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Modified Blended Islamic Social Finance Model for Empowering Underprivileged Communities in Indonesia

Indah Piliyanti [1]*, Aam Slamet Rusydiana [2]

[1] Universitas Islam Negeri Raden Mas Said Surakarta, Surakarta, Indonesia
[2] Sakarya University, Sakarya, Turkey

Abstract

Conventional blended finance uses concessional capital to attract commercial investors, a logic that tends to bypass the poorest. This study investigates how Islamic social finance can be blended differently. Using a qualitative comparative case study on two agricultural empowerment programs managed by the Dompet Dhuafa Foundation, in Wonosoba and Temanggung, Central Java, this study examines how Zakat, Sadaqa and Waqf were blended and the changes in beneficiaries. Data was collected through interviews with 22 informants, field observation and program documents. Data was analyzed using the five livelihood assets of the Sustainable Livelihood Impact Assessment (SLIA) Framework. The testimonies of farmers and staff from both programs indicated a positive change, specifically in the physical, social and financial assets of the groups, through group-owned resources and facilities, effective farmer organizations, and revolving funds. A cross-case analysis, using an existing blended Islamic finance model as the analytical lens, generates six propositions that explain how these changes were achieved. These findings are offered as propositions rather than generalizations. Accordingly, zakat institutions and regulators are encouraged to design blended programs based on allocation rules and to develop clear exit strategies.

Keywords: Blended Finance; Islamic Social Finance; Rural Development; Sustainable Livelihoods; Zakat

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*Corresponding Author. Email: indah.piliyanti@staff.uinsaid.ac.id

Introduction

The social and economic consequences of COVID-19 have exacerbated global poverty to the highest levels in decades. The World Bank (Sánchez-Páramo et al., 2021). reports that lower-income countries experienced the most severe crises and increased inequity post COVID-19. Addressing these challenges requires transformative and innovative financial systems, including inclusive and sustainable economic development and social protection. Blended finance is a strategy to incorporate sustainable development finance by blending public and philanthropic funds with private sector investments (Habbel et al., 2021). Internationally, blended finance has successfully tapped into green growth, financial inclusion, and the energy transition (World Economic Forum, 2015). This demonstrates the potential for blended finance to achieve the SDGs.

There are several examples where blended finance has been used to mobilize different sectors to achieve the SDGs. For instance, blended finance has been used to support the growth of Zoona, a digital finance service provider in Zambia (Tri Hita Karana Forum, 2022). issue corporate sustainability bonds for green growth in Indonesia (OECD, 2022), and to achieve the renewable energy transition in Uganda via the GET FiT program (Tri Hita Karana Forum, 2022). The integration of blended finance has the potential to address the development financing gap (OECD, 2022). It promotes impact investing and generates innovative partnerships for development financing (Habbel et al., 2021).

Critics of blended finance have argued that the approach mainly benefits the middle-income groups and has been inadequate in including vulnerable groups (Khan & Badjie, 2022). To benefit the poor and vulnerable, there is a need to strengthen the equity side of blended finance (Prontera & Quitzow, 2023). It has been argued that the blended finance system remains inequitable because financiers and investors retain control to set the terms of the investment.

Blended Islamic social finance provides an alternative that puts equity and pro-poor development first (Khan & Badjie, 2022). Some examples of Islamic social finance instruments and concepts are *zakat*, *sadaqa*, *waqf*, and *Murabahah* (Islamic trade finance). In Indonesia, organizations for zakat and *waqf* have collected, distributed, and empowered Muslim communities systematically since the 2000s (Fauzia, 2017). In 2012, Indonesian Islamic philanthropic organizations reported having collected a total of USD 11.8 million in zakat. By 2024, the collection increased to USD 14.7 million, representing an increase of 25% (Warto et al., 2025).

In this context, Islamic philanthropic organizations appoint *ʿāmil* (zakat administrators) and *nāẓir* (waqf trustees) to administer zakat and waqf, respectively. In this regard, *nāẓir* are required to manage *waqf* property, develop *waqf* assets in accordance with the prescribed purposes, protect *waqf* assets, and report on the performance to the Indonesian *Waqf* Board (BWI) and Office of Religious Affairs (KUA) (Republik Indonesia, 2006). Indonesia's national *zakat* authority (BAZNAS) and civil society-led zakat institutions (LAZ) recognize *zakat* organizations. BAZNAS is a government agency, while LAZ institutions are non-governmental organizations (NGOs) (Piliyanti, 2022).

This study's blended Islamic social finance model is innovative and can enable the construction of sustainable livelihood strategies in rural areas using *zakat*, *sadaqah* and *waqf.* The model has been adapted from (Khan & Badjie, 2022). Modified Blending Islamic Social Finance is an innovative strategy to address this disparity through various community-based empowerment initiatives, particularly in the rural agricultural sector of Indonesia. Consistently for the last 10 years, rural poverty has outweighed urban poverty (Direktorat Statistik Ketahanan Sosial, 2022). This study also attempted to integrate the outcomes of blended Islamic social finance using a Multidimensional Impact Framework. The main focus is to apply the Sustainable Livelihood Impact Assessment (SLIA) framework to evaluate the practices of empowerment undertaken by the Islamic philanthropic organizations in Indonesia. In the context of this study, the SLIA framework focuses on localized, respondent-reported asset dynamics and the gaps thereof. This study contributes to the field of Islamic Social Finance from a theoretical perspective by providing a structured Impact framework for blended Islamic social finance, and from a practical perspective by demonstrating the applicability of this framework to promote social equity and financial inclusion in rural settings.

Literature Review

Blended finance, or what is often termed catalytic finance, represents an approach to financial structuring that uses the concessional resources of public or philanthropic capital to bring commercial private finance to development impact projects. Flammer et al., (2025) Give an example of the role of blended finance in Brazil, where such an approach played a catalytic role in optimizing risk-return profiles for investments. Zetzsche & Vilanculo (2024) take a more restrictive view, considering that blended finance, structured project finance in the Global South, brings together the two types of capital in order to achieve public and private

objectives. Overall, however, the literature is divergent on the role of concessionality. The OECD DAC Guidance provides a broader framework and suggests that financial flows can be classified by their end or final purpose rather than their source, and explicitly ignores concessionality (OECD, 2025). The DFI or MDB framework takes a more restrictive approach and argues that the presence of concessionality is a necessary component for blended finance to be defined as true blended finance (Corporation et al., 2017).

Blended finance is built on three pillars (Sustainable Investing Research Initiative, 2025). The first is leverage. This involves the deployment of development and philanthropic capital to strategically mobilize investment at a scale that would not have been possible otherwise. The second is impact. The activity or underlying transaction must contribute to measurable improvement in sustainable development of social, environmental, and economic outcomes, generally framed in relation to the SDGs in developing countries. The third is returns. The transaction must be structured in a way that would provide sufficient positive and risk-adjusted financial return to the private investors to fulfill the fiduciary duty. Risk and return are recalibrated to balance public development goals with the incentives of private capital using blended finance (Sustainable Investing Research Initiative, 2025).

Various initiatives, instruments, and mechanisms have been developed to operationalize blended finance in Indonesia, among others, SDG Indonesia One, the Tri Hita Karana Blended Finance Roadmap, Sustainability Project Bond by the Tropical Landscape Finance Facility, and the Marine and Fisheries Financing Institution (Wanta et al., 2022). Meanwhile, state-led mechanisms have been complemented by development funding from faith-based organizations. In the last five years, the National Zakat Board (BAZNAS) has been channelling *zakat* and *sadaqah* from the Muslim community for SDGs-related projects (Abdullah, 2018). In extension of this collaborative model, BAZNAS signed in 2020 a memorandum of understanding with UNDP, Principal Asset Management, and Ammana Fintek Syariah to increase socio-economic recovery in Lombok and Central Sulawesi post-COVID-19 for 10,000 beneficiaries (BAZNAS, 2020).

The above cases illustrate that blended finance can facilitate critical funding gaps for development through market-based mechanisms. Traditionally, critical funding gaps for development have been filled primarily by public funding (especially for lower-middle-income countries). Blended finance, by embedding equity structures in project designs, demonstrates that market-based mechanisms can be used to finance development projects for the bottom of the economic pyramid (Prontera &

Quitzow, 2023). In addition, this partnership structure fulfills social imperatives and market needs for development, particularly for the Sustainable Development Goals of host countries (Habbel et al., 2021).

Mainstream blended finance literature has described blending mechanisms to a great extent as de-risking instruments to crowd in commercial private investments with the use of public or philanthropic capital. It has been argued that the focus on commercial return metrics causes mission drift. Resources are diverted from the ultra poor who have no means to repay. Blended Islamic Finance addresses this structural equity issue through the use of non-recoverable faith-based social transfers (zakat, *sadaqa* and *waqf*) as core capital rather than subsidies (Khan & Badjie, 2022).

Modified Blended Islamic Social Finance Model

As an encompassing model, modified blended Islamic social finance (MBISF) builds upon the principles of blended finance and incorporates *zakat*, *sadaqa*, and *waqf* as the main components of impact financing. The model presented here modifies the original framework Khan & Badjie (2022) by deleting the components of commercial Islamic finance. While Khan & Badjie argue that blended Islamic finance is an integration of Islamic Social finance and Commercial finance to bring about the optimal blend for SMEs (under the SDGs), the modified BISF model achieves social equity, integrates blended finance, and incorporates Islamic social finance to achieve a socially equitable and sustainable system.

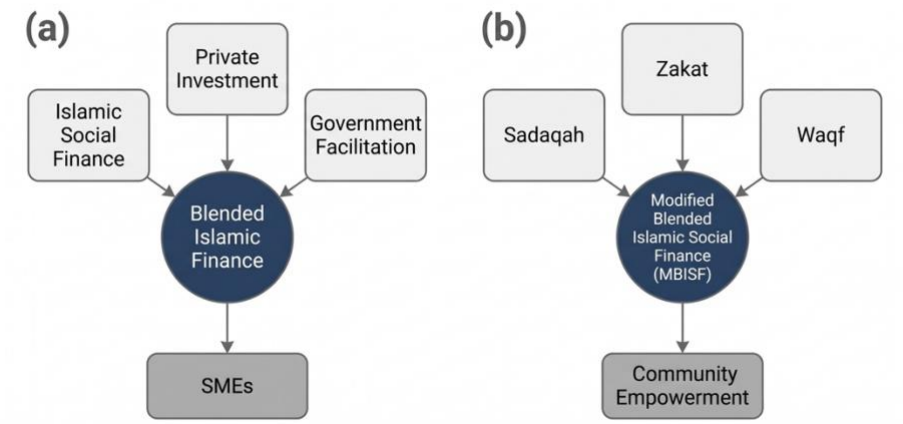
Figure 1 illustrates the modified version of the BISF model, which is based on Khan & Badjie (2022) and deliberately omits Islamic financial instruments. This modification accounts for the actual structural conditions of rural smallholders in Central Java, who, due to commercial borrowing constraints, face a high risk of default. With an exclusionary capital structure that includes only non-repayable philanthropic grants (*zakat*) and perpetual endowments (*waqf*), the model creates a social finance mechanism for the asset-poor farming households.

In comparison, Figure 1 (a) illustrates the original model that integrates the use of return-generating Islamic commercial finance, alongside philanthropic finance, to facilitate the operations of micro, small, and medium enterprises. Additionally, Figure 1 (b) demonstrates how the core of Islamic social finance, comprising zakat, sadaqa, and waqf, may be integrated to provide social finance empowerment. This framework represents the most recent practices in the field of Indonesian Islamic philanthropy (Piliyanti, 2022). Generally viewed as Islamic social safety nets within

the charity sector (Mohammed & Feddad, 2020), the objective of Islamic social finance is to attain social justice and long-term socioeconomic sustainability (Cattelan, 2020).

Zakat, sadaqa, and waqf are distinctive in their operational characteristics. Zakat is mandatory and, as such, provides a dependable, continuous, and perpetual source of income. Rather than being limited to short-term palliative relief, zakat has the potential to be transformative by mobilizing and supporting micro-entrepreneurs (Billah, 2018). Waqf, on the other hand, provides greater structural flexibility than traditional public or private funds (Rodríguez-Moreno, 2018), and is as operationally adaptable as *sadaqa*. Therefore, the deliberate combination of zakat, *sadaqa*, and *waqf* creates a strong financial base to empower the poor to mobilize themselves and take control of their own lives.

Figure 1. (a) Blended Islamic Finance (b) Modified Blended Islamic Social Finance



Source: (a) (Khan & Badjie, 2022). (b) Modified from Khan and Badjie (2022), drawn by the author.

Historically, *zakat*, *sadaqa,* and *waqf* funded public infrastructure and services. Now, they can help fund social and economic impact projects. Integrating these mechanisms creates a sustainable financing ecosystem for social enterprise development (Islam et al., 2023; Kasri & Ismail, 2019; Syamsuri et al., 2026). These instruments have been widely researched for their role in combating poverty. Between 2013 and 2018, 100 articles covering zakat and poverty were published (Tanjung & Hakim, 2022).

Moreover, recent studies show that the use of zakat, sadaqa, and waqf is not to be viewed in isolation. They can be integrated to structure social finance architecture for community development. While zakat provides immediate income redistribution and consumption smoothing for eligible beneficiaries, waqf, particularly cash and productive waqf, provides a long-term base capital for human capital development and micro-enterprise, as well as the provision of public goods. Poverty reduction is more effective when these social finance mechanisms are integrated and administered in an aligned manner. Evidence shows that where these integrated social finance mechanisms are employed in other OIC member states, especially in Southeast Asia, they have significantly impacted poverty and hunger (Zulkipli et al., 2025). For example, integrated Islamic social finance in Bangladesh has improved access to education and health in rural areas and reduced poverty (Hossain et al., 2025). Professionally managed Zakat, Infaq and Sadaqa in Turkey and Egypt also supported recovery from the economic crisis and strengthened the social protection floor (Saidy et al., 2025).

Zakat and waqf-based empowerment models demonstrate great contextual variability, for example, in Malaysia. Various State Islamic Religious Councils integrate *zakat, waqf*, and *sadaqa* to develop comprehensive social welfare frameworks. They fund micro-enterprises, aid mosque operations, and provide health and social welfare services, including disaster management, in partnerships with Waqf An-Nur Corporation Berhad (Hossain et al., 2025). Also, Malaysia's iTEKAD program shows how social finance is integrated with entrepreneurship (Johan Arief Jothi & Aminan, 2025). Elsewhere in Indonesia, Cash *Waqf*, *Zakat*, and *Infak* endowments are converted to working capital for Asnaf farmers, boosting local food production (Ali et al., 2023). Meanwhile, in Nigeria, waqf-based educational institutions in Kano have been found to have the capacity to empower youth through education and skills acquisition (Abubakar & Rahman, 2021), while the integration of waqf has been proposed as a means of enhancing financial inclusion and socio-economic justice (Zauro et al., 2020).

Despite the aforementioned achievements, the scholarly literature identifies several operational challenges such as insufficient nazir management, inadequate community financial literacy, and lack of objective evidence-based impact assessment (Hossain et al., 2025; Zulkipli et al., 2025).

The proposed modified BISF model addresses these challenges by purposely omitting the role of the commercial financial institution and focusing on the integration of Islamic and Social finance in an academic context (Velmurugan et al.,

2025). Unlike market-based models that foster economic returns, blended Islamic social finance, in this instance, focuses on the ultra-poor by leveraging *Zakat*, *Sadaqah*, and *Waqf*. Hence, besides providing an alternative socio-ethically sustainable model, it addresses a primary need highlighted in development literature for models that aim to address multidimensional poverty and inequality (Adinugraha et al., 2023).

Sustainable Livelihood Impact Assessment (SLIA) Framework

The Sustainable Livelihood Impact Assessment (SLIA) is a core diagnostic framework to evaluate community-level development and empowerment programs. SLIA assesses outcomes of development programs by measuring systemic changes within five core asset capitals: human, natural, financial, physical, and social assets (Morse & McNamara, 2013). Islamic social finance is founded upon the principles of equity and sustainability. Therefore, the SLIA framework is well positioned to assess blended Islamic social finance programs to alleviate multidimensional poverty.

SLIA demonstrates strong theory but is still in the early stages of development and is therefore subject to some degree of methodological criticism. SLIA's main strength is its ability to analyze dynamic multi-dimensional asset holdings. SLIA's main weakness is its inability to take into consideration asymmetrical power relations, gender, and other structural issues. Although SLIA has shown potential in the evaluation of empowerment programs funded by zakat, scholars have noted that SLIA's potential is yet to be explored and its framework needs to be further elaborated (Wibowo et al., 2025).

With regard to the structural relationships among the five asset categories, the SLIA framework postulates that the building of sustainable livelihoods is achieved through a combination of any or all of these assets. SLIA differentiates three categorical levels, as described in Table 1.

Table 1. Sustainable Livelihood Impact Assessment (SLIA) Framework

Livelihoods	Definition
Human asset	Knowledge, skills, health, and the capacity to work that an individual possesses in order to pursue livelihood strategies.
Natural asset	Natural resources that are available and can be utilized for livelihoods, such as land, water, air, and biodiversity.

Livelihoods	Definition
Financial asset	Financial resources that are owned and accessible, including income, savings, access to credit, and other financial assets.
Physical asset	Physical infrastructure and capital goods that support livelihoods, such as buildings, production equipment, transportation, and technology.
Social asset	Social networks, trust, norms, and social relationships that enable cooperation and access to resources.

Source: DFID (1999), Scoones, I. (1998)

The SLIA framework has primarily been used to evaluate Indonesian Islamic philanthropic activities. For instance, Rizaty & Aswin (2019) analyzed Dompet Dhuafa's Agricultural Rehabilitation Program, indicating that the beneficiaries' Human Capital was improved through the delivery of training and the provision of shared best agricultural practices. One of the best examples of Capacity Building was the training in organic coffee cultivation in the Temanggung region, which positively improved farmers' competitiveness in the coffee market and had clear impacts at the community level. Investments in Capacity Building have contributed to improve the farmers' resilience and reduced shock from variation in the price and climate (Adinugraha et al., 2023).

Beik et al. (2019) Applied SLIA to a Balai Ternak's Zakat-funded Livestock Program in Tanah Datar and observed improvements in all five asset categories, with Social Capital showing the biggest improvement and Natural Capital showing the least improvement. This study addresses two gaps in the existing body of knowledge. First, it presents a unified evaluative framework for the practical fragmentation of Islamic social finance instruments, and second, it presents a standardized, integrated evaluation framework for different asset types of modified ISF models. This study advances a modified BISF model to propose a unified financing ecosystem consisting of *zakat*, *sadaqa*, and *waqf* for pro-poor community development. The study links BISF to the SLIA framework and argues that SLIA's five-asset architecture adequately encompasses the multidimensional asset accumulation arising from integrated ISF interventions. Using the SLIA framework to assess the agricultural empowerment programs of Dompet Dhuafa in Indonesia, this study extends the application scope of the SLIA to integrated, productive agricultural zakat, and illustrates the assessment of an integrated Islamic social finance model.

Methods

This study uses a qualitative methodology to examine community empowerment programs of some of the Islamic philanthropic organizations in Indonesia. One of the case organizations, Dompet Dhuafa (DD), was chosen as the primary case study organization due to its long existence, nationwide network, and strong institutional legitimacy and track record in implementing community empowerment programs (Fauzia, 2017). A multiple-case study design was adopted and focused on two distinct agricultural empowerment programs situated in Wonosobo and Temanggung Regency, Central Java (Yin, 2018). A qualitative design was the best approach to this study, as it allows for a contextual description of the challenges and possibilities of embedding Islamic social finance through the integration of *zakat, sadaqa*, and *waqf* practices (Santos et al., 2020). Wonosobo and Temanggung Regencies were purposively selected to illustrate two contrasting rural agricultural empowerment models, funded by DD, in Central Java.

A case study was designed to comparatively analyze two different typologies of Islamic social finance in the rural areas of Central Java. Typology A (Zakat-Led, Landless Vegetable Farming) occurs in Wonosobo. In this typology, *zakat* funds are used to lease land and to provide operating capital for landless vegetable farmers. The other typology, B (Multi-Instrument Blended, Land-Owning Coffee Farming), occurs in Temanggung. In this typology, a blended instrument of *zakat, sadaqah*, and *waqf* funds is utilized to improve the post-harvest processing infrastructure of coffee farmers. This case study design allows for an analytical comparison of the interaction of instrument blends and the land tenure situation.

Regional Economic Context and Juristic Rationale

Each of these case study examples also represents a rural area of Central Java with high levels of poverty. Official statistics from BPS Kabupaten Wonosobo (2022, Table 4.1, p. 45), report an estimated Gross Regional Domestic Product of IDR 5.85 trillion and a high poverty rate of 17.67%. In contrast, BPS Kabupaten Temanggung (2022, p. 28), reported a post-COVID-19 poverty rate of 10.17%. Based on this comparative analysis, this study seeks to demonstrate how different financial blends help to ameliorate the situation of rural poverty.

From a theoretical perspective, the optimization of risk and returns is the main focus of conventional blended finance, while adherence to Shariah parameters is of utmost importance for Islamic social finance instruments. The juristic rationale for blending Islamic social finance instruments, particularly in the case of vulnerability-

focused cash transfers, is grounded in the Maqāṣid al-Sharīʿah, more particularly the protection of dignity and life (*ḥifẓ al-nafs*), i.e., beneficiaries' liberation from structural poverty, and protection of wealth (*ḥifẓ al-māl*), i.e., the conversion of charitable transfers into productive long-term livelihoods. For the purpose of this research, blending means combining and channeling financial resources of differing legal categories in Shariah. *Zakat,* in the classical sense, is governed by a strict legal framework and provides obligatory, targeted support to the eight aṣnāf and is governed by the principle of tamlīk. On the other hand, sadaqa provides voluntary, unrestricted support, and *waqf* creates a perpetual, durable asset to fulfill long-term beneficiary needs.

Analytical Framework and Indicator Operationalization

To assess these interventions, this study has redefined some conventional Islamic social finance definitions, especially about the funding sources, and has used the Sustainable Livelihoods Impact Assessment (SLIA) to evaluate the impacts of the programs, interventions, and projects along the five asset classes: human, natural, physical, social, and financial capital (Morse & McNamara, 2013). SLIA assesses community initiatives to empower and strengthen vulnerable groups and therefore embodies the inclusive, equitable, and preventative nature of Islamic social finance.

This study used the SLIA framework to incorporate culturally and religiously relevant elements to assess the impact of Islamic philanthropic instruments on community development. Human assets were assessed using indicators such as the number of people who attained technical and agricultural skills and managerial and leadership capacities. Physical assets were assessed through the provision of agricultural and processing machinery. Social assets were assessed by the establishment of farmer groups and networks with mutual trust and peer support. Financial assets were assessed by enhanced access to capital, revolving funds, and steady household income. Natural assets were assessed by the use of sustainable farming practices and improvement in farm productivity. Overall, the findings indicated that faith-based philanthropic interventions stimulate and strengthen the agriculture sector and improve community living conditions.

Data Collection, Sampling, and Triangulation

This study collected primary and secondary data through field observations, document analysis, and in-depth interviews at multiple levels of the stakeholder hierarchy. Field research took place in three different phases between 2019 and

2021. Data collection in Wonosobo occurred during the early stages of the program (2019-2020), during which time it documented immediate asset formation after land lease distribution. Data collection in Temanggung (2020-2021) enabled the research team to directly observe the maturity of crop processing and group marketing activities.

The research team interviewed 22 key informants, who consisted of two founders of Dompet Dhuafa in Jakarta, a director of a project branch of an agricultural project in the area of the empowerment program in Bogor, a branch manager of Central Java in Semarang, a field assistant in Wonosobo, a field assistant in Temanggung, 14 farmers in Temanggung, and 4 farmers in Wonosobo. The research team also performed repeated direct field observations to monitor the execution of the program and beneficiary interactions in their operational environments. Simultaneously, the research team analyzed a wide variety of program documents, including monitoring and evaluation reports, project funding apportionment, beneficiary registers, trainings, land lease MOUs, Staff verification of SLIA, and program implementation forms for the period 2019-2021. Divergence in documents from staff was reported transparently in the Results section. Baseline data and audited financial reports for the field offices were not available, and this was reported as a methodological limitation.

To maintain empirical reliability and validity, the study used two approaches to data triangulation (Santos et al., 2020). Data triangulation required cross-verification of findings sourced from different investigative approaches such as interviews, fieldwork, and record reviews. Alternatively, methodological triangulation was done by integrating different qualitative methods in order to ensure internal consistency.

Prior research engagement with Dompet Dhuafa is cited by the author. The combination of various methodological strategies was aimed at addressing confirmatory bias. First, thorough analytic memos and the use of a standardized codebook to track data analysis decisions. Second, a peer debriefing strategy was implemented whereby an independent colleague who was not connected to Dompet Dhuafa served as gatekeeper to the codebook and reviewed a random sample of coded interview transcripts. Third, negative case analysis was employed to research field failures, operational limitations, and program bottlenecks.

Results and Discussion

Modified Blended Islamic Social Finance Model for Agriculture

The revised model is based on two agricultural empowerment programs of Dompet Dhuafa (DD). Data collection was done from October 2019 to October 2021 at DD headquarters in Jakarta, in Bogor, Semarang, and at the program sites in Wonosobo and Temanggung. DD has been providing support for various sector empowerment programs through *Zakat, Sadaqah,* and *Waqf*. In the agricultural sector, this combination of Islamic philanthropic funds has been implemented for the development of agro-horticulture, especially vegetable commodities, in various areas of Indonesia, such as Aceh, Bogor, and other areas of Central Java (Abidin, 2019).

Actors in the Empowerment Programs

In Wonosobo, the project is managed by the DD Central Java Region and is also monitored by them. The Farmers Assistants in Wonosobo live with the project beneficiaries for the two years of the program. The Assistant Farmers have a bachelor's degree in Agricultural Technology. In Temanggung, the project is managed by the DD Jakarta Region. The Assistant Farmers in Temanggung are DD-trained local personnel who help coffee farmers in the management of their plantations. The Assistant Farmers in Temanggung also hold a bachelor's degree in Islamic Economics. Field assistants accompany farmers in crop breeding, planting, and cultivation, as well as in the distribution and sale of the farmers' produce. They also made presentations to farmers during meetings and other gatherings.

The micro-financial institution that was used to raise funds in Mlandi Village, Wonosobo, is an existing local Islamic micro-finance institution, Baitul Maal wat Tamwil (BMT), which acts as DD's partner in channelling funds. Aside from acting as a financial intermediary, the BMT held routine meetings at the start of the program with DD and the farmers to discuss the program. In Temanggung, however, the assisted farmers established the revolving fund.

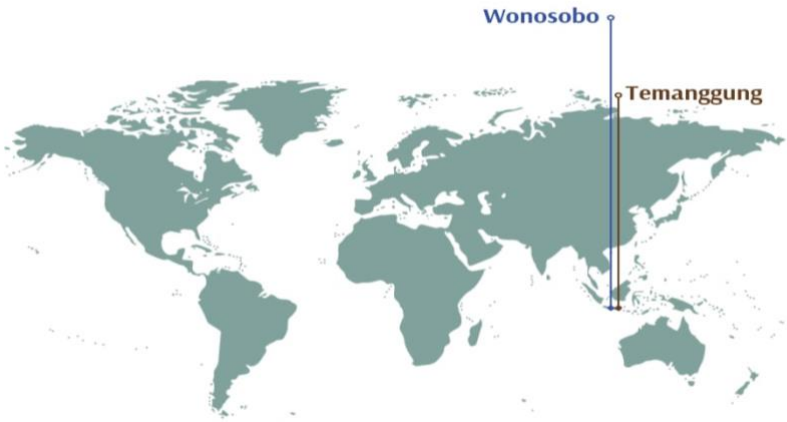
Empowerment Model

Farmers' bargaining position in Indonesia has structurally remained weak for decades. Limited access to market information and reliance on intermediaries for financing and marketing are some of the prevailing constraints to farmers' organization (Fudjaja et al., 2026). Farmers, as primary producers, occupy an

unprofitable position in the supply chain (Khoirunas, 2022). The farmers in this study are members of an economically disadvantaged community.

Empowerment models vary between the two sites. In Wonosobo, the program started by finding leased land for agricultural activities because members had no land title. Farmers formed a kelompok tani (farmer group) to support communication and collaboration. In Temanggung, farmers own the land, and coffee growing is established. DD serves as a co-partner. DD improved soil conditions and coffee quality, and supported the establishment of a coffee farmer's association, paguyuban petani kopi. Other support included fertilizer, grain warehouses, post-harvest processing equipment, and assistance to improve the quality of coffee and the opening of distribution channels for Robusta coffee (Dwi, 2021). At both sites, professional assistants provided support to farmers for two years.

Figure 2. Map of Wonosobo and (b) map of Temanggung, Indonesia



Wonosobo showed the highest poverty rate and open unemployment rate in Central Java in 2018, despite the fact that it has an edge in comparative natural resource potential against other districts in the province. Agriculture is the major contributor to Wonosobo's gross regional domestic product, worth 5.85 trillion rupiah in 2020, showing an increase of 6.77% (Badan Pusat Statistik Kabupaten Wonosobo, 2022). The program site, Mlandi, is one of the 15 villages in Garung District, 14.9 kilometers north of the district capital, and is classified as a cultivation (field-based) village (Humas Kabupaten Wonosobo, 2022). The program land is comprised of four plots, totaling 1.5 hectares, which are leased.

The economy of Temanggung is also dependent on agriculture, with coffee and tobacco being the major crops. In 2020, the poverty level was 9.96%, which rose to 10.17% in 2021 during the COVID-19 pandemic, while in 2020 it was 17.36% and in 2021 it was 17.67% in Wonosobo (Badan Pusat Statistik Kabupaten Temanggung, 2022; Badan Pusat Statistik Kabupaten Wonosobo, 2022). The program site, Kemloko, is an agricultural village located 5 km north of the Regency capital. The program covers 40 hectares of coffee plantation owned by 100 members of the Kemloko farmers' association. Various characteristics of the farmers, commodities, location, and social situation led to the different designs of the Community Based Economic Empowerment Model in each location.

Beneficiaries

In Wonosobo, the beneficiaries are poor farmers, as most of the funding is from Zakat. They were chosen in accordance to the Qur'an (9:60), which defines eight categories of eligible recipients, of which farmers fall in the poor category. Prior to the program, a screening was done to select farmers who are poor and willing to receive agricultural assistance. The 17 farmers were grouped as *Kelompok Tani 'Subur Mulia'* and developed a vision to improve the welfare of its members. The mission, on the other hand, focused on how the farmers would improve their crop and livestock production and processing.

Figure 3. The building of kelompok tani "Subur Mulia" in Wonosobo and paguyuban petani kopi "Buana Sari" in Temanggung.



Source: documentation during fieldwork taken by the author.

In Temanggung, beneficiaries are coffee landowners who agreed to partake in training to improve coffee yield and quality through the use of organic fertilizer. Because of this, they established *Paguyuban Petani Kopi,* "*Buana Sari*." At both sites, participants underwent training prior to the program. For the duration of the two-year program, farmer assistants taught participants on seeding, cultivation, harvesting, processing, and marketing of coffee. Both groups have a simple organizational structure consisting of a chair, secretary, treasurer, and members. This simple structure facilitates interaction among members.

The beneficiary population comprises 17 smallholder farmers in Wonosobo (*Kelompok Tani Subur Mulia*) and 100 smallholder coffee farmers in Temanggung (*Paguyuban Buana Sari*), bringing the total primary beneficiary base across both sites to 117 agricultural households.

Instrument Blending Mechanics and Operational Integration

At both sites, using Islamic social finance refers to combining different sources of philanthropy in agricultural projects. In the case of Wonosobo, zakat provided the foundational capital to pay for the farmland lease and to supply the first seeds of the crop for the poor farmers, while sadaqa provided stipends for the field facilitators. In Temanggung, micro grants to vulnerable coffee farmers were provided by *zakat*, while sadaqa and waqf funded community trainings and a shared coffee processing facility and warehouse, respectively.

This example shows how the same tools can be adjusted to fit various needs. In Wonosobo, the provision of zakat funds to landless farmers is a good illustration of an immediate answer to capital shortages. In Temanggung, the case of the combined fund to improve soil quality and the post-harvest processing facility shows how such tools can facilitate value addition and market access (Biancone, P. P., & Radwan, 2019). Due to the differences in the socio-economic status and land tenure of the populations of the two sites, these cases show the flexibility of the approach to different situations. They, however, do not offer evidence of its overall impact.

Additional evidence from other cases outside the two illustrates the same about bargaining position. Under the auspices of DD's Farmer Empowerment Program, smallholder farmers are organized into cooperatives to enhance their social capital and improve their bargaining power. For instance, Kelompok Tani Kopi Solok Sirukam, formed in 2019 with 25 members, established a cooperative in 2021, and has since grown to 65 members, with more stable market access (Dhuafa, 2024). In the same vein, in 2024, it was reported that Kelompok Tani Tunas Muda of Kwajon

Village, Ponorogo, established Koperasi Makmur Sentosa and improved their grain prices to at least IDR 5,000/kg, higher than the IDR 3,200-4,200/kg typically offered by intermediaries (Erlangga & Ryandono, 2024). These cases provide comparative contexts, but are not direct results of this study. A synthesis of the program profiles is shown in Table 2.

Table 2. Profile of the Two Programs

Dimension	Wonosobo	Temanggung
Location	Mlandi Village, Garung District (1.5 ha in four fields)	Kemloko Village, 5 km north of Temanggung town (40 ha)
Commodity	Horticulture (vegetables, incl. asparagus and edamame)	Organic Robusta coffee
Beneficiaries	17 farmers screened as asnaf (fuqara' and masakin)	100 members of the coffee farmers' association
Land status	Leased by the program (landless farmers)	Owned by association members
Organization	*Kelompok Tani Subur Mulia*	*Paguyuban Petani Kopi Buana Sari*
Funding configuration	Zakat led (rented land); sadaqa and waqf for agricultural tools and seeds	Zakat, sadaqa and waqf
Budget	IDR 500 million (zakat, field assistants and monitoring) plus project fund and monitoring from DD exclude budget	More than IDR 500 million consisting of the costs of coffee seeds, coffee grinding equipment, warehouse site, and training and mentoring for coffee farmers
Channel	Local BMT for transfer money from DD to farmers	Association (Paguyuban Petani kopi) whom managed revolving fund
Mentoring	Resident field assistant for two years (agricultural technology graduate)	Resident local field assistant for two years, trained by DD
Positioning of farmers	Recipients (community based empowerment)	Partners (community based empowerment and partnership)

Source: Field observation, interviews, and program documents (2019-2021).

Impact of the Community-Based Empowerment Programs

Social institution programs are assessed on the impact beneficiaries and their communities experience. The volume of funding disbursed is usually not the major focus of the assessment. Using the Sustainable Livelihoods Approach (SLA) framework, this section conducts a livelihood impact assessment that is oriented to

the needs of practitioners. Adaptations of this framework are made by development agencies such as the Department for International Development (DFID), United Nations Development Program (UNDP), and International Fund for Agricultural Development (IFAD). The framework is context and situation-specific, and adapting it to various conditions is therefore important.

Table 3. Livelihood Assets Provided and Reported Changes, by Site

Asset	Element	Wonosobo	Temanggung
Physical	Provided	Agricultural tools; stock of vegetable seeds; fertilizer equipment	Coffee processing machines and tools; nursery site; coffee seed stock; warehouse; fertilizer equipment
	Reported change	Cultivated plots expanded from four locations in year 1 to six in year 2	Coffee processed and stored by the paguyuban petani kopi before sale
Natural	Provided	Rented access to 1.5 ha of land	Support for soil improvement and organic fertilizer on members' 40 ha
	Reported change	Landless farmers able to cultivate land	Farmers report restored soil fertility through organic practice
Human	Provided	Pre-program training; resident field assistant for two years	Pre-program training; resident local field assistant for two years
	Reported change	New crops learned (asparagus, edamame); full cycle from planting to post-harvest; group management	Skills to grow higher-quality coffee and to operate processing equipment
Social	Provided	Facilitated formation of a farmer group with chair, secretary and treasurer	Facilitated formation of an association with chair, secretary and treasurer
	Reported change	Joint activities during mentoring and *mengaji*; mutual help; members active in village development	Regular gatherings; mutual help; association contributes to village development
Financial	Provided	Program funds channeled through the local BMT	Revolving fund managed by the paguyuban petani
	Reported change	Group fund covers land rent and soft loans for seeds, medicines and fertilizer without outside borrowing; sadaqa and social allocations kept for emergencies	Group savings and social savings; soft loans among members for farming needs

Note. Reported change refers to changes described by farmers and staff or observed during fieldwork; no baseline measurement was available. Source. Field observation, interviews, and program documents (2019-2021)

Table 3 presents a summary of the assets made available and the changes reported by beneficiaries of the Wonosobo and Temanggung programs, within the five categories of livelihood assets: human, natural, physical, social, and financial. The reported changes were observed in the field and documented through interviews and reports between 2019 and 2021. As there were no baseline measurements, the reported changes were taken to represent the perception of beneficiaries in improving their livelihood assets. The progress from description to cross-case explanation: Table 4 compares the two sites for livelihood assets, interprets the instruments and mechanisms at work, and derives six propositions (P1-P6). These propositions are of different natures. P2 and P5 are forward-looking and were not directly observed in the cases. Financing of mentoring in P3 is only documented for Wonosobo, and there are no detailed data for Temanggung.

Table 4. Cross-Case Analytical Matrix: From Case Evidence to Propositions

Asset	Cross-case pattern	Interpretation (instrument/mechanism)	Position against prior studies	Proposition
Physical	Wonosobo: transferable production inputs for landless asnaf. Temanggung: collectively owned post-harvest facilities.	The proposed instrument follows the asset's ownership and durability: transferable inputs are linked to zakat, subject to the tamlik requirement; collective facilities are linked to sadaqa or waqf.	Extends Khan and Badjie (2022), who discuss direct productive-asset financing; the collective-facility interpretation is also linked to literature on productive waqf in agriculture (Rohim et al., 2026).	P1. The instrument financing a physical asset follows the asset's ownership and durability.
Natural	Wonosobo: access to 1.5 ha of rented land. Temanggung: soil-quality improvement on 40 ha of members' owned land.	In Wonosobo, gains depend on continued rent payments; in Temanggung, soil improvements are made on land already owned by members. The suggestion that productive waqf could strengthen long-term tenure is a proposed mechanism, not an observed program outcome.	Consistent with Scoones (1998), who treats access to land as a structural livelihood constraint. The relevance of productive waqf requires a verifiable source and should not be inferred from the two cases alone.	P2. Natural-asset gains for landless farmers are contingent; more secure long-term access may require an institutional arrangement such as productive waqf. (Proposition, not directly observed in the cases.)
Human	Both sites provided pre-program training and a resident field	The evidence suggests that mentoring is a core program component rather than an optional supplement. The funding classification of	Consistent with Banerjee et al. (2015), which examines integrated support	P3. Human-asset gains depend on a resident mentoring layer, and the financing source for

Asset	Cross-case pattern	Interpretation (instrument/mechanism)	Position against prior studies	Proposition
	assistant for two years.	mentoring (e.g., amil costs or program expenditure) should be made explicit, but the available subchapter does not identify its funding source.	in graduation programs.	that layer should be explicitly identified. (unfortuntely The funding source is not detail available)
Social	Wonosobo: Kelompok Tani Subur Mulia (17 members). Temanggung: Paguyuban Petani Kopi Buana Sari (100 members).	The farmer group or association provides an institutional unit for collective activities and, according to the supplied analytical material, may receive or manage shared assets and revolving funds and negotiate collectively. Claims about bargaining-power effects should be supported by specific case evidence.	Related to literature on collective action and smallholder bargaining power; Bijman (2026) discusses cooperatives and bargaining arrangements.	P4. The farmer group is the institutional unit that can make the integration of financing instruments workable at the community level.
Financial	Wonosobo: program funds were channelled through a local BMT; the group fund covered land rent and soft loans. Temanggung: the association managed a revolving fund and members used group and social savings for farming needs.	The cases support the importance of group-based financial mechanisms. The more specific sequence—one-off grants becoming group-owned revolving capital, followed by commercial Islamic finance at graduation—should be treated as a proposed model unless further case evidence confirms that sequence.	The proposed sequencing is related to the graduation approach discussed by Banerjee et al. (2015). The contrast with Khan and Badjie (2022) should be retained only if the cited work directly supports the characterization of commercial finance entering from the outset.	P5. BISF can convert grants into group-owned revolving capital, with commercial Islamic finance entering at the graduation stage. (Proposition—not directly observed as a complete sequence in the cases.)
Cross-asset	Wonosobo is described in the analytical material as zakat-led because beneficiaries are asnaf; Temanggung is described as combining zakat, sadaqa, and waqf.	The proposed interpretation is that instrument choice is shaped by beneficiaries' eligibility and their asset position, alongside the rules governing each instrument, rather than by investment risk–return considerations alone. The specific instrument mix should be corroborated with program documents or interview evidence.	Provides a contrast with conventional blended-finance approaches that emphasize risk and return (OECD, 2022), while recognizing the eligibility restrictions for zakat recipients in Qur'an 9:60.	P6. The instrument mix is shaped by beneficiaries' eligibility and asset position, rather than by risk–return considerations alone.

Source: analysing the data from two different sites.

The comparison shows that the design of community-based empowerment is more influenced by the interplay of beneficiary eligibility, asset characteristics, and institutional framework than the level of financial resources transferred. With regard to physical assets, P1 states that the factors of ownership and durability, among others, explain why certain instruments are better suited to be used for production inputs or collective facilities. The study shows that in accordance with the type of beneficiary, instrument selection should be done considering the governance rules of each instrument. Thus, instrument integration in Islamic social finance is different compared to other financial integrations that prioritize financial risk and return.

The cases illustrate that, beyond the first phase of the asset transfer, several other factors can influence the sustainability of the positive impact on livelihoods. In Wonosobo, beneficiaries had to renew their land use right annually, while in Temanggung, farmer beneficiaries implemented soil improvement on land they already owned. These cases illustrate the importance of tenure and control over productive resources. However, this evidence does not confirm the implementation of productive waqf or that it is the only means of providing land access, making P2 a proposition for further research. The case studies of Wonosobo and Temanggung also support the proposition that training and resident field staff constitute an important component of the program (P3). Documentation on mentoring financing is only available for Wonosobo, and the case of Temanggung is pending.

Farmer organizations are critical for implementing a range of collective activities and finance (P4). The presence of group-based funds, soft loans, savings and social transfers, as shown in Table 3, indicates that other sources of finance were integrated in local organizations' practices, rather than being restricted to individual transfers. However, the available evidence does not confirm the proposed sequence of program implementation, that is, the introduction of commercial Islamic finance only at the end of the program. Thus, P5 is a proposition rather than a cross-case finding.

Program Implementation Challenges and Negative-Case Analysis

While the community members appreciated the model, three major challenges were evident during the implementation of the program. First, the Wonosobo model is vulnerable to land-use instability, as smallholders are subject to two-year leases, which may not be renewed, depending on the landowners' decision and the market price. Second, records showed inconsistent attendance at training, as 30% of the

farmers did not attend the capacity-building training due to conflicts with farming activities. Lastly, after mentoring ended, the smallholders were unable to maintain premium prices due to the end of facilitator and institutional support, resulting in market instability.

The above challenges demonstrate that the benefits achieved through the Wonosobo model are dependent on continuous and unrestricted access to land, and uninterrupted participation of the smallholders, which could not be fully guaranteed during the study period.

Theoretical Novelty and Model Synthesis

The major innovation of the MBISF framework lies in its expansion of the rural development pathway through a blended philanthropic-financial model. Its main theoretical contribution, as illustrated in Figure 2, is to link the integrated Islamic social finance instruments of zakat, sadaqa, and waqf to the five-asset architecture of the SLA framework, so that its contribution extends beyond the mere provision of financial instruments (Khan & Badjie, 2022). In contrast to other blended finance models, the MBISF model is organized around six propositions, as presented in Table 4. First, it matches instrument durability to asset ownership (P1). Second, it recognizes land tenure constraints (P2). Third, it embeds a mentoring layer (P3). Fourth, it uses farmer groups as institutional anchors (P4). Fifth, it sequences grants into revolving capital (P5). Sixth, it aligns the instrument mix with beneficiary eligibility rather than financial yield (P6). These propositions are analytical in nature and are drawn from two cases, and among them, the propositions on land tenure constraints (P2) and on sequencing grants into revolving capital (P5) have yet to be tested.

Conclusion

The modified blended Islamic social finance model in this study is based on the practice of Islamic philanthropy organizations in Indonesia, in particular the DD Foundation. According to the SLIA Framework, both Wonosobo and Temanggung reported changes in five elements: physical, natural, human capital, social, and financial. The six propositions provide an analytical frame for understanding interactions among asset characteristics, beneficiary eligibility, mentoring, and farmer-group institutions in community-based empowerment. The programs in Wonosobo and Temanggung demonstrate respondent-reported changes across all five categories of livelihood assets. However, facilitators also noted challenges in the

process, and these obstacles indicate that the changes should not be viewed as evidence of uniform or linear success. Differences observed across the study sites show that empowerment is a dynamic process, requiring continuous adaptation to changes in the local context. Improving farmer organizations and market access is the most critical and vulnerable element. Findings reinforce context-sensitive strategies, which address local barriers and social capital, and help sustain and strengthen farmers' bargaining position in the agricultural supply chain.

The study has a few main methodological limitations. First, using a qualitative design across two sites enables analysis, not statistics, to generalize findings. Second, the small number of interviewed farmers (4 in Wonosobo and 14 in Temanggung) in Temanggung, in particular, had an illustrative, not statistically representative, function. Third, without verified financial data (baseline, endpoint, or audited financial statements) or third-party validation, the impacts reported were based on farmers' and staff members' retrospective perceptions, rather than on financial data.

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