

THE EFFECTIVENESS OF QARD AL-HASAN FINANCING ON ECONOMIC EMPOWERMENT AND POVERTY ALLEVIATION

(Case Study in BMT Mitra Usaha Ummat)

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ABSTRACT

This research aims to analyze the effectiveness of qard al-hasan financing on the economic empowerment and poverty alleviation at BMT Mitra Usaha Ummat. This type of research is qualitative research using descriptive analysis method. The data is obtained through observation, interview and documentation. The respondents are the members who took *qard al-hasan* financing for productive purposes. To test the credibility of research data, the author uses the Triangulation technique. For the data analysis there are three processes which are data reduction, data display and conclusion. To compare the income of the respondents before and after the *qard al-hasan* financing, the author uses the paired t-test statistical analysis. The finding of this research indicates that the *qard al-hasan* financing is not effective on economic empowerment and poverty alleviation. The result of paired t-test shows that the mean difference of income before and after obtaining the *qard al-hasan* financing is not significant. The factors why it is not significant are because of the income only can fulfill for the respondents' basic needs, small number of buyer, and uncertain farm production determined by weather and climate.

Keywords: Effectiveness, *Qard al-Hasan*, Economic Empowerment, Poverty Alleviation, BMT Mitra Usaha Ummat.

INTRODUCTION

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
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 research, 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).

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 research 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:

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

RESEARCH OBJECTIVE

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

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

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.

RESEARCH METHODOLOGY

Qualitative Research

Based on the philosophical meaning in general, 'interpretivist' deals with how the social world is interpreted, understood, experienced, produced or formed. Meanwhile, different versions of qualitative research can understand or approach these elements in different ways (for example, focusing on social meaning, or interpretation, or practice, or discourse, or process, or construction), all will see at least some including as meaningful elements in the social world that are complex or perhaps layered and textured (Mason, 2002).

The specification of this research are descriptive, namely to raise facts, circumstances, variables, and phenomena that occur now (when the research takes

place) and its presentation as is. This research uses case research method and the research unit is BMT Mitra Usaha Ummat. In addition to the case study method, it also uses explanatory survey.

Type of Data

The data that the author uses as primary data is information or data originating from the subject of research, in this case is the customer of BMT Mitra Usaha Ummat who obtain *qard al-hasan* financing in Yogyakarta. The secondary data that is indirect data is from supporting documents, journals and books which is relevant to the research. The type of data obtained is quantitative and qualitative data.

Primary Data

Data obtained directly from the subject of research by moving a measurement tool or data retrieval tool directly from the subject as a source of information sought, such as direct observation so that accuracy is higher, but often inefficient because obtaining necessary resources larger data.

Secondary Data

Data obtained through other parties, not directly obtained by researchers from the research subject. Secondary data is usually in the form of documentation or report data that is already available, so it has high efficiency but sometimes is not accurate.

Data Collection Techniques

The data collection technique used in this research was using a field research. According to Singleton (1988), field research comes from two related traditions namely anthropology and sociology, where ethnography is a study of human and ethnomethodology is a study that studies social behavior between individuals.

Observation

As a scientific method, observation is usually interpreted as a systematic observation and recording of the phenomena under study. In a broad sense, actual observation is not only limited to observations carried out both directly and indirectly.

Interview

Interview is conversation with specific intentions. The conversation was carried out by both parties; the interviewer who asked the questions and the interviewee who gave the answer to the questions (Daniel, 2002). The efforts to obtain information or data are by asking directly to respondents. In this

research, guided and free interviews were conducted; it means the respondents were given the freedom to answer. However, within certain limits so as not to deviate from the interview guidelines that has been prepared.

Documentation

Documentation is one method of data collection used in social research methodology (Bungin, 2008). Documentation is one method of data collection used in social research methodology. Documentation is used by reading and researching books, tables, graphics and other documentation materials. In this method, the author uses books related to financing *qard al-hasan* financing and data available at BMT Business Partners, such as the history of its establishment, vision and mission, legitimacy, structure, application system and procedure, and other related data.

Definition and Operationalization of Effectiveness

Effectiveness comes from the word “effective”, the limits of this concept are difficult to specify because each discipline provides its own understanding. For an economist or financial analyst, the effectiveness can be measured by the changes in income and profits, or investment returns (Streers, 1985). In this study, *qard al-hasan* can be called effective if there is a significant increase on income before and after obtaining the *qard al-hasan* financing.

Instrument Testing

In qualitative research, the main instrument is human because what is examined will be the validity of the data. To test the credibility of research data, the author used the Triangulation technique. Triangulation is a technique of checking the validity of data that uses something else outside the data for the purpose of checking or comparing the data (Moleong, 2009). The author conducts research using the method of observation, interview and documentation then the results of the research data are combined so that they complement each other.

Data Analysis

Data analysis is the process of selecting, simplifying, focusing, abstracting, organizing data systematically and rationally in accordance with the objectives of the study, and describing the research data using tables as a tool to facilitate interpretation. Then the research data on each table are interpreted (meaning taking) in narrative form (description) and conclusions are carried out. Data processing in this research was carried out by using SPSS software Version 14 for Windows and Microsoft Excel 2010.

Descriptive Statistics

Descriptive statistics are used by researchers to process the data that has been obtained by showing the data in simple way to be read. Data obtained directly from the results of research or other sources (secondary data) are usually still in the form of crude and raw and not systematically arranged. In order to be read easily and quickly, data can be presented in the form of lists or tables and graphs or diagrams (Subana et al., 2005).

Paired t-test

For comparing the income of the respondents before and after the *qard al-hasan* financing, the author uses the paired t-test statistical analysis. A paired t-test is used to compare before-and-after observations on the same subjects or to compare two different methods of measurement or two different treatments where the measurements and the treatments are applied to the same subjects (Shier, 2004).

Data Reduction

Reducing data means summarizing, choosing the main things, focusing on the important things, looking for themes and patterns. Thus the reduced data will provide a clearer picture and make it easier for researchers to carry out further data collection.

Data Display

Narrative text is the one most often used to present data in qualitative research. By displaying the data, it will make it easier to understand what is happening and plan further work based on what has been understood.

Conclusion

Conclusion in qualitative research might answer the formulation of the problem formulated from the beginning, but it might not, because it has been stated that the problem and the formulation of the problem in qualitative research are still temporary and will be develop after the researcher is in the field.

RESEARCH RESULTS AND FINDINGS

Profile of BMT Mitra Usaha Ummat

Baitul Maal wa Tamwil (BMT) Mitra Usaha Ummat is one of the Islamic Financial Institutions in the form of cooperative. BMT Mitra Usaha Ummat has two business fields, for business and social orientations. The activities carried out by BMT Mitra Usaha Ummat in the business sector began with the main business of the

Islamic Financial Institution Unit and developed the real sector unit, as well as managing financial businesses using *sharia* principles. Whereas in the social field is raising funds from the community which is then channeled to the community. The funds are *maal* funds, which come from *zakah*, *infaq*, and *sadaqah*. The vision developed by BMT Mitra Usaha Ummat is "The realization of a just and Islamic economic system of the society in Sleman Regency and its surroundings, which is built on the basis of *ukhuwah Islamiyah*". The missions of BMT Mitra Usaha Ummat are making BMT Mitra Usaha Ummat as a trusted and entrenched Islamic financial institution in society and growing a strong and independent economic network of society.

Analysis of Effectiveness *Qard al-hasan* Financing on Economic Empowerment and Poverty Alleviation

After presenting data that has been obtained from the BMT Mitra Usaha Ummat documentation, the author will analyze the implementation of *qard al-hasan* financing at the BMT Mitra Usaha Ummat based on the results of interviews with several BMT Mitra Usaha Ummat members, the Maal Manager of BMT Mitra Usaha Ummat and HN as an Islamic economist and a lecturer in Economics Department of *Universitas Islam Indonesia*. In this research, the author has conducted interview with 9 members who took *qard al-hasan* financing to the BMT Mitra Usaha Ummat. In terms of marriage status, the average respondents interviewed was married. While in term of the dominant age of respondents are those who are in the age among 30-70 year old. In terms of last education status, there are 2 respondents who graduated from high schools, 3 respondents graduated from middle high school and 4 respondents only graduated from elementary school. The types of job of the respondents are varied, starting from *angkringan* owner, farmer and merchants (*lotek*, children clothes, chicken, fishes, *nasi rames* and groceries merchants).

The Implementation of *Qard al-hasan* Financing in BMT Mitra Usaha Ummat

Qard al-hasan financing as one of the programs from *Baitul Maal* BMT Mitra Usaha Ummat that is given free-interest loan from ZIS funds to help providing additional capital for *dhuafa* who have productive business. BMT Mitra Usaha Ummat provides *qard al-hasan* financing that to help economically weak people who are productive in micro business, for those who lack capital in the business, or do not even have capital at all but have certain

expertise even if it can be said that the category is capable. This financing provided for additional business capital or to help open a business that had stopped for a while. Until this research is conducted, there are 9 customers using *qard al-hasan* for business purposes with funding starting from Rp100,000 up to Rp2,000,000. The sources of this *qard al-hasan* financing come from *zakah*, *infaq* and *sadaqah* (ZIS) from customers, communities and employees of BMT Mitra Usaha Ummat. The customers or members of BMT Mitra Usaha Ummat are encouraged to pay *infaq* and to set aside their money to give *sadaqah* at every installment.

The procedure of *qard al-hasan* financing; first, there must be reference letter from neighbor or marketing team. Second, BMT Mitra Usaha Ummat will consider it from the income per month (below regional minimum wages) and how many the family members, is the income can fulfill all the family members' needs or not. BMT Mitra Usaha Ummat is also implementing this character principle. This character is to find out whether these prospective members will be honest and try to fulfill their obligations. All of the respondents answer that BMT Mitra Usaha Ummat never give any monitoring or training and only do survey in the early of submission to their houses. In each activity there must be a risk that must be faced, therefore the BMT Mitra Usaha Ummat should implement a mentoring system after being given financing in order to overcome problems and reduce the risk of late installments. The person must be guided, must be taught and accompanied, then generally it can be said that there is a need for assistance. The problem is that a lot of social funds are just given without being designed; poor people not only need money but also need skills.

The obstacles face by BMT Mitra Usaha Ummat related to *qard al-hasan* financing are using the fund for consumptive purposes and paying the installment beyond the maturity date. A member who uses this *qard al-hasan* fund for consumptive purposes such as to pay tuition fee of their children is not justified with the purpose of *qard al-hasan* financing itself. For the delay of paying installment, BMT Mitra Usaha Ummat has given the tolerance within 3 days after maturity date. If a member could not pay installment, he can give the yields in a while and pay with money after he able to do it.

BMT Mitra Usaha Ummat is also helping for the poor who wants to open new business but lacked of capital by asking what skills do they have first. There must be collateral and complicated requirement from bank if someone wants to make a loan. *Qard al-hasan* financing can be the right solution for

these problems. It can help those who want to open a business, or increase business capital or continue their business that had stopped before. BMT Mitra Usaha Ummat is relatively well in implemented *qard al-hasan* financing by providing good financial services and facilities. All respondents are satisfied with the service provided by BMT Mitra Usaha Ummat. Most of the members who took *qard al-hasan* financing felt really helped in order to get additional capital to their micro businesses. The procedure is simple with only ID card and Family Card (KK), they can obtain the loan easily without any collateral. The disbursement of the fund is not burdensome for members within only just 2-3 days. BMT Mitra Usaha Ummat does not charge any high interest rate any ask any collateral unlike in the conventional banks.

Result of Paired t-test

The effectiveness of *qard al-hasan* financing on BMT Mitra Usaha Ummat can be seen from changes on income before and after the respondents obtain financing with the *qard al-hasan* contract. The effectiveness of *qard al-hasan* financing as measured by paired t-test on economic empowerment and poverty alleviation has been evaluated by pointing out the change of respondents' income. By using the Statistical Package for the Social Science (SPSS) 20th version, the mean of the income before obtaining the *qard al-hasan* and when the research is conducted or after obtaining the *qard al-hasan* financing will be compared.

TABLE 2
Mean on Income Before and After *Qard al-hasan* Financing

Indicators	Mean Before (Rp)	Mean After (Rp)	Differences of Mean (Rp)	Sig. (2 tailed)
Income before and after.	1,227,777	1,488,888	261,111	0.106

Source: Author's Interpretation Result of Paired T-test

The result of the paired t-test show that the mean of the income before the *qard al-hasan* financing is not significantly different from the mean after the financing with increasing only 17.5 percents. The table indicates that the mean before the financing is Rp1,227,777 (with the minimum income Rp150,000 and maximum income Rp3,000,000). The mean after the *qard al-hasan* financing is Rp1,488,888 (the minimum income Rp150,000 and the maximum income Rp4,000,000). The significance value of the result of paired

t-test is 0.106 (>0.05 with 95% confidence level) indicates there is no significant difference between before and after the *qard al-hasan* financing which essentially states that *qard al-hasan* financing is not effective on empowering the economic condition of respondents.

Interviews conducted by author with 9 respondents who took *qard al-hasan* financing shows that the majority of them used the fund to give additional business capital for their micro businesses. When author asked about the economic conditions before and after taking *qard al-hasan* financing in BMT Mitra Usaha Ummat, each of them gave a different answer, but their answers culminated to one conclusion that after receiving *qard al-hasan* financing from BMT, some of them confessed that their income has increased but not many are also do not experience it. Even though the mean of before and after of the income is not significantly different, they also can fulfill their daily needs, can pay *zakah*, *infaq* and *sadaqah* and pay medical costs.

The reasons why the income change is not really significant or does not change are also related with the income received and several reasons that caused this can be happened. The amount of income received by the respondents is small and just enough to fulfill the basic needs. In addition, if there is a family member got sick, the expenses will be higher. The number of buyer is also the cause of why the amount of income is small and affects the ability to save money. The less the number of buyer, the less the income they get, the less the ability to save money. Another reason that in line with this concept is also the uncertain farm production depends on weather. Because of the distribution fund of *qard al-hasan* financing is relatively small, the income difference between before and after the financing is not significant. The *qard al-hasan* financing does not give any significant impact because the fund is small within only the maximum amount of loan is only around Rp100,000-Rp2,000,000. Comparing with the operational cost for selling, it can only fulfill additional capital not the cost entirely for all the respondents' needs.

According to the results of interview with all respondents using qualitative descriptive analysis, it can be concluded that the implementation of *qard al-hasan* financing at BMT Mitra Usaha Ummat is relatively good proved by all respondents are satisfied with the good financial services and facilities provided by BMT Mitra Usaha Ummat. However, there are several aspects that need to be improved such as the details about the financing itself has to be delivered well to the members who want to take the financing. The training or assessment for the recipients is also needed in order to maintain the condition of

the members who took *qard al-hasan* after given the fund is still in a good condition or even better. The easiness felt by the respondents in obtaining the funds is also well-received and fast that only took 2-3 days. It is really helping for those who really need the fund to add the capital immediately. In general the implementation of *qard al-hasan* financing is well based on the result of interview with all the respondents.

Through the financing of *qard al-hasan* given by BMT Mitra Usaha Ummat, members who have small businesses are helped to supplement their small business capital even though there is no significant difference in income received after the financing. It also expected to encourage small entrepreneurs to be able to increase their production so as to increase revenue and be able to compete with other entrepreneurs.

BMTs in general for *tamwil* purposes are dominated by profitable financing and the percentage for the financing of *qard al-hasan* in BMT Mitra Usaha Ummat is still very small. BMT Mitra Usaha Ummat is expected to play a role in the community, at least concerned with what is felt by the poor. Besides the expectation of being in the center of society, BMT Mitra Usaha Ummat is also expected to be able to open the door of blessings by helping the members.

CONCLUSION

Based on the description and results of the discussion and interviews in the previous chapters, the author concluded that the income difference before (initial condition) and after (second condition) the respondents took the *qard al-hasan* financing is not significantly different and it indicates not effective on economic empowerment and poverty alleviation. The factors why it is not significant are the income only can fulfill for the respondents' basic needs, small number of buyer, farm production based on uncertain weather and climate, and the maximum amount of fund is small that does not give impact on income.

RECOMMENDATION

Based on the above conclusions, the author tries to give advice to BMT Mitra Usaha Ummat in managing *qard al-hasan* financing product including:

1. In the distribution, direction should be treated, assistance, training for skills and supervision so that later it can become independent and

economically empowered. These strategies also could be tools to avoid *default* of installments and tighten the relationship with members.

2. Further explanation in detail about *qard al-hasan* financing to members who will apply for financing.
3. In the future for the management of *qard al-hasan* funds and other products of BMT Mitra Usaha Ummat always pay attention to the established sharia principles.

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