

CHAPTER I

INTRODUCTION

A. Research Background

Poverty is a diverse concept that includes economic, social and political components. Poverty is a dynamic concept, it can be changing and adapting according to consumption patterns, social dynamics and technological changes (Sabates, 2008). In Indonesia, poverty alleviation still becomes a priority of the government's work program. The number of poor (population below the Poverty Line) in Indonesia in March 2018 was 25.95 million people (Statistics Indonesia, 2018). Seeing the number of poor, it is impossible for the government to solve it by itself. The main purpose of the poverty alleviation program is as a tool for developing the living standards in human society and decreasing the gap between the poor (or the needy) and the rich. Islam finds that poverty can be a dangerous problem for humankind to lose their faith and threat for peace and stability of the society. The government and the society have responsibility on poverty alleviation program that has been delivered both in *quran* and *sunnah*.

Islam as a religion that has certain rules regulating human social and economic interactions, wants people to live in a good condition, live by the blessings of heaven and earth, to feel the happiness of the fulfillment of the necessities of life, and their hearts and feelings are secure with the favors of

Allah that satisfy their needs and life (Al-Qubbani, 1999). This can be interpreted that Islam strongly recommends people to live well in order to achieve happiness and can share to others as a manifestation of gratitude towards everything that has been given by Allah (Shihab, 2012).

In this way, Islam has created a fair economic distribution system and maintains the rights of the poor through *zakah*, *infaq* and other forms of charity. If this effort is implemented properly, Muslims can overcome economic difficulties such as poverty and reach the goal of *shariah* (*Maqasid al-Shariah*) which aims to maintain life, increase future offspring, develop human intelligence, maintain faith and enjoy the results of individual efforts through ownership (Pramanik, 2002). Islam also establishes a system to help the poor and needy. Because of kindness and generosity, helping fellow human beings will help eradicate poverty on a large scale. On the other hand, Islam also commands the poor to struggle and work hard to make a living, not only just rely on the rich. Therefore, this system will make a balance where no class of society will be exploited (UN Report, 2017).

One of the products in Islamic micro financing offered by Islamic banks or any Islamic micro financial institutions, which is *qard al-hasan*, can be a solution to overcome poverty and raise the quality life of the society. *Qard al-hasan* financing is developed based on social welfare purpose, justice principle with interest-free financing system and solidarity for the needy. According to Umar Chapra (1983), Islamic banks are not the only banks that eliminate

interest in the banking system. In addition to rejecting the concept of *riba* according to Islamic banks should also perform a social welfare oriented role.

Qard al-hasan means a loan without any interest in Islamic term (benevolent loan), which is forbidden to Islamic compliance because it will be considered as *riba* (usury). The borrower has only to pay back the amount borrowed without any additional amount as an obligation. This is also what makes the difference between the Islamic and the conventional banks; they have the social welfare mission beside the commercial mission. This social welfare mission is expected to improve the image of Islamic banks and community loyalty toward Islamic Banks (Antonio, 2001).

Unfortunately, the poor and needy have difficulties while running microbusinesses to make a living. It happens because of the lack of capital, knowledge of running business, skills, and access to make loans to financial institutions such as banks in order to give financing to increase their business income. Banks and other micro financial institutions usually enforce complicated and complex requirements for small entrepreneurs to obtain loans. These financial institutions charge with high interest rate that small entrepreneurs cannot afford to get loans, except those who have large-scale businesses can easily obtain a loan (Muhammad, 2009).

As an interest-free zero-return loan, *qard al-hasan* financing has been implemented by some Islamic banks, *Baitul Maal wa Tamwil* (BMT) and *zakah* managing institutions in Indonesia. One of these institutions that have

implemented this *Qard al-hasan* financing is BMT Mitra Usaha Ummat. BMT Mitra Usaha Ummat is a financial institution with a profit sharing system that is established and owned by the community since 1995 in Sleman, Yogyakarta. The source of *qardh* fund can come from commercial and social funds, but *qard al-hasan* fund must only come from the social funds such as *zakah*, *infaq* and *sadaqah* (ZIS). BMT Mitra Usaha Ummat has implemented this *qard al-hasan* financing for 4 years and until December 2018 BMT Mitra Usaha Ummat has channeled the funds for Rp40,850,000. The most amount of fund that has been channeled by BMT Mitra Usaha Ummat is *infaq* and *sadaqah* funds with the total money channeled as much Rp115,133,200 and following by *qard al-hasan* fund as much Rp40,850,000. The *zakah* fund has been distributed as much as Rp16,771,700 and the total expenditure calculated is Rp172,754,900. The following is a table of the total distribution of funds available in the *Baitul Maal* program:

TABLE 1.1
Total Fund Distributions in *Baitul Maal* program

Type of Fund	Income	Expenditure
<i>Zakah</i>	Rp 28,879,655	Rp 16,771,700
<i>Infaq/Sadaqah</i>	Rp 148,358,752	Rp 115,133,200
<i>Waqf</i>	Rp 69,210,000	Rp -
<i>Qard al-hasan</i>	Rp 67,938,998	Rp 40,850,000
Total	Rp 314,387,405	Rp 172,754,900

Source: BMT Mitra Usaha Ummat Annual Report 2018

Even though there are several researches about *qard al-hasan* and its impact to economic empowerment and poverty alleviation, yet there still limited literature on how *qard al-hasan* effect on the reality of society life, and to expand the author's knowledge about *qard al-hasan* 's effectiveness on economic empowerment and poverty alleviation there is still lack of empirical research. Especially there is no significant evidence stated that the number of the poor decreasing after given the *qard al-hasan* financing, and the number still remains large (Aflah, 2011).

In this thesis, the author is interested to analyze the effectiveness of *qard al-hasan* financing implemented by BMT Mitra Usaha Ummat and its potential on improvement of recipients' life quality (economic empowerment).

B. Research Problem

Baitul Maal wa Tamwil (BMT) Mitra Usaha Ummat is one of the Islamic Financial Institutions in cooperative form that has *qard al-hasan* financing in its *Baitul Maal* product. This financing source is from *zakah*, *infaq* and *sadaqah* (ZIS) funds to help providing additional capital for *dhuafa* or categorized as economically weak people who have productive business. The existence of BMT as another financial institution could help the small-business entrepreneurs. The lack of capital, not having collateral and complicated requirements are the main reasons why the poor do not have access to make loans to other financial institutions such as banks in order to get additional

capital to increase their business income. *Qard al-hasan* financing could be the right solution for these problems.

To analyze the effectiveness of *qard al-hasan* financing to the recipients' economic condition and poverty, author needs to compare the changes of business income at first time obtaining the financing from BMT Mitra Usaha Ummat (initial condition) and after obtaining the financing (second condition). This method was adopted by Afrane (2003) that has used these indicators to analyze the impact of micro financing system on micro-small enterprises (MSEs) by pointed out the change of the business income and profit. In order to determine the dimensions of economic empowerment, author adapts from the research conducted by Widiyanto et al. (2011) with indicators business asset, revenue, profit, household income, basic needs (including food, clothing, shelter, medical and education needs), ability to save and pay for *infaq* and *sadaqah*. In research conducted by Sultana and Hasan (2010) is using similar indicators such as personal income, savings behavior and assets ownership for measuring the economic empowerment. Therefore, in this thesis consists of the dimensions of economic empowerment with indicators of income, ability to save money, ability to pay *zakah*, *infaq* and *sadaqah*, ability to fulfill basic needs and ability to pay medical costs.

As an explanation that has stated above, the formulation of the research problems are as follows:

1. How is the effectiveness of *qard al-hasan* financing at BMT Mitra Usaha Ummat?

C. Research Objectives

As the research problems that have stated above, therefore the objectives of the research as follow:

1. To analyze the effectiveness of *qard al-hasan* financing at BMT Mitra Usaha Ummat.

D. Research Benefit

This research is expected to be a contribution to any field related to Islamic micro financing especially in *qard al-hasan* financing practice on economic empowerment at BMT Mitra Usaha Ummat. The results may be an input for *qard al-hasan* practitioners, such as *sharia* people's bank, *amil* organizations and BMTs especially for BMT Mitra Usaha Ummat itself in order to improve the performance of the institution mostly related to *qard al-hasan* financing and on improving the recipients of *qard al-hasan*'s economic empowerment. Moreover, the results can be references for other researchers who work with similar topics. The author gets more knowledge about *qard al-hasan* financing practices and its impact on economic empowerment at BMT Mitra Usaha Ummat that can be implemented in real life. The results can also

increase the insight to the society on the alternative uses of *qard al-hasan* funds for sustainability and poverty alleviation.

E. Research Limitation

This research includes the implementation of *qard al-hasan* in BMT Mitra Usaha Ummat and the impact of *qard al-hasan* financing on economic empowerment for the recipients. This research will focus on *qard al-hasan* practices in BMT Mitra Usaha Ummat by using the qualitative approach and qualitative descriptive analysis.