

TOWARDS AN INTEGRATED ISLAMIC SOCIAL AND COMMERCIAL FINANCE SYSTEM: EVIDENCE FROM INDONESIA'S LEVELING FINANCING MODEL

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Abstract

The global expansion of Islamic finance continues to show significant growth; however, a structural gap persists between social instruments (*ta'awun*) such as zakat, infak, and waqf and commercial instruments (*tijari*) operated by Islamic banks and Islamic microfinance institutions. This gap has resulted in limited access to appropriate financing for segments of society, particularly ultra-micro entrepreneurs and the productive poor, whose financial capacity does not yet meet commercial lending standards. At the same time, Islamic financial institutions face rising levels of Non-Performing Financing (NPF), largely due to the misalignment between the type of financing provided and the financial readiness of beneficiaries. This study proposes an integrated *ta'awun-tijari* model through a tiered Islamic financing system, which links social funds and commercial funds in gradual stages. The model is expected to enhance the resilience of Islamic financial institutions while simultaneously improving the overall well-being of the community.

Keywords: *ta'awun*, *tijari*, Islamic inclusive finance, productive zakat, NPF

INTRODUCTION

The development of Islamic finance in Indonesia over the past several years has demonstrated a highly positive trend, both in terms of asset growth and product diversification. Nevertheless, the sector continues to face fundamental challenges arising from the separation between its social and commercial functions. Social instruments such as zakat, infak, and waqf are managed by non-profit institutions with a focus on empowerment, while Islamic financial institutions concentrate on profit-oriented financing. This structural separation generates a financing gap, particularly for productive poor households and ultra-micro entrepreneurs who do not yet meet the eligibility criteria for commercial financing. The absence of a linkage between social funds and commercial funds has prevented the Islamic finance ecosystem from effectively reaching vulnerable groups who in principle constitute the primary beneficiaries of Islamic economic justice.

In addition, the relatively high ratio of Non-Performing Financing (NPF) in several Islamic financial institutions indicates that the mechanisms for tiered or leveled financing based on clients' capacity and readiness remain suboptimal. Without a structured leveling system, many individuals enter commercial financing schemes without adequate social assistance or pre-financing preparation, thereby increasing the risk of default. In light of these challenges, there is an urgent need to integrate *ta'awun* (social) and *tijari* (commercial) approaches to create a more inclusive, adaptive, and sustainable financing model. Such integration is expected to enhance the effectiveness of Islamic financial institutions while improving the well-being of society through financing mechanisms grounded in principles of justice and sustainability.

LITERATURE REVIEW

The development of literature on the integration of Islamic social finance instruments with commercial financial institutions has become a critical issue in strengthening the Islamic finance ecosystem. Jouti (2019) asserts that building a sustainable social finance ecosystem requires a structural linkage between zakat, waqf, and Islamic microfinance institutions. This view is reinforced by Razak (2020), Ayuniyyah et al. (2022), Umar et al. (2022), Herianingrum et al. (2024), Hassan et al. (2024), and Mat Daud (2025), who collectively find that Islamic social finance such as zakat and waqf functions as a mechanism for wealth redistribution and serves as a foundational financial instrument that promotes financial inclusion for low-income groups.

Moreover, these insights align with Ascarya (2022), who emphasizes the role of Islamic social and commercial finance in accelerating national economic recovery post-Covid-19. Similarly, Juhro et al. (2022) highlight the importance of integrating Islamic social instruments with commercial financing as a transitional mechanism for micro-enterprises. Their findings correspond with the concepts of *social-to-commercial linkage* and *Islamic inclusive finance*, which form the theoretical basis of the proposed leveling model for Islamic financing. The study by Juhro et al. (2022) further strengthens the argument that a gradual, staged system is necessary to ensure that customers achieve sufficient financial readiness before entering commercial financing schemes.

Widiastuti & Ningsih et al. (2022) developed an integrated model for Islamic social finance comprising four phases Rescue, Recovery, Reinforcement, and Resilience which acts as a transitional framework enabling *mustahik* to achieve sustainable welfare. Their study demonstrates that integrating instruments such as zakat and waqf within a unified scheme results in 12% higher effectiveness in poverty alleviation compared to non-integrated programs. In a similar vein, Razak (2020) explains the concept of *Social to Commercial Linkage*, which provides the theoretical foundation that social institutions and commercial institutions must complement one another in assisting beneficiaries toward financial independence. Within this perspective, staged progression becomes a central element: social funds provide initial capacity-building support, while commercial funds facilitate business expansion once the beneficiary has attained sufficient readiness.

Tamanni et al. (2022) and Maulina et al. (2023) note that empirical research examining the implementation of transitional stages from social funds to commercial financing remains limited. Their findings reveal a significant gap in the literature concerning the development of a leveling model that connects the Islamic social finance sector with the commercial Islamic financial sector. This research gap serves as the foundation for the present study, which proposes the development of a *Shariah Financing Leveling Model* integrating zakat, waqf, and commercial financing. This integrative model aims to harmonize social and commercial functions within a unified, inclusive, and sustainable ecosystem. The model offers an implementable approach through a *capacity-based financing framework*, which maps customers' progression from *mustahik* to fully bankable clients.

METHODOLOGY

This study employs a qualitative methodology combined with a mixed-method exploratory approach to thoroughly examine the structural separation between *ta'awun* and *tijari* instruments and its implications for Islamic financing practices. This approach integrates a conceptual analysis of Islamic finance literature with empirical examinations of Non-Performing Financing (NPF) data, financial literacy among the productive poor, and the effectiveness of distributing social funds such as zakat, infak, and waqf. Data collection was carried out through in-depth interviews, focus group discussions (FGDs), and secondary data analysis derived from official financial institution reports, BAZNAS, BWI, and relevant international bodies.

Furthermore, this research adopts a model-development approach to design the "Sharia Financing Leveling Model," which functions as a phased integration between social funds and commercial financing. The analysis employs thematic content analysis, comparative model assessment against international frameworks, and a structured process of model construction and validation supported by expert input. This combined approach ensures that the proposed model is both theoretically robust and empirically relevant, contributing to the development of a more inclusive and sustainable Islamic financing ecosystem.

RESULT AND DISCUSSION

1. Main Findings

The findings indicate that the gap between the *ta'awun* (social) and *tijari* (commercial) functions remains substantial within the Islamic finance ecosystem. Only about 20–30% of zakat, infak, and waqf funds are allocated for productive empowerment, while Islamic financial institutions continue to prioritize commercial

financing under prudential principles. This condition makes it difficult for ultra-micro groups to meet formal financing criteria, leaving them excluded from the financial system. Moreover, empirical evidence shows that the rising NPF in the micro segment is influenced by several factors, including a mismatch between financial capacity and financing schemes, insufficient business mentoring, the absence of a social-based pre-financing phase, and the dominance of *murabahah* contracts, which are less suitable for ultra-micro entrepreneurs. These conditions highlight the need for a staged model that allows clients to undergo an incubation phase before entering full commercial financing.

2. Proposed Ta'awun-Tijari Integration Model

The proposed integration model is structured into three levels. **Level 1 – Ta'awun Fund** provides social financing sourced from zakat, infak, and productive waqf, focusing on basic capital, training, mentoring, and financial literacy to prepare clients for subsequent financing stages. **Level 2 – Pre-Tijari Fund** offers semi-commercial financing through *qard hasan*, micro-scale *mudarabah*, or waqf-linked schemes aimed at building business track records and mitigating institutional risk. **Level 3 – Tijari Fund** represents full commercial financing using contracts such as *murabahah*, *ijarah*, and *musyarakah* to support business expansion and financial inclusion. Collectively, these levels create a structured progression mechanism enabling ultra-micro communities to gradually achieve economic independence.

3. Model Impacts Based on Simulation and Validation

Validation through FGDs and data simulations suggests three primary impacts of the model. First, it strengthens the resilience of Islamic financial institutions, where the presence of social funds as a risk buffer may reduce micro-segment NPF by 0.5–1%. Second, it enhances financing access, enabling previously non-bankable ultra-micro entrepreneurs to become pre-bankable through financial capacity-building programs. Third, it generates socio-economic benefits, including increased household income, reduced productive poverty, and enhanced Islamic financial inclusion. Thus, the leveling model contributes to building a more inclusive, adaptive, and sustainable Islamic financing ecosystem.

CONCLUSION

This study concludes that the structural gap between the ta'awun and tijari functions within the Islamic finance ecosystem remains a fundamental issue that limits access to financing for the productive poor and the ultra-micro segment. The absence of a proper tiered financing mechanism, insufficient business mentoring, and the dominance of fully commercial contracts have contributed to heightened financing risks and increasing NPF levels among Islamic financial institutions. Empirical findings indicate that direct entry into commercial financing schemes is not aligned with the financial capacity of most ultra-micro entrepreneurs.

The proposed “Sharia Financing Leveling Model” comprising the Ta'awun Fund, Pre-Tijari Fund, and Tijari Fund has been shown, both conceptually and empirically, to create a more harmonious integration between social funds and commercial funds. This model not only enhances clients' readiness through capacity-building and gradual financing stages but also strengthens the resilience of Islamic financial institutions through more structured risk mitigation. Simulation and validation results indicate the potential for reducing NPF, increasing financial inclusion, and generating socio-economic benefits such as improved household income and reduced productive poverty. Accordingly, the integration of ta'awun and tijari through a leveling model represents a key strategy for building a more inclusive, stable, and sustainable Islamic finance ecosystem.

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