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DEVELOPING A BLENDED FINANCE IMPLEMENTATION MODEL FOR COMMUNITY EMPOWERMENT IN RURAL AREAS

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ABSTRACT

Objective: This study analyzes the implementation of blended finance in four rural areas in Indonesia: Gekbrong (Cianjur, West Java), Ulubelu (Tanggamus, Lampung), Sungai Kakap (Kubu Raya, West Kalimantan), and Kahayya (Bulukumba, South Sulawesi).

Methodology/approach: Using a funding source mapping and needs analysis approach, this study evaluates the assistance program provided to beneficiaries through various funding sources and examines how these programs can increase their capacity and strengthen their economies.

Findings: This study introduces a new scheme for community empowerment that integrates various funding sources with a ranking system to assess the conditions of beneficiaries. It also shows that blended finance has succeeded in increasing the productivity of vegetable farmers in Gekbrong, coffee farmers and livestock breeders in Ulubelu, chili farmers and fishermen in Sungai Kakap, and coffee farmers in Kahayya.

Practical implications: Despite facing different challenges in each area, blended finance has proven effective in reducing the gap in access to capital and strengthening local economies.

Originality/value: Other regions can adapt this model by implementing policies that encourage collaboration between government, financial institutions, and local



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communities. PT KMM plays a crucial integrator role in implementing this model.

Keywords: Beneficiaries; Blended Finance; Community Empowerment; Poverty Alleviation

ABSTRAK

Tujuan penelitian: Penelitian ini menganalisis implementasi blended finance di empat wilayah perdesaan di Indonesia: Gekbrong (Cianjur, Jawa Barat), Ulubelu (Tanggamus, Lampung), Sungai Kakap (Kubu Raya, Kalimantan barat) dan Kahayya (Bulukumba, Sulawesi Selatan).

Metode/pendekatan: Dengan pendekatan pemetaan sumber dana dan analisis kebutuhan, penelitian ini mengevaluasi program bantuan yang sudah diberikan kepada para penerima manfaat melalui berbagai sumber dana, dan menganalisis bagaimana berbagai program tersebut dapat meningkatkan kapasitas dan memperkuat perekonomian mereka.

Hasil: Penelitian ini menghasilkan skema baru untuk pemberdayaan masyarakat yang memadukan sumber pendanaan yang berbeda-beda dengan pemeringkatan kondisi petani miskin, sekaligus menunjukkan bahwa konsep blended finance berhasil meningkatkan produktivitas petani sayuran di Gekbrong, petani kopi serta peternak di Ulubelu, petani cabai dan nelayan di Sungai Kakap, serta petani kopi di Kahayya.

Implikasi praktik: Meskipun tantangan berbeda di setiap wilayah, blended finance terbukti mampu mengurangi kesenjangan akses modal dan memperkuat ekonomi lokal.

Orisinalitas/kebaharuan: Model ini dapat diadaptasi untuk wilayah lain dengan kebijakan yang memfasilitasi kolaborasi antara pemerintah, lembaga keuangan, dan masyarakat lokal. Peran integrator yang dijalankan oleh PT KMM sangat dibutuhkan dalam implementasi model ini.

Kata kunci: Keuangan Campuran; Pemberdayaan Masyarakat; Penerima Manfaat; Pengentasan Kemiskinan

JRAK INTRODUCTION

15.1

Global poverty remains a crucial issue amidst the Fourth Industrial Revolution, which is projected to be fully realized by 2025. This era, despite bringing technological advances, has also deepened inequality, with the world's wealth concentrated in the hands of a few. The

wealth of the 42 richest people in the world was equal to that of the poorest 3.7 billion people in 2017 ([OXFAM, 2019](#)). Furthermore, in 2018, the wealth of the 26 richest people was equal to that of the poorest 3.8 billion people in the world. Poverty remains a serious problem for the Muslim population, which constitutes 23% of the global population but accounts for 50% of global poverty ([Arif, 2017](#)). Sub-Saharan Africa, which accounts for 43% of global poverty, is increasingly concentrating extreme poverty ([Goyal & Nash, 2016](#)).

In Indonesia, poverty is also a significant challenge. Data from [BPS \(2021\)](#) shows that the population of Indonesia in 2021 was 269.6 million people, with 27.55 million people, or 10.19% of the population, living in poverty. Indonesia has the largest Muslim population in the world, reaching 87.2% of the total population of this country, or 13% of the global Muslim population. In response to this, Indonesia, along with 193 other countries, has signed the 'Transforming Our World: The 2030 Agenda for Sustainable Development,' a document that outlines 17 sustainable development goals. These goals include ending poverty, achieving equality, and combating climate change ([UNDP, 2019](#)).

Indonesia's economic strength rests on the MSME sector, which covers 99% of the total business. According to the Ministry of Cooperatives and SMEs, in 2018, there were 64,194,057 MSMEs in Indonesia, including farmers, livestock breeders, and fishermen. In 2017, the [British Council \(2018\)](#) estimated that the number of entrepreneurs with more than one employee in Indonesia reached 21,979,261. During the economic crisis in the 90s, MSMEs have become the backbone of the national economy ([Fitriasari, 2020](#)). However, during the COVID-19 pandemic, MSMEs have become very vulnerable because their operations depend on cash flow from the sale of products and services. Farmers in rural areas also face similar challenges, such as limited access to formal financing, dependence on informal loans with high interest rates, and barriers to accessing technology and markets ([IFAD, 2020](#)).

The government, private sector, and NGOs in Indonesia have carried out many activities and research on various community empowerment programs with the aim of poverty alleviation. Unfortunately, most studies only reveal the types of assistance provided (technical training, business capital assistance, business mentoring, provision of business facilities, livestock assistance) and the results achieved (growth in business scale, increased income), but do not fully explore the processes involved. Researchers also experienced obstacles, such as immature program planning, lack of skilled mentors, weak supervision, poor coordination between field implementers and beneficiaries, and the absence of program success measurement tools ([Wahyuningsih & Makhrus, 2019](#); [Haidir, 2019](#); [Furqani et al., 2018](#); [Arif, 2017](#); [Fitriani & Priantina, 2016](#); [Hayati & Caniago, 2012](#); [Rahman et al., 2012](#)).

As a country with a Muslim majority, Indonesia has enormous potential to utilize zakat as an instrument for poverty alleviation. Throughout Islamic history, Umar bin Khattab and Umar bin Abdul Aziz used zakat as an effective tool to empower the poor ([Nadzri et al., 2012](#)). However, the colonial regime, which replaced the fallen Islamic leadership, eliminated the role and contribution of zakat. Today, as the world seeks solutions to poverty, Islam can once again offer a model for poverty alleviation ([Redwan, 2018](#)). Modern mechanisms like blended finance, a combination of public, private, and philanthropic resources, can integrate this approach. Blended finance is not only socio-culturally relevant but can also provide a sustainable solution to address rural poverty through farmer empowerment. By integrating multiple sources of funding, blended finance

can reduce risks for private investors while providing farmers with access to capital, technical resources, and market opportunities ([OECD, 2018](#)).

This study focuses on the implementation of blended finance in four rural areas in Indonesia—Gekbrong (Cianjur, West Java), Ulubelu (Tanggamus, Lampung), Sungai Kakap (Kubu Raya, West Kalimantan), and Kahayya (Bulukumba, South Sulawesi). In Gekbrong, farmers face challenges related to limited access to agricultural technology and difficulties in marketing their crops without the involvement of middlemen. In Ulubelu, coffee farmers and livestock breeders struggle with low product added value and limited market access. Meanwhile, in Sungai Kakap, dependence on middlemen for both capital and marketing hinders the growth of farmers and fishermen. In Kahayya, key challenges include the need for capacity building and access to sustainable agricultural technologies to increase productivity. These local challenges underscore the importance of tailoring blended finance schemes to the unique socio-economic and agricultural conditions of each region ([IFAD, 2020](#)). In this context, beneficiaries often find themselves trapped in a cycle of poverty that is difficult to overcome without planned interventions. Therefore, blended finance is essential because it combines resources from various sectors to create sustainable impact ([World Bank, 2021](#)).

By analyzing the specific challenges and opportunities in this region, this study aims to contribute to the development of sustainable financing models tailored to the unique socio-economic conditions of rural farming communities in Indonesia ([Bappenas, 2020](#)). While global poverty is a pressing issue, this study focuses on the specific context of the challenges and opportunities for poverty alleviation in the rural agricultural sector in Indonesia through the application of blended finance. These challenges highlight the urgent need for innovative financing models that can integrate public, private, and philanthropic funds to empower farmers and support sustainable agricultural development.

Therefore, there is an urgent need for a well-designed poverty alleviation model that empowers communities and combines various funding streams. Unlike previous studies, which often focus on single-source funding approaches, such as government subsidies or NGO-led programs, this study emphasizes the integration of blended finance—a mechanism that combines public, private, and philanthropic resources to maximize impact. [Fitriani & Priantina \(2016\)](#) and [Haidir \(2019\)](#) have conducted research on government empowerment initiatives that primarily involve grants or training programs. Although these efforts generate short-term benefits such as increased income or improved technical skills, they often lack scalability and sustainability due to their reliance on a single source of funding. Furthermore, these efforts often fail to address the multifaceted challenges faced by smallholder farmers.

Blended finance shows enormous potential by integrating multiple sources of funding and technical support to empower farmers. Blended finance is a financing approach that combines public, private, and philanthropic funds to finance development projects that support sustainable development goals ([OECD, 2018](#)). In Indonesia's rural economy, poor farmers often face limited access to capital, technology, and markets, making this concept increasingly relevant ([UNDP, 2019](#)). Blended finance provides a solution by reducing risk for private investors while providing significant social impact through more effective and efficient allocation of funds ([OECD, 2020](#)). This study aims to fill the literature gap on the implementation of blended finance in the context of the rural economy in Indonesia. While sectors such as infrastructure and renewable energy projects have widely applied blended

finance ([Thorne, 2020](#); [OECD, 2020](#)), its application in empowering poor farmers in rural areas remains underexplored.

There is a pressing need for well-designed poverty alleviation models through community empowerment programs that combine multiple sources of funding. Unlike previous research, which often focuses on single-source funding approaches, such as government subsidies or NGO-led programs, this study emphasizes the integration of blended finance—a mechanism that combines public, private, and philanthropic resources to maximize impact.

This study offers several novel contributions to the literature on blended finance and rural economic empowerment in Indonesia. This study is one of the first to focus on the application of blended finance to empower beneficiaries in rural Indonesia, offering a more sustainable framework than previous studies by diversifying funding sources and tailoring interventions to the specific needs of beneficiaries at multiple levels. For example, in Gekbrong, the integration of microloans from financial institutions with technical training from NGOs provided financial capital and skills development, meeting immediate needs while building long-term capacity. This approach goes beyond traditional empowerment efforts by encouraging collaboration among stakeholders and ensuring ongoing support and resources for beneficiaries. By combining financial resources with technical support and market access initiatives, blended finance has the potential to empower vulnerable groups in the agricultural sector and promote sustainable rural development. This study contributes to the literature by focusing on how blended finance can optimize financing for smallholder farmers in Indonesia, providing a new perspective to address the unique challenges faced by this demographic.

Second, this study uses a needs mapping approach for beneficiaries in four rural areas with different geographic and socioeconomic characteristics. Through beneficiaries-need mapping and technical capacity building, blended finance creates solutions that are locally relevant and contextual. Each region presents unique challenges and opportunities that influence the implementation of blended finance schemes. These distinct characteristics illustrate the diverse needs and challenges in each region, highlighting the importance of tailoring blended finance interventions to the local context. This approach allows for the development of contextually and locally relevant strategies, a rare occurrence in previous research ([IFAD, 2020](#)).

Third, this study provides a comparative analysis of four regions with distinct economic and socio-cultural characteristics: Gekbrong, Ulubelu, Sungai Kakap, and Kahayya. The analysis not only discusses the challenges and opportunities in each region, but also offers specific and actionable policy recommendations that other regions in Indonesia can adapt ([Bappenas, 2020](#)). This study provides a new framework for evaluating the effectiveness of blended finance schemes in empowering rural economies in Indonesia.

This contribution is highly relevant to Indonesia's national development agenda, particularly the targets outlined in the National Medium-Term Development Plan (RPJMN) and the Sustainable Development Goals (SDGs). The RPJMN prioritizes poverty alleviation and rural development through inclusive and sustainable economic growth, closely aligned with the objectives of this study. In addition, the integration of blended finance into empowerment programs supports Indonesia's commitment to SDG targets, especially Goal 1 (Eradicating Poverty) and Goal 2 (Zero Hunger) ([UNDP, 2019](#)). By showing how blended finance can address structural challenges in rural areas, this study

provides actionable insights that align with and contribute to these national and global development priorities ([Bappenas, 2020](#); [OECD, 2020](#); [UNDP, 2019](#)).

METHOD

This study aims to develop the concept of blended finance by utilizing the practical experience of social entrepreneurs PT Karya Masyarakat Mandiri, Dompot Dhuafa Republika. This model implements the concept of blended finance by integrating various government, private, and philanthropic funding sources to support beneficiaries empowerment in four rural areas in Indonesia: Gekbrong (Cianjur, West Java), Ulubelu (Tanggamus, Lampung), Sungai Kakap (Kubu Raya, West Kalimantan), and Kahayya (Bulukumba, South Sulawesi). The focus of this study includes mapping funding sources, analyzing the needs of beneficiaries, and evaluating the effectiveness of the blended finance model in addressing local socio-economic challenges.

Using a qualitative case study method, this study explores how socio-economic characteristics, infrastructure, and agricultural practices influence the implementation of blended finance in each region. We chose the case study method to conduct an in-depth examination of the unique context in a specific location ([Stake, 1995](#); [Yin, 2018](#)), where we implement blended finance. The case study method focuses on four areas: Gekbrong, Ulubelu, Sungai Kakap, and Kahayya. This lets us get a full picture ([Creswell, 2013](#)) of how the infrastructure, farming practices, and local socio-economic conditions affect how well blended finance interventions work. We selected each area based on its unique socio-economic characteristics and farming conditions, enabling a comparative analysis across different locations. There are no inherent problems with the research subjects themselves, but it is important to note that the four selected areas represent diverse contexts in terms of geography, farming practices, and socio-economic challenges.

We can provide a more comprehensive analysis of how to tailor blended finance models to specific local needs by selecting areas with varying conditions. This regional diversity aids in addressing the core research question of implementing blended finance in a specific, contextual, and effective manner to tackle the challenges faced by rural farmers. By selecting areas with varying geographic and socio-economic characteristics, we ensure that the study considers the range of factors that influence the success or limitations of blended finance, making the findings more applicable and relevant to other rural areas in Indonesia with similar characteristics. However, limitations lie in the fact that these areas may not be fully representative of all rural areas in Indonesia, which may have different challenges or financial landscapes. Nevertheless, the selected areas offer detailed case studies, facilitating in-depth exploration and providing valuable insights applicable to similar contexts throughout the country.

The case study approach provides a contextualized perspective, which is critical to exploring the diverse challenges faced by beneficiaries in different geographic settings ([Yin, 2018](#)). This allows researchers to capture the complexity of implementing blended finance in rural areas, where factors such as local government policies, community structures, and resource availability can significantly influence outcomes. The method also facilitates comparative analysis, allowing for the identification of common themes and region-specific factors that contribute to the success or limitations of blended finance models. In Gekbrong, the main challenges faced by beneficiaries were limited access to technology and capital. Farmers and livestock breeders in Ulubelu faced constraints of low value-added and limited market access for coffee and livestock products. In Sungai Kakap, the reliance of

farmers and fishermen on intermediaries hindered the growth of the horticulture and fisheries sectors. In Kahayya, farmers focused on coffee farming face low productivity due to limited access to technology and technical training. As such, the case study method is ideal for generating specific, contextual insights that can inform the design and scaling of blended finance models in other rural areas.

The data collection process involved in-depth interviews, surveys, and field observations that were tailored to the specific conditions of each region. Research respondents included various stakeholders, such as local government officials, local financial institutions, NGOs, and beneficiaries in each region ([Sugiyono, 2017](#)). A total of 40 respondents were involved in this study, including 10 government officials, 5 representatives from local financial institutions, 5 representatives from NGOs, and 20 farmers, livestock breeders, and fishermen. We purposefully selected respondents to ensure they represented diverse perspectives and had direct involvement or influence in rural economic activities.

We conducted a mapping of funding sources to identify and classify the various sources of financing available in each region. The mapping process involved the collection of primary and secondary data. We collected primary data by conducting interviews with key stakeholders, such as representatives from government institutions, private sector entities, and NGOs, to gain insight into the types of financial assistance offered, the allocation process, and the intended beneficiaries. We obtained secondary data from official documents, reports, and databases related to local economic development and community empowerment programs.

The mapping of funding sources categorizes funds into three main groups: government funds (grants and subsidized loans), private sector contributions (grants, program funds, and soft loans in the form of CSR programs), and NGO initiatives (philanthropic programs and capacity building). This process identifies gaps and potential overlaps in resource allocation, providing a basis for tailoring blended finance models to the specific needs of each region ([KSI Indonesia, 2016](#); [OECD, 2020](#)). By analyzing the scope, scale, and conditions inherent to each funding source, the mapping process highlights gaps and overlaps in resource allocation, providing a comprehensive understanding of the financing landscape in each region. This detailed mapping allows researchers to align blended finance strategies with the specific financial and development needs of local communities.

The results of this study will introduce a system for grouping beneficiaries into four levels of development (subsistence, developing, empowered, and independent) based on access to capital, technical skills, managerial capacity, and market access. This system helps align financial intervention strategies with the unique needs of each group. The comparative analysis across the four regions revealed key metrics such as access to capital, technical skills, market access, economic impact, and social impact. The results show that blended finance can empower beneficiaries, improve their welfare, and create a locally relevant empowerment model. Synergistic collaboration between government, the private sector, and NGOs plays a critical role in facilitating the success of this model.

The ranking of beneficiaries involved in this study was based on several criteria, including access to capital, technical skills, managerial capacity, and market access. For Level 1 (Subsistence Beneficiaries), the main criteria are lack of access to formal financial services and reliance on informal lending or intermediaries for capital and market access. These beneficiaries typically face challenges in basic agricultural practices and have limited technical knowledge.

Level 2 (Developing Beneficiaries) includes those with limited access to microloans or credit, who demonstrate some technical skills but still face constraints in market access and business management. Often, these beneficiaries engage in small-scale farming with moderate technical capacity, but they need additional support to expand their operations.

Level 3 (Empowered Beneficiaries) are those who have access to formal credit, including microcredit or government loans, and have developed basic managerial and market access skills. These beneficiaries can increase their productivity and manage larger-scale resources but require additional support in adopting infrastructure and technology to fully maximize their potential.

Level 4 (Independent Beneficiaries) are those who have strong access to capital, technical expertise, and direct market access. These beneficiaries have strong managerial skills and are able to run independent businesses or cooperatives. They require minimal financial assistance but still benefit from advanced technology and strategic business support to maintain or increase their productivity.

We ranked beneficiaries based on the results of interviews, surveys, and field observations to ensure that the empowerment program aligned with their specific needs and developmental stages. This categorization was based on the results of interviews, surveys, and field observations ([CIFOR-CIRAD, 2012](#); [KSI Indonesia, 2015](#)). Direct interviews with various stakeholders were helpful in understanding the macro-level factors that influence beneficiaries' access to financial and technical support. In-depth interviews and surveys with beneficiaries in each region were helpful in capturing their individual challenges and needs. These included questions about their financial constraints, access to training, infrastructure, and technology, and their capacity to manage their farming activities and market their products. Field observations allowed us to assess their technical skills, financial knowledge, and market engagement. We also conducted field observations to evaluate the physical conditions and infrastructure of the farm and its surrounding communities.

Researchers observed the farming techniques used, the quality of infrastructure (such as irrigation systems, storage facilities, and road access), and the interactions between beneficiaries and local market systems. This helps contextualize the interview and survey results, offering a comprehensive picture of the challenges faced by beneficiaries in each region. The situational analysis involves identifying the key needs of beneficiaries, such as access to capital, technical skills, managerial capacity, and market access. In the situational analysis, we conduct a comprehensive assessment of each beneficiary's circumstances ([CIFOR-CIRAD, 2012](#)). Finally, we synthesize the data from these steps to rank beneficiaries based on their needs. This ranking guarantees focused and successful interventions and allows us to customize funding and empowerment initiatives to meet the unique requirements of each group.

We use a thematic approach to analyze the data collected, identifying key themes related to the challenges and opportunities for implementing blended finance in each region. In addition, we conduct comparative analysis across regions to examine how differences in socio-economic contexts affect the effectiveness of blended finance schemes. We conduct the comparative analysis by systematically comparing key variables identified in each region, including access to capital, technical skills, market access, and socio-economic conditions of beneficiaries. We use several metrics to assess the impact of blended finance schemes in each region.

1. **Access to Capital:** This involves measuring the availability and types of financial resources in each region, including the number of beneficiaries who have access to formal credit, microfinance, or grants.
2. **Technical Skills:** Assessing the level of technical knowledge and training received by beneficiaries and evaluating how well these skills align with business practices and needs. Interviews and field observations measure technical skills, training, and the adoption of new agricultural technologies.
3. **Market Access:** We observe how beneficiaries access markets, whether through direct sales, cooperatives, or reliance on intermediaries. The number of beneficiaries who can sell their crops at fair market prices without intermediaries measures the level of market integration.
4. **Economic Impact:** We measure the change in beneficiary income and business scale over the intervention period. This metric helps us assess the overall effectiveness of blended finance in improving the economic conditions of beneficiaries.
5. **Social Impact:** Assessing broader socio-economic indicators, such as increased community engagement, job creation, and empowerment outcomes. We assess this through interviews and surveys with beneficiaries, local government, and community leaders.

By comparing these metrics across four regions, we can identify the regional factors that most influence the success of blended finance schemes, such as local government policies, infrastructure availability, and market conditions. This approach provides a more nuanced understanding of how socio-economic context shapes intervention outcomes.

RESULTS AND DISCUSSION

Research Results

The living conditions of beneficiaries in Indonesia, as observed in four research locations—Gekbrong (Cianjur, West Java), Ulubelu (Tanggamus, Lampung), Sungai Kakap (Kubu Raya, West Kalimantan), and Kahayya (Bulukumba, South Sulawesi)—revealed a variety of challenges, including limited access to capital, small land ownership, and low productivity. According to the Central Statistics Agency ([BPS, 2021](#)), the agricultural sector continues to contribute significantly to poverty, especially in rural areas.

Through direct observation of agricultural practices and infrastructure conditions, we also noted that beneficiaries across the observation areas were working with low yields due to outdated agricultural techniques and limited access to advanced technology. These factors, coupled with inadequate market access, contribute to low income levels for rural communities. Overall, this reinforces the findings of the BPS (2021) report on rural poverty.

We conducted the research in four locations, each with unique characteristics and economic challenges. Each region faces its own challenges related to access to capital, technology, and markets, but in different contexts.

Gekbrong (Cianjur, West Java)

Based on field observations, researchers found that in Gekbrong, many farmers have small plots of land, often less than 1 hectare, which limits their ability to increase production or invest in modern agricultural techniques. In addition, the lack of basic agricultural

infrastructure, such as irrigation systems and storage facilities, is a major constraint on quality and productivity. Many farmers still rely on informal loans from local moneylenders at high interest rates, making it difficult for them to invest in modern agricultural equipment or expand their land.

With a focus on horticulture and rice farming, farmers in Gekbrong face challenges such as limited access to capital and modern agricultural technology, as well as difficulties in marketing their agricultural products without intermediaries. Mapping funding sources shows that most farmers still rely on informal loans. In this area, interviews with farmers revealed that more than 70% of them do not have access to formal credit and rely heavily on informal loans with high interest rates.

Ulubelu (Tanggamus, Lampung)

In Ulubelu, market access is one of the most pressing issues for beneficiaries. Coffee farmers and livestock breeders often face difficulties in reaching larger markets due to poor infrastructure, such as unreliable roads and limited transport and storage facilities. Consequently, middlemen force them to sell their produce at low prices, thereby reducing their potential profit. Beneficiaries also struggle with the low added value of their produce, as they lack the resources and knowledge to process the coffee into higher-value products.

Sungai Kakap (Kubu Raya, West Kalimantan)

In Sungai Kakap, farmers and fishermen struggle with dependence on middlemen for both capital and market access. Many are unable to access financial services due to a number of requirements from formal financial institutions. In addition, the area faces high post-harvest losses in both fish and agricultural products due to a lack of adequate storage and processing infrastructure, further limiting the income potential of beneficiaries.

Kahayya (Bulukumba, South Sulawesi)

In Kahayya, low productivity and limited access to technology are key challenges. Coffee farmers in the region often use traditional methods that produce low-quality coffee. Despite access to some financial support, many farmers lack the technical skills needed to implement new agricultural technologies that could improve their productivity and income. These specific challenges highlight the need for tailored solutions in each study site, where blended finance schemes can address the unique issues faced by farmers in each region.

Identification of potential funding sources for program implementation

This study also identified the following funding sources for community empowerment programs:

1. Government Grants

- a. Suitability: Intended for Subsistence Beneficiaries (Level 1) and Developing Beneficiaries (Level 2)
- b. Type of Fund: Direct cash assistance, People's Business Credit (KUR), or grants from the government, which are often intended for food security, poverty alleviation, or village development programs.
- c. Benefits: No repayment or low interest; ideal for those with limited access to the banking system.

2. Microcredit

- a. Suitability: Developing Beneficiaries (Level 2) and Empowered Beneficiaries (Level 3)
- b. Type of Fund: Low-interest soft loans are usually disbursed through microfinance institutions or cooperatives.
- c. Benefits: Beneficiaries can access capital without collateral, with an easier process compared to conventional bank loans.

3. Partnership programs with private companies

- a. Suitability: Developing Beneficiaries (Level 2) and Empowered Beneficiaries (Level 3)
- b. Type of Fund: Investment, program funds, or soft loans through Corporate Social Responsibility (CSR) programs or agribusiness partnerships with large companies.
- c. Benefits: In addition to receiving capital assistance, beneficiaries also gain access to technology, training, and a wider market network.

4. Zakat Management Institution

- a. Suitability: Subsistence Beneficiaries (Level 1), Developing Beneficiaries (Level 2), and Empowered Beneficiaries (Level 3).
- b. Type of Fund: Funds from zakat, infaq, alms, or productive waqf that are managed by zakat institutions, either through a grant, qardhul hasan, or profit-sharing pattern.
- c. Benefits: Through the empowerment program, beneficiaries not only receive capital but also support for business development. The program distributes funds as non-repayable productive grants. Another pattern is assistance in the form of qardhul hasan (interest-free loans) or soft loans with a profit-sharing system.

5. Conventional Banks and People's Business Credit (*Kredit Usaha Rakyat/KUR*)

- a. Suitability: Empowered Beneficiaries (Level 3) and Independent Beneficiaries (Level 4)
- b. Type of Fund: Loans with government-subsidized interest, such as People's Business Credit (*Kredit Usaha Rakyat* or *KUR*) or commercial loans
- c. Benefits: Access to larger capital with lighter requirements than regular bank loans, suitable for beneficiaries with advanced agricultural businesses who need more capital for expansion, either with a profit-sharing system or a business scheme.

6. Investment from Venture Capital or Angel Investors

- a. Suitability: Independent Beneficiaries (Level 4)
- b. Type of Fund: Investment with a profit-sharing or equity model for innovative agribusiness businesses with high growth potential
- c. Benefits: Provision of large amounts of capital for the development of large-scale agribusiness or innovative agricultural technology is an advantage.

7. Crowdfunding or Collective Funds

- a. Suitability: Developing Beneficiaries (Level 2) to Empowered Beneficiaries (Level 3)
- b. Type of Fund: Funds collected through a crowdfunding platform, usually from the community supporting a project or agricultural business.
- c. Benefits: Access to capital from a variety of people, with greater flexibility and stricter requirements than banks.

Based on the conditions of the intended beneficiaries, PT Karya Masyarakat Mandiri, in its integrator role, can channel financial assistance in line with the most appropriate source of funds.

Blended Finance Practices

According to the Central Bureau of Statistics, the agricultural sector continues to contribute significantly to poverty, especially in rural areas ([BPS, 2021](#)). In fact, in 2021, 25.7% of Indonesia's rural population lived below the poverty line, with most of these households relying on agriculture as their main source of income. Furthermore, the agricultural sector contributes around 14% of Indonesia's GDP, yet the income gap between agricultural workers and those in other sectors remains wide. Further reports reveal that rural households in agriculture earn an average monthly income of IDR 1.5 million, significantly less than the national urban average of IDR 4.3 million. This data underscores the ongoing challenges faced by farmers in rural areas and highlights the need for targeted interventions, such as blended finance, to address this gap. Many farmers rely on subsistence farming, which makes them vulnerable to market fluctuations ([ADB, 2019](#)). Limited access to modern agricultural technologies and financial support exacerbates these challenges, while high-interest loans from informal lenders further reinforce poverty ([IFAD, 2020](#)).

We need more inclusive and affordable financing models to address these issues, and blended finance models have emerged as a promising approach to empower farmers through access to capital and technical resources ([OECD, 2020](#)). Several projects around the world provide real-world examples of blended finance success. For example, in Sub-Saharan Africa, the [Root Capital \(2002\)](#) successfully combined concessional financing from donors with commercial loans from private investors to support smallholder farmers. This model enabled farmers to access working capital and training, leading to a 30% increase in crop yields and increased incomes for over 200,000 farmers across the region.

Another successful example is in India, where the M-CRIL project leveraged blended finance to provide financial and technical support to smallholder farmers in remote areas ([M-CRIL, 2018](#); [Chemonish International, 2021](#); [Kushankur & Mishra, 2022](#)). The project, which combined grants, microloans, and CSR funding, helped farmers gain access to modern agricultural technologies, resulting in a 20% increase in productivity and improved market access. Blending private and public finance allows for a more flexible financing approach, adapting to the needs of farmers who would otherwise struggle to access formal finance.

These examples highlight how blended finance can effectively address the capital and technical resource gaps faced by farmers in developing countries, contributing to improved agricultural yields and increased incomes. This model can mobilize public, private, and philanthropic funds to support rural development and reduce commercial risks for investors.

Gekbrong (Cianjur, West Java)

In Gekbrong, blended finance practices have helped farmers increase horticultural production through access to microcredit from microfinance institutions and technical training provided by NGOs. A major challenge is limited market access, as farmers still rely heavily on middlemen to sell their crops at low prices ([BPS, 2021](#)). Farmers in Indonesia face a general poverty problem due to limited access to modern agricultural technology and

financial support, which exacerbates their economic situation ([IFAD, 2020](#)). In this area, farmers reported that access to microcredit and technical training enabled them to increase vegetable production by 28%, with many highlighting the importance of previously unavailable financial support. One farmer noted, "Microloans enabled me to buy better seeds and equipment, which increased my yield and income." However, farmers also noted that market access remains a challenge, as they still rely on middlemen to sell their produce. This is in line with findings from previous studies, such as [Bappenas \(2020\)](#), which noted that rural farmers in Indonesia often face barriers to market access due to poor infrastructure and limited market networks.

Ulubelu (Tanggamus, Lampung)

In Ulubelu, the implementation of blended finance has enabled coffee farmers and livestock breeders to access capital and training to improve the quality of their products. The private sector provides working capital and production facilities through CSR programs, while the local government supports market access through marketing initiatives. As a result, farmers in Ulubelu are able to increase their income by selling high-quality coffee directly to consumers without going through middlemen. PT KMM assists in marketing livestock in the Tebar Hewan Kurban (THK) program ([Abidin et al., 2023](#)). This integration of livestock businesses highlights the potential of blended finance in creating a holistic agricultural ecosystem, which reduces farmers' dependence on middlemen and improves their welfare ([World Bank, 2021](#)). This highlights the need for a collaborative, cross-sectoral approach to building a more sustainable agricultural ecosystem ([OECD, 2020](#)).

Beneficiaries emphasized the importance of CSR funding from private companies, which not only provide capital but also essential training in sustainable agricultural practices. According to one respondent, "This training helps us improve our business management, which in turn increases our income." This is in line with [Chambers \(1997\)](#), who argued that community empowerment with capital support and increased knowledge and skills is essential for long-term economic sustainability.

Sungai Kakap (Kubu Raya, West Kalimantan)

Blended finance has played a significant role in supporting local farmers and fishermen in Sungai Kakap. Through access to microcredit and training, farmers and fishermen began to reduce their dependence on middlemen. Blended finance also funded the construction of storage and processing facilities for fish and chili cultivation, allowing fishermen to store and sell their products at better prices ([Pereira, 2017](#)).

In this area, farmers and fishermen observed that the establishment of storage and processing facilities through blended finance significantly reduced post-harvest losses. One respondent stated, "Before the facilities were built, we lost up to 30% of our harvest due to improper storage. Now, we can store and sell our products at better prices." This example supports the findings of [Pereira \(2017\)](#), who discussed how infrastructure improvements can greatly improve the efficiency of the agricultural value chain. Other activities include investing in local infrastructure development, such as storage and processing facilities; strengthening local supply chains; and enabling farmers to market their products to wider markets while maintaining product quality ([Bappenas, 2020](#)).

Kahayya (Bulukumba, South Sulawesi)

137 In Kahayya, the implementation of blended finance supported the transition to sustainable coffee farming. Microfinance institutions provided capital to purchase modern agricultural equipment, and PT KMM funded training programs in coffee plantation management and marketing chain management. As a result, farmers in Kahayya managed to increase production and gain access to the national coffee market, where they were able to sell at a higher price than similar products ([Convergence, 2020](#)).

In this area, farmers stated that access to zakat funds combined with private investment enabled them to modernize their coffee plantations, with some reporting productivity increases of up to 40%. However, they also acknowledged that market access remains a significant challenge, mirroring the findings of [Convergence \(2020\)](#), which emphasizes the need for long-term market access solutions for sustainable development, even though blended finance can provide immediate financial assistance.

Technical training and financial support illustrate how blended finance strategically combines public and private funds to finance development projects aimed at reducing social inequality and strengthening local economies ([World Bank, 2017](#)).

[Elkington's \(1997\)](#) Grand Theory of Sustainable Development, emphasizing the integration of social, environmental, and economic factors for holistic development, aligns with all these findings. The combination of funding, technical support, and infrastructure development in the blended finance model is in line with this theory, as it ensures that rural communities have the resources and capabilities to develop sustainably.

Discussion

According to the [World Bank \(2017\)](#), PT KMM DDR orchestrates a blended finance model that combines concessional financing from donors with standard financing from development institutions and private investors to fund market-aligned projects, reduce social inequality, and stimulate local economies. PT KMM DDR plays a key role as an integrator and facilitator in this model, coordinating the flow of funds from various sources and ensuring effective and targeted allocation. As a coordinator, PT KMM DDR identifies and selects local projects with high potential for social impact, particularly in the agriculture, livestock, and fisheries sectors, and aligns these projects with financial resources provided by the government, private companies, and NGOs.

PT KMM DDR also provides technical support to beneficiaries, including training in modern agricultural techniques, market access strategies, and financial literacy. By combining financial resources with direct capacity-building efforts, PT KMM DDR ensures that funding not only meets immediate capital needs but also contributes to long-term sustainable growth for farmers and their communities. In addition, PT KMM DDR monitors and evaluates the impact of these projects, ensuring transparency and accountability, which are critical to attracting sustainable investment from the public and private sectors.

In rural areas, particularly in agriculture, blended finance practices play a key role in mitigating risks and encouraging private sector investment ([Convergence, 2020](#)). However, the application of blended finance in rural agriculture faces several obstacles. One major challenge is the high risk perceived by private investors, especially in remote areas where farmers often lack formal credit history or collateral. This creates a barrier to investment, as financial institutions hesitate to invest in projects they perceive as too risky, even when blended finance mechanisms exist to mitigate these risks.

Another obstacle is limited infrastructure, which affects the efficiency of agricultural activities and the ability to access markets. Common problems such as poor road networks, lack of storage facilities, and inadequate irrigation systems often reduce the potential returns on investment in rural areas. As a result, even when financing is available, it may not be enough to address these infrastructure deficits, leading to suboptimal outcomes.

Additionally, coordination challenges between different stakeholders—such as government agencies, NGOs, and private investors—often cause delays in project implementation. Differences in timelines, reporting requirements, and decision-making processes can slow the flow of funds and hinder the effectiveness of interventions. In some cases, cultural and social barriers in rural communities also limit the acceptance and success of blended finance initiatives, as farmers may be reluctant to adopt new technologies or financial practices without proper community engagement and trust building. These challenges highlight the complexity of implementing blended finance in rural farming settings and underscore the need for tailored solutions that address both financial and non-financial barriers.

Research demonstrates that blended finance enhances beneficiaries' access to capital, technology, and market opportunities, all crucial for their empowerment ([World Bank, 2021](#)). This approach is in line with Indonesia's National Medium-Term Development Plan (RPJMN), which emphasizes the need for inclusive economic growth and poverty reduction, especially in rural areas. The blended finance model directly addresses the RPJMN's emphasis on strengthening the agricultural sector, increasing financial inclusion, and improving market access. By integrating public and private funds, blended finance supports the government's goal of reducing poverty and inequality, especially among smallholder farmers, which is a key aspect of Indonesia's development agenda.

Beneficiaries Ranking

Based on the research findings, we grouped beneficiary farmers, rlivestock breeders, and fishermen in each region into several tiers based on their needs and access to resources to create targeted empowerment programs. The method of dividing beneficiaries into tiers (Levels 1-4) was based on a combination of survey responses and in-depth interviews conducted. We asked beneficiaries to rate their own access to capital, technical skills, market access, and management capabilities in the survey. We then analyzed the responses to ascertain each beneficiaries's level of need.

We conducted in-depth interviews with beneficiaries for the qualitative aspect, aiming to delve deeper into their personal experiences and challenges. These interviews provided insights into their specific circumstances, such as their reliance on informal loans, their ability to adopt new farming techniques, and their capacity to market their products. The interviews also helped verify and refine the survey data, ensuring a comprehensive understanding of each beneficiary's situation.

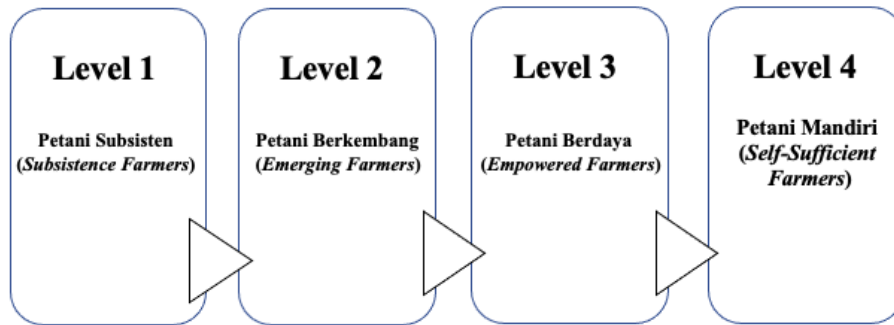


Figure 1. Ranking the level of beneficiaries

By combining survey and interview data, we were able to create a clear and comprehensive classification of beneficiaries that allows for more accurate and targeted empowerment interventions. Beneficiaries are classified into Level 1 (Subsistent Beneficiaries) if they have limited or no access to formal credit and struggle with basic farming or livestock techniques. Potential funding sources such as grants from NGOs or philanthropic sources like zakat, infaq, and sedekah, which prioritize non-repayable assistance, are more suitable for this level.

Level 2 (Developing Beneficiaries) classification includes those who already have access to microloans or informal credit but still face challenges in technical skills and market access. At this level, potential funding comes from microfinance programs or zakat, infaq, and sedekah funds through the qardhul hasan model. CSR-funded programs can also support technology introduction and market access.

Next, Level 3 (Empowered Beneficiaries) encompasses beneficiaries who meet formal credit eligibility requirements and possess a certain level of managerial skills, yet still need assistance with advanced infrastructure and technology. At this level, potential funding sources include low-interest government financing programs like the People's Business Credit (KUR), philanthropic funds, and profit-sharing schemes from the private sector. Infrastructure development, including processing facilities and marketing networks, can also benefit from the allocation of financing from the government and the private sector.

Lastly, Level 4 (Independent Beneficiaries) encompasses individuals who possess dependable access to capital sources, robust technical and managerial skills, and direct market access, requiring minimal assistance. At this level, funding potential can come from private company CSR programs that focus on improving managerial skills and technology adoption, as well as private sector financing through commercial loans for capital increases for beneficiaries.

Institutional development stages

Institutional development should begin at an early stage (Level 2) when beneficiaries begin to need better collaboration and access to capital. Institutions can strengthen and expand to accommodate greater developments in market access, technology, and business networks as technical and managerial capacity increases (Levels 3 and 4).

1. Level 1: Subsistence Beneficiaries

- a. Institutional development at this level is not yet a priority.
- b. At this stage, beneficiaries focus on meeting basic living needs, so institutional development is not yet a priority. Assistance for the development of basic skills and access to initial capital, such as grants from zakat, infaq, alms funds, or CSR program

grants from private companies, is more effective when provided on an individual or small group basis.

- c. The priority at this level is basic training and capital assistance with an individual approach to increase productivity and reduce dependence on subsistence farming.

2. Level 2: Developing Beneficiaries

- a. Institutional development at the initial stage with the initiative to establish cooperatives or farmer groups, livestock breeder groups, or fishermen groups with collective capital. Cooperatives or groups can serve as robust institutions, effectively disbursing financial assistance to their members in the form of *qardhul hasan*, which can come from zakat, infaq, alms, or Islamic financial institutions.
- b. Organizational Capacity Development: Training for cooperative leaders in management development, accounting, and risk management is essential to ensure that these institutions can survive and grow.
- c. At this stage, beneficiaries begin to be trained to access capital and technology so that collaborative initiatives in the form of training or technology transfer with government and private parties can help them manage shared resources more effectively.

3. Level 3: Empowered Beneficiaries

- a. Institutional development is currently in the strengthening phase, which includes initiating collaboration with both government and private parties.
- b. At this level, institutional development becomes very important. Beneficiaries must strengthen existing cooperatives or groups with stronger structures, including better management systems, supply chain management, and diversification of agricultural businesses. Institutions at this level must be able to function as a bridge to access wider markets and cooperation with private companies. Funds for individual beneficiary development or groups typically take the form of soft loans with low interest rates, such as KUR, or investment funds that follow a profit-sharing model.
- c. The priority at this level is to strengthen institutional governance, manage collective marketing, and increase access to capital and more advanced agricultural technology. All group members can access training in modern agricultural technology management through technical training programs, which primarily focus on enhancing group capacity.

4. Level 4: Independent Beneficiaries

- a. Institutional development at this level is currently in its maturation stage, necessitating the management of various programs to uphold transparency and accountability
- b. This is the most ideal time for mature institutional development. Well-developed cooperatives or groups can become key players in core businesses in regional or national areas. At this stage, institutions can focus on exports, leverage digital technologies, and establish strategic partnerships with major investors. Commercial loans or investment cooperatives serve as individual beneficiary and group development funds
- c. The priority at this level is to manage innovation within the institution, including digital management, high-level supply chain management, and partnerships with international markets.

Institutional development activities must take into account the readiness of beneficiaries, looking at the specific level and stage of group growth. This approach integrates institutional development with the empowerment of individual beneficiaries, establishing more robust and sustainable structures to support their long-term well-being, including the funding sources utilized.

Overall, the research findings show that the blended finance approach can address various funding challenges in community empowerment programs. Based on the mapping of the institutions involved, it is evident that local governments, private companies through CSR, and zakat institutions play an important role in financing these programs. Each source of funding has different potentials and limitations. When implementing blended finance, several implementation challenges arise, especially in coordinating the various stakeholders involved. One of the main challenges is aligning the interests and timelines of different funding sources, such as government grants, private sector CSR funds, and zakat institutions. While government funds often come with stringent regulations and lengthy approval processes, CSR funds may have shorter timelines and more flexible conditions, which can create misalignments in project planning and implementation.

The literature has widely discussed the role of CSR funds in development projects. [Thorne \(2020\)](#) asserts that short-term goals and limited geographic reach often direct CSR investments, potentially impeding the sustainability of long-term initiatives. Typically, these funds prioritize areas that align with the company's values and interests, which limits their flexibility to address the needs of the wider rural community.

On the other hand, scholars recognize zakat funds for their flexibility and potential to contribute to long-term development goals. Studies such as those conducted by [Nadzri et al. \(2012\)](#) and [Wahyuningsih & Makhrus \(2019\)](#) emphasize how zakat, infak, and sedekah funds can provide sustainable financial support for community empowerment programs. You can use zakat funds not only for immediate assistance, but also for capacity building and infrastructure development, crucial for long-term beneficiary empowerment. This finding is consistent with the broader literature on blended finance, which suggests that a combination of short-term and long-term funding sources can effectively meet the diverse needs of rural development programs ([OECD, 2020](#); [Convergence, 2020](#)).

Based on the mapping of the institutions involved, it is evident that local governments, private companies through CSR, and zakat institutions play an important role in financing these programs. This model is very much in line with Indonesia's national policies, especially the National Medium-Term Development Plan (RPJMN), which emphasizes the importance of inclusive growth and poverty alleviation. The RPJMN prioritizes strengthening the local economy, increasing access to financing for micro, small, and medium enterprises (MSMEs), and increasing the role of social entrepreneurs in rural development.

The integration of zakat funds into the blended finance model is also in line with Indonesia's National Zakat Management Policy, which encourages the efficient use of zakat, infaq, and sedekah to empower marginalized communities and reduce poverty. By including zakat institutions in the funding mechanism, this model supports Indonesia's commitment to utilizing sharia finance for social welfare, in line with the principles outlined in the 2019-2024 National Development Planning Framework ([Bappenas, 2019](#)).

In addition, collaboration between local governments and private companies through CSR is consistent with the Indonesian government's Sustainable Development Goals (SDGs) Roadmap, which advocates for partnerships between the public, private, and civil society sectors to achieve the SDGs ([UNDP, 2019](#)). This partnership-driven approach not only helps address the financing gap but also promotes long-term sustainability in rural empowerment programs, contributing to national goals such as SDG 1 (No Poverty), SDG 2 (Zero Hunger), and SDG 8 (Decent Work and Economic Growth).

Another challenge is the lack of adequate infrastructure in rural areas, which hampers the effectiveness of blended finance schemes. In areas such as Gekbrong and Sungai Kakap, farmers and fishermen struggle with poor road conditions, limited access to electricity, and inadequate storage facilities, which affect their ability to fully benefit from existing financial support. These infrastructure constraints prevent the full utilization of funding for capacity and productivity building.

Limited coordination among stakeholders also poses a challenge, especially in areas where local governance structures are weak or underdeveloped. In some areas, there are gaps in communication between local authorities, NGOs, and private companies, leading to delays in the disbursement of funds and a lack of clarity on roles and responsibilities.

In addition, monitoring and evaluation mechanisms for blended finance programs are often inadequate, making it difficult to assess the true impact of funding and adjust strategies in real time. The diversity of funding sources also means that the programs lack a unified reporting system, which hampers comprehensive tracking of results and poses challenges in ensuring accountability. These challenges highlight the complexity of implementing blended finance in rural areas and underscore the need for improved coordination, infrastructure development, and robust monitoring systems to maximize the potential of these schemes.

This study developed a blended finance model that combines different funding sources at different stages of empowerment. To evaluate the success of this model, we use several specific indicators to assess its impact on the socio-economic conditions of beneficiaries.

1. **Income increase:** One of the key indicators is the change in income for beneficiaries. For example, in Gekbrong, the average income of farmers increased by 28% in two years due to access to microcredit and improved farming practices funded through blended finance. Similarly, in Sungai Kakap, the CSR program's provision of processing facilities and market access led to a 40% increase in income for farmers.
2. **Access to Capital:** Another key indicator is the level of access to formal and informal finance. In Ulubelu, 82% of beneficiaries at Level 2 (Developing Beneficiaries) were able to access microloans for the first time, compared to only 21% before the implementation of the blended finance scheme. This is a significant increase, highlighting the success of blended finance in addressing financial barriers.
3. **Technology Adoption:** We also assessed the level of adoption of new agricultural technologies. In Kahayya, 65% of beneficiaries at Level 3 (Empowered Beneficiaries) adopted sustainable agricultural technologies, such as advanced irrigation systems, funded through a mix of zakat and private sector investment. This is a significant increase compared to the pre-implementation period, where only 24% of beneficiaries were using modern technologies.
4. **Market Access and Sales Volume:** We also measured improvements in market access and sales volume. Farmers and fishermen in Sungai Kakap, for example, who received blended finance support for storage and processing facilities, were able to sell their produce directly to larger markets, reducing their reliance on middlemen by 61%, resulting in a 37% increase in their sales volume.
5. **Beneficiaries Satisfaction and Capacity Building:** We assessed beneficiary satisfaction with the program and improvements in their technical and managerial skills. The survey showed that 86% of beneficiaries across all regions reported higher satisfaction with the

financial support and training provided, with a 39% increase in technical skills and managerial capacity.

These indicators suggest that the blended finance model has been effective in meeting the primary needs of beneficiaries and contributing to their empowerment. However, challenges such as limited market access in certain regions and infrastructure gaps remain areas for improvement. For example, CSR funds can provide initial working capital, while zakat funds support the long-term sustainability of the program. A case study in Gekbrong, for example, showed that the implementation of this model successfully increased beneficiary income by 28% in the first two years. Implementation requires the role of an integrator, similar to PT KMM DDR.

In the future, the potential for blended finance is significant, especially as the Indonesian government seeks to achieve the Sustainable Development Goals (SDGs), including SDG 1 (No Poverty) and SDG 2 (Zero Hunger) ([UNDP, 2019](#)). As more private investors and development institutions recognize the viability of blended finance, this model is likely to grow, providing a larger pool of capital for rural development projects. In the future, digital financial solutions can further enhance the efficiency of blended finance, enabling faster and more inclusive financial access for beneficiaries. In addition, increasing partnerships between government, the private sector, and civil society will create a more integrated approach to development, helping to bridge existing gaps in access to technology and market opportunities.

Blended finance also has the potential to drive innovation in the agricultural sector, encouraging the adoption of sustainable practices and technologies that can improve productivity and resilience to climate change. By aligning with national policies and focusing on sustainable development, blended finance can play a critical role in transforming rural economies, ensuring that the benefits of growth reach the most vulnerable populations.

Solutions for the Future

Many farmers, livestock breeders, and fishermen in Indonesia struggle to market their agricultural products, relying on middlemen and receiving prices far below market value. This reliance on middlemen is a significant problem across rural areas, as evidenced by our interviews and field observations. For example, farmers in Gekbrong reported that they often have no choice but to sell their vegetables to middlemen due to limited access to direct buyers or markets, resulting in prices that are 30–40% lower than market prices. Similarly, in Sungai Kakap, chili and other crop farmers noted that middlemen control prices and often impose unfair terms, reducing their potential income.

Research from [IFAD \(2020\)](#) and [OECD \(2020\)](#) supports these observations, showing that many smallholder farmers in developing countries, including Indonesia, face similar patterns of market access challenges. Often, the lack of bargaining power and infrastructure prevents farmers from directly connecting with buyers, forcing them to accept prices set by middlemen. This market limitation contributes to their continued poverty, despite improvements in productivity or access to finance. Furthermore, the [BPS \(2021\)](#) data underscores the pervasive issue of low agricultural incomes in rural areas, where this coordinated market system consistently underpays beneficiaries for their produce.

15.1 Some solutions to improve market access for beneficiaries include establishing cooperatives, utilizing digital technology and e-commerce platforms, partnering with companies or supermarkets, and strengthening local supply chains. These solutions are

based on a combination of research findings and best practices from the literature and data collected in this study.

For instance, previous research ([Thorne, 2020](#); [Pereira, 2017](#)) has well documented the success of farmer cooperatives in improving market access. In Sungai Kakap, farmers who formed small cooperatives were able to negotiate better prices with buyers and reduce their dependence on middlemen. The [OECD \(2020\)](#) highlights that cooperatives can aggregate small-scale production and increase bargaining power, helping farmers access larger markets and obtain fairer prices.

Additionally, farmers are increasingly connecting directly with consumers through digital platforms and e-commerce, bypassing traditional market intermediaries. Platforms such as TaniHub and Agromart in Indonesia have demonstrated how technology can provide farmers with greater market access, reduce their dependence on middlemen, and increase their profitability ([Convergence, 2020](#)). These platforms offer farmers better prices by providing direct connections to urban consumers, even in remote areas. Finally, strengthening local supply chains by investing in storage and processing facilities has proven effective in reducing post-harvest losses and improving market access, as seen in Ulubelu, where farmers were able to store and process their coffee more efficiently, leading to higher returns ([Bappenas, 2020](#)).

These solutions are based on interviews and existing literature, and they offer practical and measurable strategies to improve market access and reduce the financial vulnerability of rural farmers.

Establishing Cooperatives

Cooperatives can serve as collective platforms, allowing beneficiaries to collect, process, and sell their products together. With larger volumes, cooperatives can negotiate better prices with buyers, reducing reliance on middlemen ([Thorne, 2020](#)). Cooperatives can also provide training and access to technology, which improves productivity and product quality ([IFAD, 2020](#)).

Using digital technologies and e-commerce platforms

Digital technologies and e-Commerce have proven to be very effective in shortening supply chains. Beneficiaries can market their crops directly to consumers through digital platforms, bypassing middlemen. Agricultural e-commerce platforms such as TaniHub, Agromart, and Sayurbox enable beneficiaries to sell directly to consumers or to wider markets, including large cities ([OECD, 2018](#)).

Partnerships with companies or supermarkets

Beneficiaries can benefit from partnerships with large companies or supermarkets, gaining more stable and profitable market access. Through contract farming schemes, beneficiaries sign contracts with companies that agree to buy their produce at pre-agreed prices, reducing market uncertainty ([Convergence, 2020](#)).

Strengthening Local Supply Chains

Strengthening local supply chains can help beneficiaries sell their produce to local markets more efficiently. Investments in supply chain infrastructure, such as cold storage, transportation, and village distribution centers, can reduce post-harvest losses and enable beneficiaries to reach distant markets while maintaining product quality ([Bappenas, 2020](#)). Marketing cooperation for specific programs such as Tebar Hewan Qurban (THK) also

greatly helps reduce beneficiaries' dependence on loan sharks and middlemen ([Abidin et al., 2023](#)).

Product certification and access to premium markets

Beneficiaries can increase the selling value of their products by obtaining certification, such as organic or fair trade. Premium markets, both domestic and international, often purchase certified products because of their higher value. Blended finance programs can help beneficiaries access capital for certification costs and provide technical training to meet certification standards ([World Bank, 2021](#)).

The development of social business models

Several social business initiatives that focus on community empowerment can help market agricultural products. These businesses not only focus on profit but also aim for social impact by purchasing products at fair prices and connecting beneficiaries to larger markets. Successful examples include Kampung Marketer in Purbalingga and Aruna in the fisheries sector, which have helped small-scale fishermen sell their products directly to the market at higher prices ([Jalal, 2019](#)).

CONCLUSION

This study examines how the implementation of blended finance can support rural economic empowerment in Indonesia, specifically in four regions: Gekbrong (Cianjur, West Java), Ulubelu (Tanggamus, Lampung), Sungai Kakap (Kubu Raya, West Kalimantan), and Kahayya (Bulukumba, South Sulawesi). Blended finance has proven effective in providing access to capital, technology, and training for beneficiaries, although it still faces several challenges. Overall, this study highlights several key findings: blended finance can serve as a solution that integrates public, private, and philanthropic funding to empower beneficiaries.

Each region shows a different performance depending on local challenges, such as market access and reliance on intermediaries; ranking beneficiaries based on their access to capital and technology helps create a more targeted empowerment program. Beneficiaries at lower levels require philanthropic assistance and grants, while beneficiaries who are more independent can access formal credit and partnerships with the private sector. Beneficiaries in all regions face the biggest challenge of product marketing, which they can overcome by strengthening cooperatives, implementing e-Commerce platforms, and forming partnerships with private companies and NGOs. These strategies have proven to increase market access and reduce dependence on middlemen. Strengthening local supply chains and developing storage and distribution infrastructure should be a priority, especially in areas that are highly dependent on agriculture and fisheries, such as Gekbrong and Sungai Kakap.

This study has highlighted the effectiveness of blended finance in improving access to capital, technology, and market opportunities for beneficiaries in rural Indonesia, especially in the areas of Gekbrong, Ulubelu, Sungai Kakap, and Kahayya. The findings suggest that blended finance can address key barriers faced by beneficiaries, such as limited access to formal credit, outdated agricultural practices, and dependence on intermediaries. The study also emphasizes the need for targeted capacity-building programs, infrastructure development, and improved market access to achieve long-term empowerment and sustainability in rural communities.

However, there are several limitations to this study. First, the study focused on a small sample and may not fully represent the diverse challenges faced by beneficiaries in other parts of Indonesia. Furthermore, while this study assessed the short-term impact of blended finance implementation, the long-term sustainability of this intervention remains unclear. Future research could address this limitation by expanding the study to cover more regions across Indonesia and conducting a longitudinal study to track the long-term outcomes of blended finance programs.

The implications of this study suggest that for blended finance to be widely and effectively implemented, it is important to foster stronger collaboration between the public, private, and NGO sectors. The government should prioritize policymaking that facilitates multi-stakeholder partnerships and supports the infrastructure needed to enable blended finance initiatives. Furthermore, future studies could explore the importance of digital financial solutions and market access in overcoming the reliance on intermediaries, as highlighted in this study.

Finally, additional research could explore the integration of digital platforms and e-Commerce into blended finance models to enhance beneficiaries' market access. To ensure long-term agricultural development in rural areas, further studies could also explore how to incorporate climate change and environmental sustainability into blended finance strategies.

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