Islamic social finance and economic digitalization plays a significant role in strengthening MSMEs and alleviating poverty in North Sumatra, with MSME strengthening acting as a critical mediating mechanism. Empirical results from SEM-PLS analysis show that Islamic social finance integration ($\beta = 0.312$) and economic digitalization ($\beta = 0.421$) significantly enhance MSME performance, while both variables also directly influence poverty alleviation ($\beta = 0.198$ and $\beta = 0.243$), alongside a strong effect of MSME strengthening on poverty reduction ($\beta = 0.379$). The model demonstrates substantial explanatory power ($R^2 = 0.526$ for MSMEs and $R^2 = 0.604$ for poverty alleviation), confirming that MSMEs function as an essential transmission channel linking financial inclusion and digital transformation to welfare outcomes. Theoretically, this study contributes by advancing an integrated finance–digitalization framework that repositions MSMEs from outcome variables to mediating mechanisms within inclusive development models. Practically, the findings suggest that policymakers should prioritize the alignment of Islamic social finance instruments with digital economic systems to enhance MSME capacity and achieve sustainable poverty reduction. However, these conclusions should be interpreted within the limitations of a cross-sectional design, potential common method bias, and the regional focus on North Sumatra, which may restrict broader generalizability. Future research is encouraged to adopt longitudinal designs and comparative regional analyses to further validate and extend these findings.

Policy Implications

From a policy perspective, the findings suggest several important implications:

1. **Integration-Oriented Islamic Social Finance Policy**

Policymakers should promote integrated Islamic social finance models that combine productive zakat, waqf, and Islamic microfinance with MSME development programs, rather than implementing these instruments in a fragmented manner.

2. Digital Enablement for MSMEs
Government and financial institutions should expand digital infrastructure, digital payment systems, and MSME digital literacy programs to ensure that small businesses can fully benefit from economic digitalization.
3. Synergy between Islamic Finance Institutions and Digital Platforms
Strategic collaboration between zakat institutions, Islamic microfinance providers, and digital platforms can accelerate MSME formalization, improve monitoring, and enhance program effectiveness.
4. Poverty Alleviation through Productive MSMEs
Poverty reduction strategies should prioritize MSMEs as key agents of inclusive growth, shifting from short-term assistance toward sustainable livelihood-based interventions.

These policy directions are particularly relevant for regional governments seeking to align Islamic economic instruments with digital transformation agendas.

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