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Optimizing village empowerment through creative MSMEs, financial literacy, and government policies for poverty alleviation

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ABSTRACT

This study examines village empowerment strategies for poverty alleviation through the integration of strengthening creative MSMEs based on local culture, increasing financial literacy (including digital financial literacy), and government policy support. The study uses a literature study by selecting and synthesizing research findings related to the concept of Cultural Independent Villages, creative entrepreneurship, financial inclusion, and collaborative governance models. The results of the synthesis show that local culture can be an endogenous capital that generates economic added value through creative products and services, while strengthening citizen participation. However, the growth of MSMEs is not sustainable without the ability to record finances, plan capital, and utilize secure digital financial services. Policy support is needed to build an ecosystem in the form of tiered mentoring, business incubation, pentahelix partnerships, access to financing, and market access through marketing digitalization. The study confirms that fragmented interventions tend to produce short-term impacts, so programs should be designed place-based with success indicators that include revenue, business sustainability, market expansion, and financial inclusion. Future agendas include cross-village integrative model testing, data-driven impact measurement, and risk and consumer protection assessments on digital financial literacy. Practically, the main recommendations are to build an applicable financial literacy curriculum, facilitate legality and product standardization, and strengthen culture-based branding so that MSMEs upgrade and their benefits are evenly distributed at the household level.

Keywords: cultural independent villages; creative msmes; financial literacy; village poverty alleviation; government policies, culture-based creative economy

1. INTRODUCTION

Poverty in rural areas is a persistent and multidimensional structural problem, so it cannot be overcome through sectoral approaches or short-term interventions alone. In many developing countries, including Indonesia, the development gap between villages and cities is still reflected in limited access to capital, information, technology, and markets. This condition causes the village to be in a stagnant economic cycle, where productive activities are not able to develop sustainably. Studies have shown that the failure of poverty alleviation programs in villages is often due to a top-down approach that ignores the local social, cultural, and capacity contexts of communities (Sholihah et al., 2023; Paliwal, 2025).

In this context, micro, small, and medium enterprises, especially creative MSMEs, have a strategic role as the main driver of the village economy. Creative MSMEs not only function as local job providers, but also as a means of transforming cultural values into value-added economic commodities. However, despite their significant contributions, village MSMEs still face various structural and internal obstacles, such as low managerial capacity, limited access to formal financing, and weak market networks. Recent research confirms that MSMEs are the backbone of the local economy, but their performance is greatly influenced by the quality of human resources and the policy environment that surrounds them (Zumalia et al., 2025).

One of the key factors that determine the success of creative MSMEs is financial literacy. Financial literacy includes the ability to understand financial concepts, manage cash flow, utilize formal financial services, and make rational investment decisions. Studies show that financial literacy has a significant effect on business performance, MSME sustainability, and financial inclusion levels, especially in rural areas that are undergoing digital transformation (Lusardi & Mitchell, 2014; Li & Pan, 2025). Low financial literacy makes MSME actors vulnerable to financial mismanagement and risky informal financing practices.

In the Indonesian context, various empirical studies prove that financial literacy interventions are able to significantly increase the capacity of village MSMEs. Financial management training, separation of business and household finances, and the use of simple financial recording applications have been proven to increase business efficiency and transparency (Juliyanti et al., 2025; Reni, 2025). In addition, formal financial socialization also plays an important role in protecting MSME actors from illegal loans that can worsen the economic condition of village households (Rahayu & Srihastuti, 2025).

However, financial literacy alone is not enough to drive village economic transformation without the support of adaptive and contextual government policies. Place-based and participatory village development policies have proven to be more effective in encouraging local economic independence than a centralized uniform approach. The government plays an enabler through regulations, financing incentives, infrastructure development, and strengthening village economic institutions (Cattaneo et al., 2022; Sholihah et al., 2023). Ketidaksinkronan antara kebijakan dan kebutuhan lokal sering menjadi penyebab utama rendahnya dampak program pemberdayaan desa.

The integration of economic institutions such as cooperatives, local banks, and microfinance institutions is also an important factor in strengthening the village MSME ecosystem. Cooperatives have proven to be able to bridge the gap in financial access through more inclusive and community-based financing mechanisms (Sari et al., 2025). On the other hand, sustainable financing trends such as green financing and digital financing are increasingly relevant in encouraging village MSMEs to adapt to global economic demands and sustainable development principles (Idris & Yunanto, 2025).

The local culture-based creative economy sector has great potential as the foundation for sustainable village development. Local culture serves not only as a social identity, but also as a source of product innovation and market differentiation. Recent research shows that the integration of digital marketing strategies, financial literacy, and the use of cultural assets can increase the competitiveness of village creative MSMEs in the national and global markets (Utami & Yuliyanti, 2025). In addition, community-based empowerment approaches involving the younger generation and educational institutions contribute significantly to the sustainability of village innovation. The involvement of youth in the development of creative MSMEs encourages knowledge transfer, technology adoption, and product

quality improvement, thereby strengthening the resilience of the village economy to external changes (Riezicq et al., 2025).

Based on this description, there is an urgent need for an integrated and non-fragmented village empowerment framework, which connects creative MSMEs based on culture, financial literacy, and government policies in one mutually reinforcing ecosystem. The concept of Cultural Independent Villages is relevant as a development paradigm that places the village as a subject of development, not just a policy object. Therefore, this study aims to systematically explore how the integration of creative MSMEs, financial literacy, and government policies can be optimized as a sustainable, inclusive, and adaptive village poverty alleviation strategy to contemporary economic dynamics.

2. RESEARCH METHOD

This study uses a qualitative approach with a descriptive-analytical method to examine strategies for optimizing village empowerment through creative MSMEs, financial literacy, and government policies in an effort to alleviate poverty. The qualitative approach was chosen because it allows a deep and contextual understanding of socio-economic phenomena and public policies that are complex, dynamic, and interrelated, so that interdimensional relationships can be comprehensively analyzed (Creswell & Poth, 2023).

The type of research used is library research with a narrative and conceptual literature review approach. This research examines and integrates various theoretical thoughts, empirical findings, and policy frameworks relevant to the development of creative MSMEs, financial literacy, and village empowerment. The literature used is sourced from articles from Scopus indexed international journals and other reputable databases, SINTA-accredited national journals, academic books, government policy documents, and publications of international organizations.

Data collection was carried out through a systematic literature search using academic databases such as Scopus, Google Scholar, and ScienceDirect with keywords relevant to the research theme. The selected literature is a publication in the period 2015–2024, written in Indonesian or English, has a clear methodology, and is relevant to the research focus. Articles from predatory journals, non-peer review publications, and non-credible sources are excluded to maintain the academic validity and quality of the research. Data analysis was carried out using thematic and conceptual analysis by grouping literature findings into four main dimensions, namely creative MSMEs, financial literacy, government policies, and poverty alleviation. The four dimensions are analyzed in an integrated manner to identify patterns of relationships, conceptual gaps, and formulate a framework for optimizing village empowerment that is applicable, scientific evidence-based, and relevant to the development of village empowerment policies and practices.

3. RESULT AND DISCUSSION

Data analysis was carried out using thematic and conceptual analysis by grouping literature findings into four main dimensions, namely creative MSMEs, financial literacy, government policies, and poverty alleviation. The four dimensions are analyzed in an integrated manner to identify relationship patterns, conceptual gaps, and formulate a framework for optimizing village empowerment that is applicable, scientific evidence-based, and relevant to the development of village empowerment policies and practices (Cattaneo et al., 2022).

3.1. Cultural Independent Village as an Economic Empowerment Engine

Cultural Independent Villages can be understood as an empowerment paradigm that places local culture not just as a symbol of identity, but as a development resource that simultaneously produces economic, social, and ecological value. In the latest literature, cultural assets, including tangible and intangible cultural heritage, are seen as able to create positive externalities through increased employment,

strengthening social capital, and destination development based on place identity, as long as they are managed with good governance and sustainability principles (Galluccio & Giambona, 2024).

The transformation of culture into economic assets basically works through the mechanism of adding value. Crafts, creative products, performing arts, traditional culinary, and local historical narratives can be packaged as an experience economy that expands income opportunities for village households, while strengthening social cohesion. Studies on value creation from intangible cultural heritage emphasize that "place-specific" cultural heritage can be the basis for sustainable rural development when product innovation, community learning, and local governance go hand in hand, so that economic benefits do not sacrifice cultural meaning and quality of life (Shakya & Vagnarelli, 2024).

In the context of village tourism, strengthening local culture tends to be effective when managed through a participatory approach, especially a community-based tourism model that ensures the planning, management, and distribution of benefits involves the local community. A place-based framework that links cultural identity, cross-actor collaboration, and institutional capacity is proving essential for villages to not only "sell attractions", but to build a local economic ecosystem that is resilient. The international literature on *place-based development* also shows that region-context-based policies and strategies are generally more effective than a uniform approach, as they take into account variations in local assets, institutions, and socio-economic relationships at the local level (Bohnet et al., 2025).

The comparison of successful villages and stagnant villages is usually seen in the quality of the orchestration of their ecosystems. Successful villages tend to have clear management institutions, credible local leadership, agreed rules of the game, and a collective capacity to manage the trade-offs between cultural commercialization and sustainability. An example that is often referred to in the study of tourism villages is Nglanggeran, where tourism development and the strengthening of local products are supported by cross-sector collaboration and relatively structured management of tour packages (Jamalina & Wardani, 2017; UN Tourism, 2021; Maulia & Setiyono, 2023; Husniyah et al., 2024; Hendrayani et al., 2025), and the study of Nglanggeran socio-economic transformation (Arianti et al., 2024).

In contrast, stagnant villages generally experience classic problems: superficial cultural commodification, limited product innovation, short supply chains, and value leakage because marketing and financing are more controlled by outsiders. Another challenge is conflicts of interest and unequal distribution of benefits, so that citizen participation is weakened and economic activities do not form long-term impacts. In the latest rural entrepreneurship literature, ecosystems that are unable to bring together institutions, cultures, resources, and technologies will find it difficult to adapt; As a result, creative efforts stop on a small scale and do not upgrade (Xiang & Hu, 2025). Thus, Cultural Independent Villages become an "economic empowerment engine" when culture is processed into a portfolio of values connected to the market through innovation, strong local institutions, and participatory governance. Strengthening cultural narratives and transdisciplinary learning is also important so that villages are able to design development directions that are authentic and can be replicated adaptively, rather than just imitating other village models (Bohnet et al., 2025).

3.2. Financial Literacy as a Driver of Creative MSMEs

Financial literacy is the main determinant of the performance and sustainability of creative MSMEs, including those based on local culture. Creative MSMEs have special characteristics because they rely on intangible assets such as creativity, knowledge, and symbolic value, so weak financial management can quickly erode business sustainability. Empirical studies in various contexts show that MSME actors with better levels of financial literacy tend to have higher business performance, resilience, and competitive advantage than business actors with low financial literacy (Alshebami & Murad, 2022; Rekha et al., 2024).

In the context of culture-based MSMEs, financial literacy not only includes understanding basic bookkeeping, but also the ability to manage irregular cash flows, assess the economic value of creative assets, and plan long-term investments. Recent research confirms that financial literacy consists of interrelated dimensions of knowledge, awareness, and skills, and all three are becoming increasingly important in the creative industry sector that faces demand uncertainty and income fluctuations (Rekha et

al., 2024). Without adequate financial literacy, the potential of the cultural economy is often not converted into sustainable welfare for village business actors.

Low financial literacy is also reflected in various financial management mistakes that are common in village creative MSMEs. These mistakes include mixing business and household finances, the absence of systematic financial records, short-term orientation in decision-making, and dependence on high-risk informal financing. Studies have shown that these weaknesses make it difficult for MSMEs to access formal financing, unable to manage risk, and vulnerable to external shocks, even though the products produced have high market potential (Sulistianingsih & Santi, 2023; Widyastuti et al., 2023; Kumar et al., 2024; Lestari et al., 2024).

Financial literacy plays an important role as an enabler of access to capital for creative MSMEs. MSMEs with better financial literacy tend to be able to meet credit administration requirements, evaluate the costs and benefits of financial products, and choose a more efficient financing scheme. Research by Sulistianingsih & Santi (2023), Widyastuti et al. (2023), and Kumar et al. (2024) shows that financial literacy has a direct and indirect influence on formal credit access and the performance of MSMEs through improving risk mitigation capabilities and the quality of financial decision-making. This is crucial for creative MSMEs who generally have limited tangible assets as collateral.

The development of the digital economy has also expanded the scope of financial literacy to digital financial literacy, which includes the understanding and utilization of financial technology (FinTech). Recent studies show that financial literacy has a significant effect on FinTech adoption, which further improves working capital efficiency, access to financing, and the performance of creative MSMEs. The integration of financial literacy with the use of social media and digital platforms has been proven to help village business actors in accelerating transactions, expanding markets, and increasing financial transparency (Sulistianingsih & Santi, 2023; Widyastuti et al., 2023).

Therefore, increasing financial literacy for village creative MSMEs needs to be designed through innovative and contextual strategies. An effective financial literacy program does not focus on technical training alone, but must integrate financial understanding with product innovation, digital literacy, and government policy support. Community-based approaches, the use of digital media, and sustainable mentoring have proven to be more effective in building the financial capacity of creative MSMEs than one-way interventions. Thus, financial literacy serves as the main driver that bridges cultural potential with the long-term sustainability of the village economy.

3.3. Government Policies That Support Cultural and Economic Integration

Government policies play a strategic role in forming an ecosystem that allows the integration between village culture and economy to run sustainably. The latest development literature emphasizes that public policy should no longer focus enough on aid distribution, but should be oriented towards local capacity creation and strengthening the endogenous assets of the region. Place-based policy approaches are increasingly recognized as an effective framework for addressing structural poverty in rural areas because they consider the local cultural, institutional, and socio-economic context simultaneously (Cattaneo et al., 2022; Wibowo et al., 2025).

In the Indonesian context, the government's commitment to cultural integration and development is reflected in the 2025–2045 Cultural Promotion Master Plan (RIPK) which was stipulated through Presidential Regulation Number 115 of 2024. RIPK emphasized that culture is positioned not only as a heritage that needs to be preserved, but also as a strategic resource for the welfare of the community. This approach is in line with the findings of the study that states that cultural policies linked to the creative economy and tourism sectors are able to increase local economic resilience, as long as it is followed by inclusive and adaptive governance (Belfiore, 2020).

Evaluations of various village empowerment programs, including village funds, MSME training, and digitalization programs, show that the impact of policies is highly dependent on their implementation mechanisms. Programs designed on a top-down basis tend to result in administrative compliance without encouraging sustainable local innovation. On the other hand, policies that provide space for village communities to participate in program planning and management have proven to be more effective in

encouraging the use of local culture as the basis for economic activities. This shows that the success of the policy is not only determined by the size of the budget, but also by the quality of the participatory process.

The development of culture-based MSMEs through government policies also shows more optimal results when combined with non-financial support, such as managerial training, business assistance, and market access facilitation. Policies that encourage continuous learning and collaborative networking can increase the innovation capacity of MSMEs and strengthen their position in the creative economy value chain. Without this support, culture-based MSMEs tend to stop on a micro scale and find it difficult to move up.

Comparisons between participatory policies and top-down policies are also seen in the culture-based tourism sector. A community-based tourism approach facilitated by the government, but managed locally, has proven to be more sustainable than tourism projects that are completely controlled by external actors. Participatory policies allow for a more equitable distribution of benefits, strengthening a sense of community belonging, and protection of cultural values from excessive commodification (Xiao et al., 2022).

Based on these findings, the ideal policy model to empower Cultural Independent Villages is an integrative, participatory, and adaptive policy. This policy needs to connect cultural preservation, strengthening creative MSMEs, financial literacy, and village institutional development in one coherent framework. The government plays the role of a facilitator and orchestrator of the ecosystem, not just a program provider. With such an approach, public policy not only encourages village economic growth in the short term, but also builds a foundation of sustainable welfare based on local identity.

3.4. Ecosystem of Cultural Independent Village Integration, Financial Literacy, and Policy

The integration between Cultural Independent Villages, financial literacy, and responsive public policies is the main foundation in building a sustainable village economic empowerment ecosystem. The ecosystem approach places villages as socio-cultural spaces that have endogenous capital in the form of cultural values, social networks, and local knowledge that can be converted into economic value. The rural development literature confirms that empowerment based on local assets and social capital tends to be more resilient and adaptive than approaches that rely solely on external inputs

Within the framework of Cultural Independent Villages, local culture functions as a trigger for the formation of social cohesion, a sense of belonging, and a collective identity that encourages community participation in productive economic activities. Recent research shows that the involvement of local culture in village economic development is able to strengthen social capital and increase the sustainability of creative businesses because people feel they own and are responsible for the economic activities carried out (Yu et al., 2025). This cultural-based social capital is an important prerequisite for the formation of a collaborative and inclusive economic ecosystem.

However, the potential of local culture will not produce optimal economic impact without being supported by the financial literacy of village communities. Financial literacy plays a role as a mechanism for converting cultural values into economic performance through the ability to manage finances, access formal financing, and plan businesses sustainably. Recent studies show that the combination of financial literacy and digital literacy has a significant influence on increasing rural household income and strengthening community economic networks, thereby accelerating local economic transformation (Yu et al., 2025). Thus, financial literacy becomes the link between cultural capital and the modern economic system.

The role of government policy is crucial in ensuring that the interaction between culture and financial literacy takes place systemically. Effective public policies not only provide financial assistance, but also create an institutional environment that supports local learning, collaboration, and innovation. Recent empirical studies confirm that village empowerment policies based on collaboration between the government, financial institutions, and local communities are more able to strengthen the economic capacity of communities than administrative and top-down policies (Sholihah et al., 2023). Policy serves as an orchestrator that aligns the interests of various actors in the village ecosystem.

For this integration ecosystem to run effectively, a framework is needed that unites cultural capital, financial literacy, and policy in one strategy that is adaptive to local dynamics. The framework includes the development of village-based financial literacy learning communities, facilitation of creative MSME financing in accordance with the characteristics of cultural businesses, and sustainable monitoring and policy evaluation mechanisms. Research in North Aceh shows that the synergy between social capital, financial literacy, and financial technology can expand financial inclusion and significantly increase the economic capacity of village communities (Bustami et al., 2025).

Ultimately, the quality of the village empowerment ecosystem is largely determined by the strength of multi-stakeholder collaboration. Governments, educational institutions, financial service providers, and local communities need to play a simultaneous and complementary role. Strong community organizations can strengthen the implementation of financial literacy and culture-based economic innovation, while adaptive public policies provide space for villages to experiment and grow. The latest interdisciplinary study confirms that the integration of culture, financial literacy, and digital economy in empowerment programs is able to increase village competitiveness while maintaining cultural identity as the foundation of long-term development (Affandi et al., 2024; Probohudono et al., 2025).

3.5. Innovation and New Strategies

Innovation is a key element in ensuring that village empowerment through creative MSMEs does not stop at increasing short-term economic activities, but is able to create sustainable poverty alleviation impacts. Rural MSMEs that adopt innovative strategies tend to be more adaptive to market changes and more resilient to economic shocks (Arifa et al., 2025). In rural contexts, innovation is not always synonymous with high technology, but often takes the form of a creative combination of local wisdom, social learning, and contextually appropriate use of technology.

One of the prominent strategic innovations is the digitization of MSMEs and the use of village-based e-commerce platforms. Recent studies show that the adoption of digital platforms significantly expands the reach of the MSME market, improves transaction efficiency, and strengthens the visibility of products based on local culture (Fatimah et al., 2025). Research in Indonesia shows that MSMEs that adopt digital marketing and online platforms experience a significant increase in turnover in the first year of implementation, especially when digitalization is accompanied by increased digital literacy and ongoing mentoring (Cerquetti et al., 2022; Scaramuzzi et al., 2023; Leviäkangas et al., 2025; Lu et al., 2025; OECD, 2025).

The success of digitalization is highly dependent on a gradual and inclusive implementation approach. In many villages, the use of simple technologies such as social media and instant messaging apps has proven to be more effective as a digital transformation gateway than the direct adoption of complex e-commerce platforms. This incremental approach allows MSME actors to build confidence, digital competence, and organizational readiness before entering the broader digital ecosystem, while reducing the risk of digital exclusion for vulnerable groups. Governance innovation is also reflected in the implementation of the pentahelix collaboration model involving the government, academics, business people, communities, and the media. This model strengthens the creative MSME ecosystem by bringing together resources, knowledge, and networks from various actors. Multistakeholder collaboration increases local innovation capacity and the effectiveness of empowerment programs, especially when supported by strong local coordination and leadership mechanisms.

The development of social entrepreneurship at the village level also marks an important innovation in poverty alleviation strategies. Culture-based creative MSMEs increasingly integrate economic goals with social and environmental missions, creating a value-based business model. Social enterprises in developing countries have higher resilience because they are supported by community loyalty, product differentiation, and access to alternative funding sources such as impact investment and corporate social responsibility programs.

Product innovation based on local wisdom combined with modern technology is also a source of sustainable competitive advantage. This strategy allows village MSMEs to create market differentiation through cultural narratives, product quality, and authentic consumer experiences. In addition, the

importance of the co-creation process with consumers and the protection of intellectual property rights so that culture-based innovations are not easily imitated and lose their added value.

Overall, new innovations and strategies in village empowerment demand an ecosystem approach that integrates digitalization, multi-stakeholder collaboration, financial literacy, and sustainability-orientation. The government acts as an orchestrator that creates a space for innovation, while local communities become the main actors in the implementation and adaptation of strategies. With this approach, creative MSMEs not only function as a tool to increase income, but also as a motor for inclusive and sustainable village socio-economic transformation.

4. CONCLUSION

Village empowerment in poverty alleviation efforts will be more effective if it is carried out in an integrated manner between strengthening creative MSMEs based on local culture, increasing financial literacy (including digital financial literacy), and supporting consistent and participatory government policies. Local culture can be an endogenous capital that not only maintains identity and social cohesion, but also creates economic added value through the development of creative products and services. However, this potential will not develop optimally if business actors do not have adequate financial management capacity, access to relevant financing, and ecosystem support that opens market access and strengthens business sustainability.

The implication is that the strengthening of MSMEs in villages needs to be directed to applicable practices: mapping cultural and market potential, improving product quality and standardization, marketing strategies (including digital), as well as getting used to simple financial recording and separation of business and household finances. At the same time, the government and stakeholders need to take on the role of ecosystem facilitators by providing sustainable mentoring, business incubation, multi-stakeholder partnerships, and financing schemes that are easily accessible and in accordance with the character of village MSMEs. Thus, the empowerment program does not stop at momentary training, but moves towards changes in capacity and support structure that make MSMEs able to upgrade, be more competitive, and more resilient to risks.

In the future, the development and research agenda can be focused on testing the integrative model of "culture–MSMEs–financial literacy–policy" in various village contexts to see the determinants of success and potential replication. In addition, it is important to carry out more structured impact measurements, not only on increasing income, but also on business sustainability, market expansion, financial inclusion, and household economic resilience. In line with that, research on the adoption of digital financial literacy, including security and protection from fraud risks, as well as MSME scaling-up strategies (legality, supply chain, partnerships, and standardization) need to be strengthened so that village economic transformation takes place inclusive and sustainable.

Ethical Approval

Not Applicable

Informed Consent Statement

Not Applicable

Authors' Contributions

WW contributed to the development of the research concept and methodological design. WW also edited the manuscript and translated it into English, wrote and revised the abstract, introduction, and conclusion, coordinated communication with all research team members and relevant agencies, and was responsible for manuscript correspondence and ensuring the completeness of research documents. MR contributed

to writing the introduction and several points in the discussion section. TR contributed to developing the research methods and the discussion section. NA contributed to writing the discussion section. ZF contributed to writing the conclusion and polishing the manuscript.

Disclosure statement

Throughout the research process and writing of this journal article, the research team affirms that none of the researchers had any personal interests in the research, data collection, data analysis, or publication. The entire research was conducted with the aim of ensuring that the journal article produced by the research team would have an impact, particularly on the management of sustainable tourism, with the goal of increasing local revenue from the tourism sector and improving the welfare of the surrounding community.

Data Availability Statement

The data presented in this study are available on request from the corresponding author due to privacy reasons.

Funding

The data presented in this study are available on request from the corresponding author due to privacy reasons.

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Wahyu Wibowo is an alumnus of the Master's Program in Islamic Economics at Sunan Kalijaga State Islamic University (UIN Sunan Kalijaga), Yogyakarta, Indonesia. He currently teaches the Graduate Student Writing Class at the Faculty of Islamic Economics and Business. In August 2025, he graduated and received recognition as the fastest and best-performing graduate in his graduation period. His interests include village empowerment and the development of Islamic economics-based community programs.

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