

## **WHEN ZAKAT IS NOT ENOUGH: DESIGNING AN ISLAMIC BLENDED MICROFINANCE MODEL FOR *ASNAF* ENTREPRENEURSHIP**

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### **ABSTRACT**

#### ***Purpose***

*This study aims to develop an integrated financing model to strengthen the economic empowerment of asnaf in Indonesia and to address structural weaknesses in current zakat-based empowerment practices.*

#### ***Design/Methodology/Approach***

*The study uses a qualitative conceptual and comparative approach. It analyzes existing zakat empowerment practices and synthesizes three theoretical frameworks. These frameworks are the microfinance schism between institutionalist and welfarist perspectives, institutional logics, and the Pentahelix collaboration model.*

#### ***Findings***

*The study identifies a key paradox. National data show a link between entrepreneurship growth and poverty reduction, yet the share of zakat allocated to productive empowerment declined to 5.1 percent in 2025 Semester 1. Zakat institutions continue to prioritize short-term charitable programs. The main challenges include weak integration between zakat and waqf, limited long-term mentoring, and tension between market efficiency and socio-religious obligations to serve high-risk asnaf. To respond, the study proposes the Islamic Blended Microfinance Model. This model positions zakat and waqf as first-loss capital to absorb risk and enable Islamic microfinance institutions to mobilize commercial financing for asnaf who are currently unbankable.*

#### ***Research limitations/implications***

*The study is conceptual and does not test the model empirically. Future research can apply the model in pilot programs and evaluate its impact on income growth, business sustainability, and graduation from mustahik to muzakki.*

#### ***Practical implications***

*The model offers a clear policy blueprint for BAZNAS, BWI, and Islamic microfinance institutions to shift from charity-based disbursement toward structured capacity-building and risk-sharing financing schemes.*

#### ***Social implications***

*The proposed model strengthens the role of Islamic social finance in sustainable poverty reduction. It supports inclusive entrepreneurship and expands access to financing for vulnerable groups who are excluded from formal financial systems.*

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**Originality/value**

*This study introduces an original integrative model that connects zakat, waqf, and Islamic microfinance within a blended finance and Pentahelix governance framework. It contributes a new conceptual foundation for aligning Islamic social finance with long-term development and empowerment goals.*

**Keywords:** *Productive Zakat, Blended Microfinance, Institutional Logics, Pentahelix, Asnaf Empowerment.*

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**I. INTRODUCTION**

*Asnaf*, particularly those classified as *fakir* and *miskin*, encounter structural impediments in accessing economic and financial resources. In practice, the majority of zakat assistance allocated to these groups remains consumptive in nature and, consequently, has not facilitated sustainable socioeconomic transformation in the long run. The scarcity of productive financing has resulted in many *asnaf* continuing to experience income vulnerability and face challenges in establishing independent micro-enterprises (Al Haq et al., 2021).

The assertion that zakat distribution remains primarily consumptive is substantiated by the national zakat distribution data. As illustrated in Table 1, while the total disbursement of zakat (on-balance) has consistently increased, reaching nearly 12 trillion Rupiah in 2024, the proportion allocated to productive (economic) zakat has exhibited a concerning downward trend.

The proportion of productive zakat experienced a significant decline, decreasing from 18.2% in 2017 to a mere 5.1% by the first half of 2025. This trend suggests that *amil* zakat institutions continue to prioritise short-term charitable initiatives, thereby failing to fully exploit zakat's potential as a tool for economic empowerment.

This focus on consumption represents both irony and a missed strategic opportunity. As demonstrated in Table 2, data from the Badan Pusat Statistik (BPS) indicate a strong negative correlation between the national entrepreneurship and poverty rates. Between 2015 and 2024, each significant increase in the entrepreneurship ratio consistently corresponded to a marked decline in poverty levels. This suggests that fostering new entrepreneurs is among the most effective policy instruments for structural and sustainable poverty alleviation. Nevertheless, despite its considerable potential to support the creation of *asnaf* entrepreneurs, zakat has not been strategically mobilised to advance the national development agenda.

**Table 1.** Total On-Balance Zakat Disbursement vs. Productive (Economic) Zakat Disbursement, 2015–2025 (First Semester)

Year	Total Zakat Disbursement (Trillion)	Productive (Economic) Zakat Disbursement (Billion)	Percentage of Productive (Economic) Zakat Disbursement
2015	IDR 2,2 T	IDR 308 M	14.0%
2016	IDR 2,9 T	IDR 487 M	16.8%
2017	IDR 4,9 T	IDR 892 M	18.2%
2018	IDR 6,8 T	IDR 551 M	8.1%
2019	IDR 8,7 T	IDR 844 M	9.7%
2020	IDR 6,4 T	IDR 448 M	7.0%

Year	Total Zakat Disbursement (Trillion)	Productive (Economic) Zakat Disbursement (Billion)	Percentage of Productive (Economic) Zakat Disbursement
2021	IDR 7,1 T	IDR 575 M	8.1%
2022	IDR 6,4 T	IDR 454 M	7.1%
2023	IDR 8,0 T	IDR 624 M	7.8%
2024	IDR 11,8 T	IDR 625 M	5.3%
2025 (Sem 1)	IDR 4,2 T	IDR 214 M	5.1%

Source: Compiled from the National Zakat Management Annual Reports

<https://ppid.baznas.go.id/laporan/laporan-pengelolaan-zakat#h.h0mp03ynkgth>

Various *amil* institutions at both the national and regional levels have undertaken efforts to promote empowerment through productive zakat programs. However, the prevalent one-directional distribution model, which provides capital assistance without mechanisms for sustainability, frequently encounters challenges in implementation and monitoring. Consequently, many recipients are unable to sustain or expand their businesses, thereby limiting the long-term impact of these programs (Asni et al., 2025).

**Table 2.** Trends in the National Poverty Rate and Entrepreneurship Ratio, 2015–2024

Year	National Poverty Rate	National Entrepreneurship Ratio
2015	11,2%	1,7%
2016	10,9%	1,7%
2017	10,6%	3,1%
2018	9,8%	3,4%
2019	9,4%	3,5%
2020	10,2%	3,3%
2021	10,1%	3,1%
2022	9,5%	3,5%
2023	9,4%	3,5%
2024	9,0%	3,6%

Source: Compilation of BPS Data, 2015–2024

Existing zakat distribution models predominantly conceptualise zakat as a form of short-term direct assistance to meet basic needs. While this approach may alleviate immediate economic pressures, it does not necessarily establish the foundation for long-term economic self-sufficiency. Research indicates that although zakat distribution can mitigate income inequality, its effect on sustainable long-term welfare improvements is not always assured when distribution is executed without considering the productive needs and business capacities of the recipients (Ibrahim et al., 2020).

Similar limitations are evident in the realm of waqf. Numerous waqf assets are managed in a disjointed manner across various institutional frameworks, resulting in utilisation processes that are predominantly administrative and stagnant in nature. The management of waqf, which ideally should function as a source of socio-economic capital enhancement, is frequently hindered by inadequate coordination, limited managerial capacity, and a lack of financing models that integrate waqf with productive enterprise mechanisms. This fragmentation in governance impedes the full mobilisation of waqf as a developmental resource for the Muslim community (Kamarubahrin and Ayedh, 2018).

At the operational level, zakat and waqf are infrequently integrated into ongoing business mentoring systems. Beneficiaries often receive funds or assets without accompanying capacity development, such as training in financial management, book-keeping, marketing, or risk literacy. In the absence of such support, *mustahik* are susceptible to knowledge deficiencies and to market pressures. When business challenges emerge, the risk of loss is borne by the recipient, increasing the likelihood of failure and potential regression to dependency.

In recent years, zakat digitalisation has created opportunities to enhance transparency, fundraising efficiency, and service outreach. However, digitalisation has not yet significantly impacted

economic empowerment. Variations in institutional capacity, technological readiness, and low digital literacy among *mustahik* have resulted in uneven results. While technology accelerates fund flows, it does not automatically enhance *mustahik's* ability to sustain or expand their businesses (Sugianto, 2025).

The primary challenge associated with traditional zakat and waqf models is not funding constraints but the lack of integration among Islamic social finance instruments, business mentoring mechanisms, and enterprise risk management. As long as zakat and waqf continue to operate as isolated grants rather than being incorporated into a sustainable economic ecosystem, the transformation of *mustahik* into independent entrepreneurs will remain challenging. This highlights the urgent need for a model that consolidates the protective function of zakat, capital-building function of waqf, and financial mobilisation role of microfinance institutions within a unified financing framework.

Recent advancements in Islamic social finance scholarship have demonstrated significant conceptual expansion; however, this growth frequently occurs in isolated domains. Numerous studies have focused on zakat, waqf, or other Islamic social instruments independently, as if each functioned within separate institutional frameworks. This fragmentation has led to empowerment programs that lack continuity and structural change. Bibliometric analyses reveal that research in Islamic social finance predominantly remains within the normative and conceptual realms, with limited development of operational integrative models (Ebrahim & Akhtar, 2025).

Empirical evidence indicates that integrated Islamic social finance models yield superior welfare outcomes than single-instrument approaches. When zakat, waqf, and microfinance are synergistically combined within a continuous strategic framework, *mustahik* exhibit notable enhancements in income resilience, household stability, and progress toward economic independence. Empirically, integrative models are 12% more effective in enhancing welfare outcomes than non-integrated models (Widiastuti et al., 2022).

Consequently, the research gap is not attributed to a lack of funding but rather to the absence of an operational framework that integrates the protective function of zakat, the asset-building role of waqf, and the productive financing mechanisms of microfinance institutions or participatory platforms. The imperative to develop the Islamic blended microfinance model stems from the necessity to transition empowerment practices from a paradigm of charity to one of capacity building. This approach perceives *asnaf* not as passive recipients of aid but as individuals and communities capable of growth when situated within an ecosystem that fosters learning, risk-taking, enterprise development, and eventual economic independence.

In response to the identified research urgency and gap, this study seeks to address the following core question: How can a financing architecture be designed to effectively integrate philanthropic instruments, such as zakat and waqf, with commercial instruments, such as microfinance, to empower *asnaf*? Specifically, this study investigates how a blended microfinance model can be implemented to concurrently address (1) the capacity and resilience limitations among *asnaf* and (2) the sustainability challenges inherent in fragmented productive financing programs. Consequently, the central problem formulation focuses on designing a governance mechanism that integrates the risk-absorbing functions of zakat and waqf, intensive mentoring, and capital mobilisation into a cohesive and sustainable financing cycle.

In alignment with this problem formulation, the primary aim of this study is to develop and propose a conceptual model, referred to as Islamic blended microfinance. This model delineates an operational framework wherein zakat and waqf act as first-loss risk absorbers and capacity-building funds, and Islamic microfinance institutions (or digital platforms) function as technical executors of productive financing and entrepreneurial mentoring.

Theoretically, this study makes a significant contribution by integrating disparate literature streams and transitioning from discussions of individual instruments (zakat, waqf, or microfinance) to

a cohesive integrative model. Practically, this study offers an operational framework for policymakers, particularly zakat authorities and regulators, to shift from short-term charitable empowerment models to sustainable, measurable, and transformative economic empowerment, enabling *mustahik* to become *muzakki*.

## II. LITERATURE REVIEW

### *Asnaf* and Financial Exclusion

Scholarly discourse on poverty and empowerment underscores financial exclusion as a significant structural impediment faced by vulnerable populations, including *asnaf*. Financial exclusion occurs when individuals or households cannot access formal financial services, such as business financing, savings, and protection instruments, due to factors such as insufficient collateral, complex administrative requirements, high transaction costs, and limited geographical accessibility (Maulana & Umam, 2017). Within the context of *mustahik*, this exclusion is exacerbated by socio-economic vulnerability and culturally ingrained dual-burden responsibilities, particularly among women, which constrain their engagement in productive economic activities (Hidayah, 2023).

Conversely, while zakat possesses considerable potential as an empowerment tool, its distribution has predominantly remained consumptive and has not adequately addressed the structural causes of poverty, thereby constraining its transformative impact (Riswandi et al., 2024). This limitation is not solely attributable to distribution models but is also influenced by governance challenges and public trust in managing institutions, including issues related to authority and effectiveness in national waqf governance (Hidayah et al., 2023).

Research on Islamic financing suggests that profit-sharing arrangements, such as *mudharabah* and *musyarakah*, are frequently suboptimal for empowering vulnerable groups due to the risks associated with moral hazards and the substantial costs of monitoring. Consequently, financial institutions often favour fixed-margin schemes such as *murabahah*, which, while safer, offer less substantial empowerment for *mustahik* (Hidayah et al., 2022). This underscores the necessity of financing models that integrate social protection functions with progressive capital enhancement.

Recent studies in the digital domain indicate that the efficacy of Islamic philanthropic institutions in fostering public engagement is significantly influenced by the transparency of their impact and the accessibility of their platforms, rather than relying solely on moral appeals (Hidayah & Ade, 2023). These findings are consistent with research that underscores the importance of a systematic integration between Islamic social finance mechanisms, such as zakat and waqf, and Islamic commercial finance, such as microfinance, in achieving the most robust and sustainable outcomes in poverty alleviation, particularly over the long term (Siswantoro, 2022).

### Islamic Microfinance & Social Safety Net

Within the context of development frameworks, Islamic microfinance is conceptualised not only as a commercial tool but also as a mechanism for social safety nets. Obaidullah (2008) elucidates that Islamic microfinance functions through a series of sequential stages: initially addressing basic needs via zakat, providing initial capital through *qardh hasan*, and subsequently offering progressively structured productive financing designed to facilitate the economic advancement of *mustahik*.

This approach diverges from traditional microfinance, which predominantly aims for financial sustainability. In Indonesia, *Baitul Maal wa Tamwil (BMT)* exemplifies a dual institutional structure: *Baitul Maal* administers ZISWAF funds, while *Baitul Tamwil* offers business financing, thereby integrating social and commercial functions within a single organizational framework (Meranti & Yazid, 2021). Research on *asnaf* empowerment indicates that the collaboration between zakat and

microfinance is more effective than purely consumptive aid, as business mentoring and performance monitoring are critical determinants of sustainable income growth among *mustahik* (Asni et al., 2025).

In the context of economic disruptions, such as the COVID-19 pandemic, incorporating social funds—namely *zakat*, *infaq*, and *sadaqah*—into microfinance frameworks has been demonstrated to bolster the resilience of ultra-micro, micro, small, and medium enterprises (MSMEs), while concurrently mitigating the risk of households reverting to poverty (Khan, 2020). Sustainable financial instruments, such as cash waqf, further enhance the long-term capital stability of microfinance institutions (Samrat & Nabi, 2025), whereas *microtakaful* offers business risk protection that safeguards vulnerable families from falling back into poverty during crises (Shamsudheen & Muneeza, 2024).

Furthermore, the integration of *zakat* and microfinance within a blended financing model has been demonstrated to lower the cost of capital for *mustahik*, expedite their progression toward economic self-sufficiency, and ultimately facilitate their transition into a *muzakki* (Qadri, 2022). The efficacy of this model is further augmented when social fund management adheres to digital transparency and impact reporting, as evidenced by studies on digital waqf platforms that enhance participation and funding sustainability (Vustany et al., 2023).

### **Blended Microfinance from a Development Economics Perspective**

Within the conventional development economics literature, a long-standing debate, referred to as the microfinance schism, has emerged between two principal schools of thought: institutionalists and welfarists. The institutionalist perspective contends that microfinance institutions must attain full financial sustainability or full cost recovery through effective governance and robust performance discipline to ensure long-term viability without reliance on subsidies (Bhatt & Tang, 2001).

In contrast, the welfarist perspective argues that microfinance initiatives aimed at reaching the most impoverished populations require subsidisation to be effective. This is due to the relatively high transaction and mentoring costs associated with serving these groups, which cannot be entirely offset by market-based mechanisms (Morduch, 1999).

Empirical evidence indicates that numerous microfinance institutions that prioritise outreach to the most impoverished populations continue to rely on donors and grants to cover operational expenses, particularly in global contexts (Chikalipah, 2017). Within this framework, the concept of blended finance, and more specifically blended microfinance, emerges as an intermediary solution to the tension between market and welfare logics. This model integrates concessional funds (such as grants, philanthropy, and *zakat*) with commercial capital, wherein concessional funds serve as risk absorbers, thereby reducing loss exposure for commercial investors and facilitating the flow of market capital into segments previously deemed unbankable (Habbel, 2021).

Subsidies are not abolished but are strategically restructured to function as a catalytic mechanism for expanding the scale of productive financing rather than as direct aid. This approach is particularly pertinent in the context of Islamic microfinance, where institutions inherently operate under two institutional logics: an Islamic logic oriented toward *maqasid al-syariah* and a market logic that emphasises efficiency and sustainability (Asutay et al., 2023).

However, reconciling these two logics presents significant challenges. Institutional complexity can lead to internal governance tensions; however, it also offers opportunities for innovative financial design (Zhao & Lounsbury, 2016). In practical terms, institutional sustainability is shaped by governance structures and leadership orientation, which encompass organizational size, oversight mechanisms, and managerial vision (Saeed, Javed, & Noreen, 2018).

Furthermore, the integrated microfinance model is closely aligned with community-based economic principles that prioritise human values, mutual support and shared risk. This alignment is

particularly significant in situations characterised by crises and social vulnerability, such as displacement, conflict, or pandemics (Spiegel & Mhlanga, 2022).

### **Institutional Logics: Managing Logics in Hybrid Organizations**

The Islamic blended microfinance model introduced in this study effectively establishes a hybrid organisation characterised by its operation under multiple institutional logics concurrently, logics that may occasionally conflict with one another (Besharov & Smith, 2014).

The institutional logics perspective posits that organisations are influenced by a set of values, norms, and practices originating from various societal institutional orders. These include market logic, which emphasises efficiency and profit; state logic, which focuses on regulation and compliance; community logic, which prioritises solidarity and empowerment; and religious logic, which is guided by *maqasid al-syariah* (Thornton et al., 2012).

In Islamic economics, religious logic transcends its role as merely one of several logics, functioning as a meta-logic that imparts moral purpose, ultimate objectives, and meaning to economic activities (Gümüşay, 2017). However, the presence of multiple logics results in institutional complexity that necessitates deliberate management. Studies on waqf institutions reveal that organisations frequently encounter inherent tensions between business logic, which involves the commercialisation of assets for sustainability, and social Islamic logic, which focuses on serving public welfare. These tensions can be effectively managed through structural differentiation and the internalisation of moral values, which serve as anchors for the organizational identity (Iqbal et al., 2023).

In many cases, the failure of empowerment programs can be attributed not to a deficiency of financial resources but rather to the lack of governance frameworks capable of reconciling conflicting logics. This is exemplified when the imperatives of market efficiency are prioritised over human dignity and the long-term sustainability of society.

### **The Pentahelix Model as the Grand Collaboration Theory for Empowerment**

While Institutional logics theory elucidates the origins of tension and value conflicts within hybrid organisations, the Pentahelix model provides a collaborative framework for effectively managing and aligning these logics in practice. The Pentahelix model underscores the importance of synergy among academia, business/financial institutions, the community, government, and the media, functioning as a mutually reinforcing innovation ecosystem (Etzkowitz, 2003; Halibas et al., 2017).

Within the framework of Islamic microfinance, the roles of various stakeholders are delineated as follows: (1) academic institutions are responsible for the generation of knowledge and the design of interventions; (2) Islamic microfinance institutions are tasked with executing financing functions; (3) *Mustahik* communities serve as both subjects and partners in empowerment initiatives; (4) government entities, including Badan Amil Zakat Nasional (BAZNAS) and Badan Wakaf Indonesia (BWI), function as regulators and providers of social funds; and (5) media outlets contribute by mobilising social narratives and enhancing public legitimacy (Azwar et al., 2025; Ramli et al., 2025).

Research on the effective utilisation of zakat indicates that the empowerment of *mustahik* is influenced not only by the provision of capital but also significantly by the robustness of the collaborative ecosystem and the sustained provision of business mentoring (Afriyanti, Segati, & Yuanda, 2024; Minarni, Slamet, & Munir, 2025).

However, cross-actor collaboration is frequently impeded by a phenomenon known as collaborative inertia, wherein collaboration is formally established but fails to produce significant or transformative outcomes (Tadung, 2023). This inertia may arise when coordination roles are ambiguous, leadership is not distributed, or shared accountability mechanisms are absent (Ramli et al., 2025).

Within the realm of Islamic social finance, research suggests that zakat and Islamic financing yield a transformative impact only when they are integrated into a comprehensive empowerment ecosystem rather than being implemented as isolated sectoral interventions (Hosen et al., 2024; Hosen et al., 2025).

The Pentahelix model provides a macro-level framework for coordinating stakeholders, reconciling divergent institutional logics, and facilitating the sustainable, adaptable, and community-focused implementation of the Islamic blended microfinance model.

### III. METHODOLOGY

#### Research Design: Qualitative Conceptual-Comparative Approach

This study adopts a qualitative methodology using a conceptual framework. The primary objective is not to empirically test hypotheses through the collection of primary data but to develop and propose a novel theoretical model, specifically the Islamic blended microfinance model, derived from a critical synthesis of the existing literature.

The methodology employed in this research is conceptual-comparative, systematically comparing and synthesising various streams of literature that have traditionally been examined in isolation. Specifically, it addresses the microfinance schism within conventional development economics, juxtaposing the institutionalist (financial sustainability) and welfarist (welfare and outreach) perspectives. Additionally, it examines the blended finance literature, which proposes a middle-ground solution by utilising concessional capital (subsidies) to attract commercial investment. By exploring the tensions and solutions within these bodies of knowledge, this study establishes a theoretical foundation for the proposed Islamic blended microfinance model.

#### Data Sources

The argumentation in this study is grounded in two types of secondary data: (1) theoretical data, which involves a comprehensive review of high-quality journal articles and foundational scholarly works to develop the conceptual framework, and (2) contextual (institutional) data, which is employed to validate the problem context in Indonesia. This contextual data comprise the National Zakat Management Annual Reports published by BAZNAS from 2015 to 2025, offering insights into current disbursement practices and governance challenges, as well as data from BPS to corroborate national poverty levels and entrepreneurship ratios.

The integration of theoretical and contextual data ensures that the proposed Islamic blended microfinance model is both conceptually robust and practically applicable within Indonesia's socio-economic framework.

#### Analytical Framework

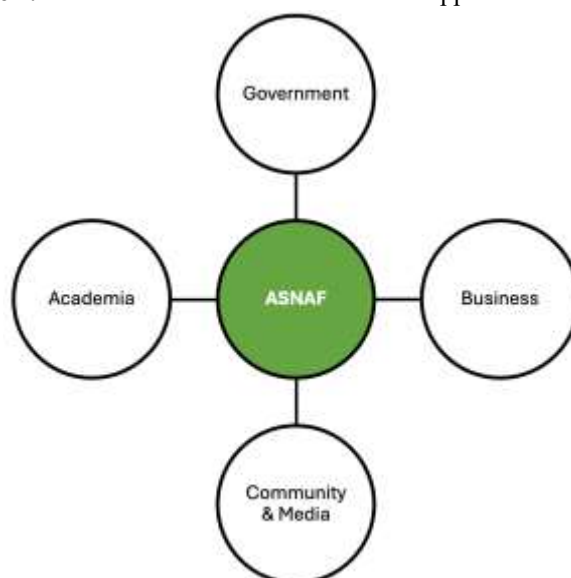
The analysis presented in this study is informed by two complementary theoretical frameworks. The first framework is the institutional logics perspective, which is employed as a diagnostic tool. This perspective aids in identifying the fundamental causes of current empowerment failures, specifically the conflict between market logic, characterised by efficiency, profitability, and financial sustainability, as emphasised by Islamic microfinance institutions, and religious/social logic, which encompasses the obligation to serve *asnaf*, philanthropy, and the pursuit of *maqasid al-syariah*. This study contends that existing models are unsuccessful because of their lack of governance mechanisms capable of managing the hybridity of these competing logics.

The Pentahelix model serves as a framework for developing collaborative solutions to complex problems. While institutional logics elucidate the reasons for conflict, the Pentahelix model identifies

stakeholders required for effective conflict management. This framework delineates the critical roles of five principal actors: (1) Academia, responsible for model design; (2) Business/Islamic microfinance institutions, tasked with technical implementation; (3) Community, specifically *asnaf*, acting as co-empowerment partners; (4) Government/BAZNAS/BWI, overseeing regulation and the provision of Islamic social funds; and (5) Media, facilitating resource mobilisation and public legitimacy.

The methodological framework of this study is structured as follows: (1) conducting a comparative analysis of the literature to identify the schism in microfinance, (2) positioning blended finance as a conceptual solution, (3) diagnosing value conflicts through the lens of institutional logics, and (4) proposing an Islamic blended microfinance model implemented using the Pentahelix framework.

**Figure 1.** Pentahelix Collaboration Model as Applied in This Study



Source: Author's work

#### IV. RESULTS AND DISCUSSION

The proposed financing model cannot function independently; it requires a structured collaborative governance system. The Pentahelix framework offers an optimal governance architecture for coordinating stakeholders essential for implementing the Islamic blended microfinance model. This model delineates the roles and synergies of five principal actors: (1) Government (regulator/facilitator), (2) Academia (knowledge provider), (3) Business (implementer/investor), (4) Community (beneficiary/empowerment partner), and (5) Media (accelerator/disseminator).

Within this framework, the Islamic blended microfinance scheme for *asnaf* (Figure 2) is implemented through a Pentahelix collaboration. Government entities such as BAZNAS, BWI, and Otoritas Jasa Keuangan (OJK) act as regulators and primary providers of Islamic social funds, including zakat and waqf. Business entities, represented by Islamic microfinance institutions, provide commercial capital and serve as technical financing executors. Academic institutions contribute to model design, training, and capacity building. The community, specifically the *asnaf*, is the central partner and focus of empowerment efforts. Finally, the media, including digital platforms, facilitate fundraising activities such as crowdfunding and ensure ongoing transparency.

The private sector allocates capital to blended financing schemes in anticipation of competitive returns. This marks a departure from the traditional paradigm that primarily perceives the private sector as a philanthropic source. Through a structured blended finance arrangement, philanthropic funds are

strategically utilised to mitigate risk exposure, thereby mobilising commercial capital that was previously deemed too risky in relation to expected returns.

Additional funding is derived from cash waqf, which is collaboratively managed by the government and business sectors and sourced through retail channels and private placements. Retail waqf can be mobilised through crowdfunding platforms, facilitated by media outlets. The returns generated from waqf capital are allocated to the *mauqūf 'alayh* (the beneficiary community) in the form of livelihood support and business feasibility enhancement programs for the community. These programs, including entrepreneurial training and financial literacy, are designed and implemented by academic institutions through structured community-engagement initiatives.

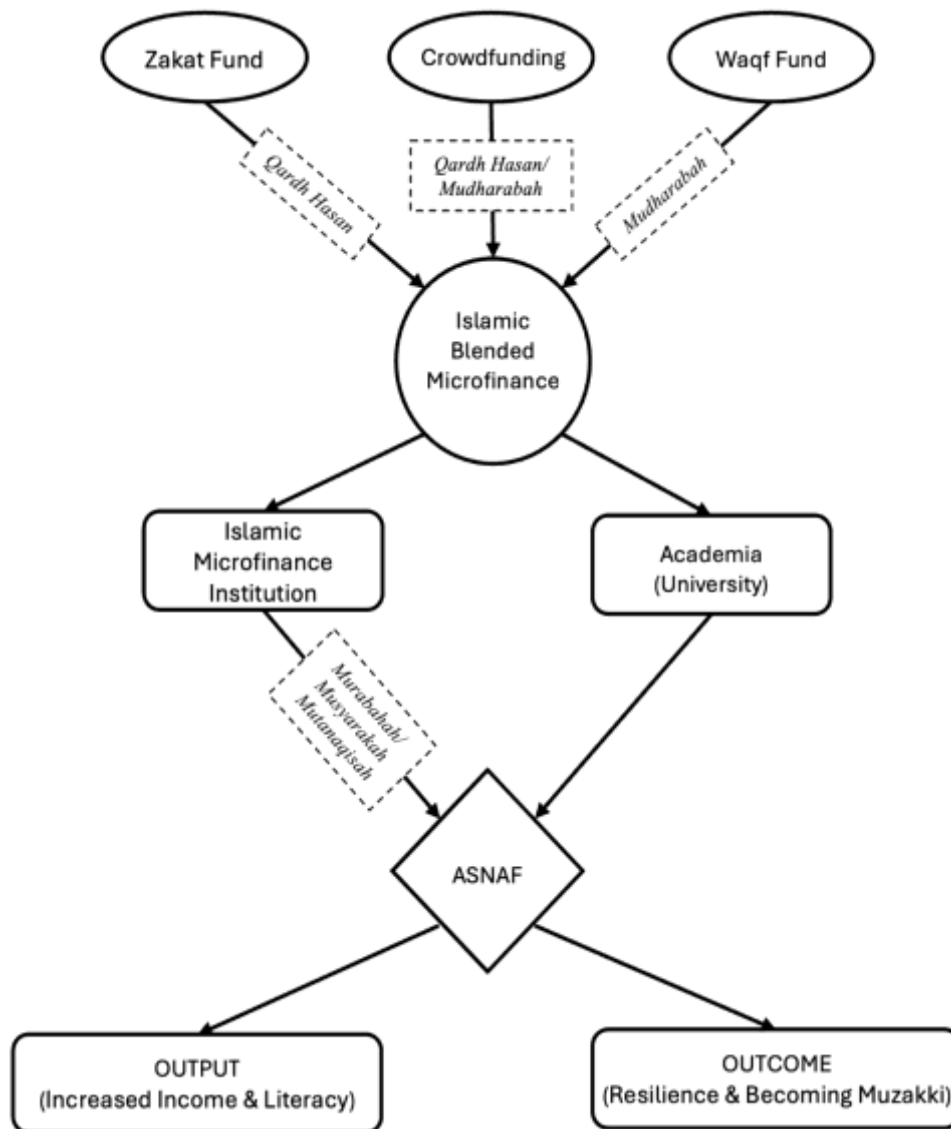
A fundamental constraint of waqf is the requirement that the principal (corpus) be intact. Consequently, zakat subsidies, which the government manages, play a crucial role in sustaining this model. Zakat functions as both a support and empowerment fund, while also serving as a risk absorber for *asnaf* whose business ventures fail under reasonable circumstances. By absorbing first-loss risk, zakat safeguards both waqf capital and private investment, thereby reconciling the tension between market logic (profitability and sustainability) and religious logic (maqasid al-syariah).

However, the efficacy of the Pentahelix model is not guaranteed. Its success is contingent on the willingness of stakeholders to address challenges such as bureaucratic inflexibility, unequal participation, and the marginalisation of indigenous knowledge. In the absence of robust leadership and well-defined coordination mechanisms, collaboration may succumb to collaborative inertia, a condition in which collaboration is nominally present but fails to yield transformative outcomes.

To ensure Shariah compliance and operational clarity, the Islamic blended microfinance scheme is structured using a layered hybrid contract framework, in which each source of capital is aligned with its respective Shariah function. Productive zakat funds are not utilised as capital that generates returns; instead, they function as risk absorbers through a *qardh hasan* mechanism to finance training, business mentoring, and coverage for reasonable business losses. Cash waqf is allocated to Islamic microfinance institutions via a *mudharabah* contract, ensuring the preservation of the waqf corpus, while profits generated from business activities can be distributed to the *mauqūf 'alayh* and to support the sustainability of the empowerment programme.

Crowdfunding initiatives may employ one of two contractual frameworks: *qardh hasan* or *mudharabah*, particularly when contributors anticipate returns, thereby maintaining flexibility in the risk–return preferences of public funders. Subsequently, the Islamic microfinance institution allocates financing to *asnaf* through a graduated financing strategy: initially utilising staged *murabahah* for micro-enterprises that still require entrepreneurial capacity development and progressing to *musyarakah mutanaqisah* for asset-based enterprises that have attained a higher level of readiness.

This framework facilitates the transformation of *mustahik* through a phased, quantifiable, and risk-managed approach, thereby supporting a sustainable transition towards economic self-sufficiency and the potential advancement of *mustahik* to the status of *muzakki*.

**Figure 2.** Islamic Blended Microfinance Financing Scheme for *Asnaf*

Source: Author's work

### Return Structure of the Model

An innovative monetary payoff structure that integrates commercial capital (private investment) with concessional capital (waqf and zakat funds) offers a solution consistent with the blended finance framework. Figure 3 presents a simplified return structure, wherein waqf capital ( $r_{\text{waqf}}$ ) serves as a risk absorber or first-loss capital.

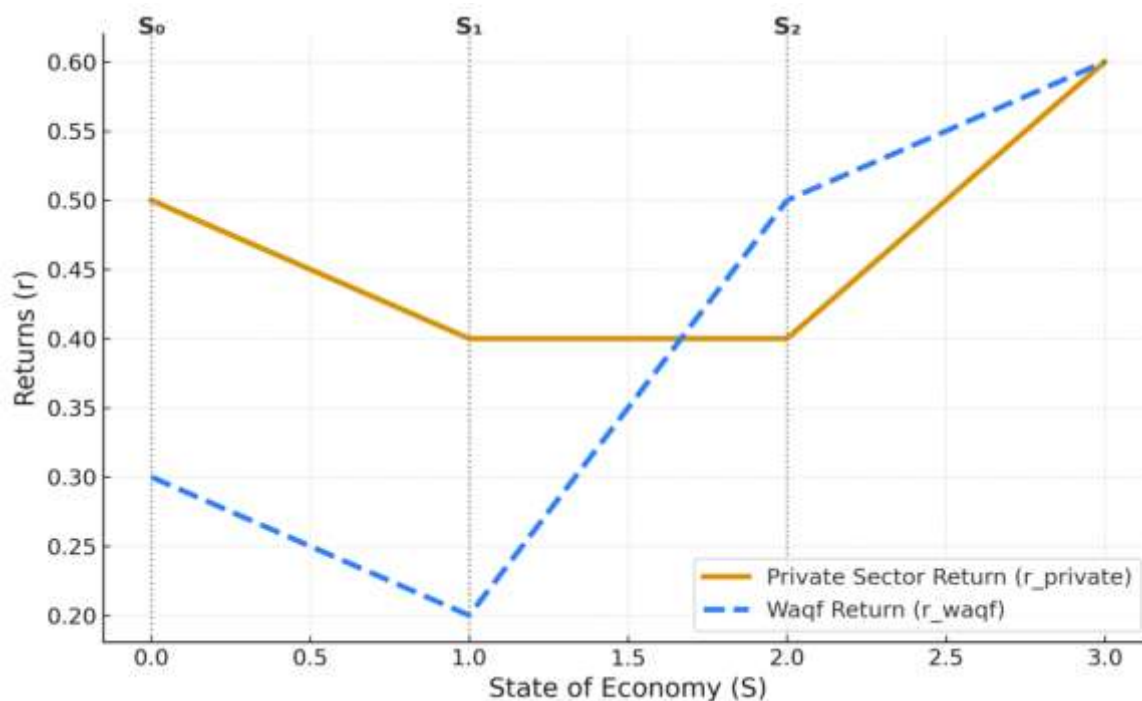
The mechanism functions as follows: During periods of economic downturn (between  $S_0$  and  $S_1$ ), waqf capital absorbs the initial losses, thereby creating a buffer that stabilises the return on private capital ( $r_{\text{private}}$ ) and prevents it from declining to zero (default). Under economic boom conditions ( $S_2$ ), both parties experience proportional appreciation.

This design strategically aligns the logics of all the Pentahelix actors. The business helix, comprising private investors and Islamic microfinance institutions, receives competitive financial incentives to mobilise commercial capital. Concurrently, the government helix, represented by BAZNAS and BWI as public fund and subsidy providers, and the academic helix, responsible for model architecture and validation, fulfil their social and developmental mandates. The profit-and-loss-sharing structure ensures that financing supports the economic independence of *asnaf*, the community helix,

and provides a durable, long-term solution. The model is not only conceptually compelling but also mathematically feasible, provided it is accompanied by intensive business mentoring and continuous monitoring to sustain micro-enterprise performance and prevent program failure (Jatmiko et al., 2024)

This study identifies a central paradox within Indonesia's Islamic social finance ecosystem: on one hand, BPS data (Table 2) indicate that entrepreneurship serves as an effective mechanism for structurally reducing poverty. In contrast, BAZNAS data (Table 1) reveal that the allocation of zakat to productive economic programs remains minimal and has significantly declined, while the majority of disbursements continue to be concentrated in short-term charitable programs.

**Figure 3.** Payoff Model Islamic Blended Microfinance



Source: Author's work

## V. CONCLUSION

The literature indicates that the deficiencies in current empowerment programs are not due to inadequate funding but are instead attributable to three primary factors: (1) institutional fragmentation between zakat and waqf management (Kamarubahrin & Ayedh, 2018); (2) the absence of consistent and sustained business mentoring, as demonstrated by case studies in BAZNAS Bone and Pekanbaru, where mentoring is often limited to initial verbal instruction without structured follow-up mechanisms (Ramli et al., 2025; Afriyanti et al., 2024); and (3) institutional logics conflict, wherein Islamic microfinance institutions are caught between market logic (efficiency and profitability demands) (Saeed et al., 2018; Asutay et al., 2023) and religious-social logic (the obligation to serve high-risk *asnaf*) (Zhao & Lounsbury, 2016).

To address the microfinance divide between the institutionalist perspective, which supports full cost recovery (Bhutt & Tang, 2001; Chikalipah, 2017), and the welfarist perspective, which depends on subsidies (Morduch, 1999), this study proposes a conceptual Islamic blended microfinance model as a potential solution. The model introduces an innovative approach by incorporating the principles of blended finance (Habbel, 2021), wherein Islamic social funds, such as zakat and waqf, are functionally repositioned. Rather than being distributed as direct grants, these funds are utilised as guaranteed instruments or first-loss capital. Within the Pentahelix governance framework (Etzkowitz, 2003), zakat and waqf funds sourced from the Government/BAZNAS/BWI helix function as risk absorbers. This

enables the business helix, represented by Islamic microfinance institutions, to allocate commercial productive capital to *asnaf* segments that were previously deemed unbankable. As depicted in the return structure (Figure 3), the model is mathematically advantageous for all stakeholders: private capital is shielded from downside risk (default), while the empowerment mission for *asnaf* (community helix) is achieved.

Ultimately, this model reorients Islamic social finance from charitable giving to one focused on capacity building. The model's success is evaluated not by the volume of funds disbursed but by the effectiveness with which continuous mentoring and capacity development—delivered collaboratively by Islamic microfinance institutions (business helix) and universities (academia helix)—enhance entrepreneurial resilience and facilitate the transformation of *mustahik* into *muzakki* (Hosen et al., 2024; Hosen et al., 2025; Minarni, Slamet, & Munir, 2025).

### Policy Implications

The proposed Islamic blended microfinance model has significant strategic and actionable policy implications for BAZNAS and its stakeholders. Primarily, it suggests a redefinition of BAZNAS' institutional role from a mere disbursement agency to that of a market catalyst. It is recommended that BAZNAS transition from solely distributing grants to strategically allocating a portion of productive zakat funds (currently only 5.1%) as a guarantee fund or first-loss capital for Islamic microfinance institutions (Habel, 2021). By assuming the risk associated with lending to *asnaf*, BAZNAS can facilitate the mobilisation of substantially larger volumes of commercial Islamic microfinance capital for empowerment programs for *asnaf*.

Second, regulatory bodies such as BAZNAS, BWI, and OJK should engage in collaborative efforts, forming a government helix to develop Shariah-compliant blended finance instruments. These instruments should legally enable the integration of cash waqf, representing long-term capital, with commercial capital sourced from Islamic microfinance institutions, which constitute the business helix. Such an initiative would address the existing institutional fragmentation in waqf governance and facilitate the creation of sustainable financing product. Third, the establishment of business mentoring as a mandatory key performance indicator (KPI) in productive zakat programs is imperative, rather than treating it as an optional component. Empirical evidence from BAZNAS Bone and Pekanbaru indicates that inadequate mentoring directly contributes to program failure (Ramli et al., 2025; Afriyanti et al., 2024). Consequently, the academic helix, represented by universities, should be formally integrated as capacity-building partners in empowerment programs (Minarni et al., 2025).

Fourth, preventing collaborative inertia necessitates integrated leadership. Pentahelix collaboration often fails not because of the absence of participants but because the collaboration remains merely formal, lacking a transformational impact (Tadung, 2023). As the governmental helix, BAZNAS must undertake the role of ecosystem orchestrator, ensuring the establishment of a shared coordination platform, clearly defined role distribution, and shared accountability mechanisms (Ramli et al., 2025; Azwar et al., 2025), thereby enabling Islamic social finance models to function in an integrated way (Hosen et al., 2024; Hosen et al., 2025).

### Future Research

This conceptual paper identifies several potential directions for future research. Action research is required to test the proposed model. Subsequent studies should include a pilot project wherein the Islamic blended microfinance model is implemented within a collaborating Islamic microfinance institution supported by BAZNAS. Such research should evaluate the model's effectiveness in mobilising commercial capital and examine its impact on the entrepreneurial resilience of *asnaf*.

Second, further research on Pentahelix governance through qualitative enquiry is imperative to explore the challenges associated with collaborative governance during its implementation. This line of

research should focus on identifying strategies to manage competing interests, uphold accountability, and assess the performance of each helix to mitigate collaborative inertia (Tadung, 2023).

Third, the model can be adapted to various vulnerability contexts. While this study concentrates on asnaf classified as poor and vulnerable households, future research could investigate the adaptation of the blended finance model for other vulnerable groups, such as refugees or communities in post-disaster regions, who similarly require sustainable, self-reliance-oriented livelihood solutions consistent with community-based economic values (Spiegel & Mhlanga, 2022).

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