



# The Impact of Qardh Financing on Micro Waqf Banks on the Development of Micro-businesses in the Pesantren Environment

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**Abstract.** This study aims to analyze the impact of Qardh financing on Micro Waqf Banks on the development of micro-businesses in the pesantren environment. The population is micro-businesses located around the Al Kautsar Modern Islamic Boarding School, Sarilamak, Limapuluh Kota Regency, using purposive sampling, obtained a sample of 150 micro and small businesses. The analysis data used structural equation modeling (SEM) with the AMOS software. The results showed that qardh financing had a significantly impact on the development of micro-enterprises. Furthermore, the control variables of education and length of the business significantly affect the development of micro-enterprises in the pesantren environment.

**Keywords:** Qardh financing · Micro Waqf Bank · Micro-Business

## 1 Introduction

In addition, this research is in line with the theme of the PICEEBA 9 activity, namely Leap to the imminent future: Seizing Opportunities in Education, Economics, and Business. This research provides input for fund providers that providing financial assistance to business actors in the pesantren environment can increase the growth of micro-enterprises.

One of the most important instruments for developing micro-enterprises is capital. However, for most micro-enterprises, obtaining money is the biggest challenge they face, thus ampering the development of micro-enterprises. Amid difficulty accessing capital for small entrepreneurs, the Micro Waqf Bank (BWM) emerged. Micro Waqf Banks are established in Islamic boarding schools. In carrying out their functions as financial institutions, they only distribute financing contracts to their customers and do not carry out fund-raising activities. Micro Waqf Banks provide facilities for providing funds to meet the needs of parties who need funds. The parties who need these funds are the people around the Islamic boarding school who apply for loans to the Micro Waqf Bank.

Micro Waqf Bank is a pilot project of OJK (Financial Services Authority), a new phenomenon in the development of the Islamic finance industry [1]. Micro Waqf Banks

provide facilities to communities around Islamic boarding schools that have micro-scale businesses with al-qardh contracts [2]. Qardh is borrowing and borrowing funds without compensation with the borrower's obligation to return the loan principal at once or in installments within a certain period [3]. With this qardh financing contract, it is possible for borrowers in trouble to get short-term bailouts so that these funds can be used as capital to move the wheels of the business so that the company that is run can continue to exist and grow.

Several BMWs have been established in Indonesia, one of which is the Al-Kautsar PPM Micro Waqf Bank, located in Harau District, Limapuluh District, West Sumatra. The PPM Al-Kautsar Micro Waqf Bank is the first bank in West Sumatra that can be an example of the successful development of the sharia economic ecosystem. The Micro Waqf Bank (BWM) was established on May 8, 2018. Currently, the Micro Waqf Bank has 415 customers who are members of 23 Indonesian Islamic Boarding School Community Business Groups (Kumpi). This Kumpi consists of homemakers in the Harau District with a total loan of Rp 700 million. They get business capital loans in groups with a minimum of 15 members and a maximum of 25. The loan capital given to members is used for trading, farming, and raising livestock.

Micro Waqf Banks (BWM), which Islamic boarding schools shelter, are more trusted by people in the pesantren environment because people believe that BWM managed by Islamic boarding schools are free from usury and have a spirit of mutual help [4]. BWM PPM Al-Kautsar provides facilities to meet the needs of parties who need funds for communities around Islamic boarding schools who apply for financing contracts to Micro Waqf Banks. The Micro Waqf Bank provides financing contract facilities to communities around the Islamic boarding school environment for micro-scale businesses with qordh contracts. A qardh financing contract is a financing contract that only returns the principal loan. Loans are given without collateral and interest. The payment is only once a week in installments with a period of 40 installments on weekly Halakah activities. In addition to the disbursement and installment of loans, the Halakah was held tausiyah. This financing agreement is used to assist micro-enterprise financing contracts. The purpose of the financing contract is to help and is a good practice because of Allah SWT [5]. Therefore, researchers are interested in knowing whether the financing contract can affect the development of micro-enterprises in the pesantren environment.

## **2 Literature Review**

### **2.1 Business Development**

According to Forbes magazine, business development is the long-term creation of an organization's customers, markets, and interactions. Business development aims to keep the business productive and profitable in the long term (kompas.com). Business development is carried out by companies that have already begun to process until it appears that there is a possibility to go further. Business development will be seen from the process of running the business itself and the possibility of the business to grow and develop. Business development can be seen from the increase in income, increase in turnover, increase in production, increase in profit, increase in customers, and increase in the workforce.

## 2.2 Qardh Financing Contract

According to Bank Indonesia, qardh is borrowing funds without compensation with the obligation of the borrower to return the loan principal at once or in installments within a certain period. The characteristics of the qardh financing contract include: 1) It is not allowed to make any profit for the lender because this is the same as usury; 2) Using a loan-borrowing contract, when the borrower has received the goods or money, the goods or money borrowed are under his responsibility with the obligation to repay the same as at the time of borrowing; 3) Usually given within a specific time limit; and 4) If it is in the form of money, the nominal return must be the same as the nominal loan [6]. The qardh contract is one of the tabbaru contracts. The characteristics of the qardh contract are about lending and borrowing, which emphasizes the attitude of helping and regarding the type of qardh contract where it does not seek profit. Therefore, the indicators in a qardh financing contract include: 1) the existence of an element of convenience in loan terms; 2) using a qardh contract; 3) according to sharia principles; 4) as needed; and 5) free from usury and interest.

## 2.3 Micro Business

In Indonesia, micro and small enterprises (MSE) are currently considered one of the most effective means of poverty alleviation. In article 1 paragraph (1) of Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises that what is meant by “Micro Enterprises are productive businesses owned by individuals and or individual business entities that fulfill micro-businesses, as regulated in this Law [7]. Micro-enterprises are generally engaged in traditional businesses and informal micro-enterprises. Therefore, the indicators in a qardh financing contract include: 1) the existence of an element of convenience in loan terms, 2) using a qardh contract, 3) according to sharia principles, 4) as needed, and 5) free from usury and interest.

## 2.4 Educational

Education is the stage of education determined based on the student’s level of development, the goals to be achieved, and the abilities developed. Educational classes consist of formal, non-formal, and informal education that can complement and enrich each other.

## 2.5 Business Age

According to [8], business age is the length of time a Micro, Small, and Medium Enterprise (MSME) has been established or the age of an MSME since the business was established until now.

## 2.6 The Role of Qardh Financing Contracts on the Development of Micro-enterprises

Micro Waqf Banks encourage community empowerment around Islamic boarding schools through micro-businesses with qardh contracts. The community gets business

capital loans to support the household economy in groups with a minimum of 15 members and a maximum of 25 people per group. The loan is given without collateral and interest and is paid in weekly installments with a period of 40 payments on weekly Halakah activities (Halmi). In addition to the disbursement and installment of loans, the weekly Halakah was held tausiyah. Before the Halmi was held, they first vowed to remind each other to tell the truth, keep promises, and be trustworthy and disciplined. Help each other overcome the difficulties of fellow members and be committed to working together to improve welfare, so it is hoped that the qardh financing contract can enhance the development of micro-enterprises.

Hypothesis: The qardh financing contract has a significant positive effect on the development of micro-enterprises in the pesantren environment.

### **3 Method**

This research is quantitative and descriptive. The research subjects were several micro-business actors who became customers at the Micro Waqf Bank (BWM) Al-Kautsar Modern Islamic Boarding School (PPM) in Payakumbuh, West Sumatra. The object of research is the role of qardh financing contracts in increasing customer income. The target is a potentially productive micro-community with the will and passion for working. The primary data sources are several micro-business actors around the Al-Kautsar Modern Islamic Boarding School (PPM) customers of the Al-Kautsar PPM BWM.

## **4 Result and Discussion**

### **4.1 Description of Research Respondents**

This study uses data taken from 150 respondents of micro business actors in Islamic boarding schools who are customers of the Al Kautsar Modern Islamic Boarding School (PPM) Micro Waqf Bank in Payakumbuh, West Sumatra. Most of the respondents have high school education (34%), junior high school (31%), elementary school (30%), and only a small proportion have diploma/bachelor degree education (5%). On average, micro-enterprises have been operating for more than five years (50%), from 1 year to less than five years (45%), and have only been running for one year (5%). Furthermore, based on the description of the research variables, it can be seen that the average value of qardh and business development is in a good category, namely at a score of 3.8 and 3.95.

The research variables consisted of exogenous, endogenous, and control variables. The exogenous variable is the qardh financing contract which consists of the following dimensions: loan terms, qardh contract, sharia principles, as needed, and free from usury and interest. The endogenous variables consist of the development of micro-enterprises, with the dimensions of increasing income, increasing turnover, increasing production, increasing profits, increasing customers, and increasing the workforce. Furthermore, the control variables are the education level of micro business actors and how long the business has been running. Data were analyzed using Structural Equation Modeling with AMOS.

## 4.2 Validity and Reliability

A validity test is carried out to show the extent to which the measurement instrument can measure what it wants to measure. Validity testing is done by confirmatory factor analysis (CFA). The construct validity test (indicator) was conducted to measure whether the construct (indicator) was able or not to reflect the latent variable. The results meet the criteria if the critical ratio (CR) > 1.96 with probability (P) < 0.05.

A Reliability test is a process of measuring an instrument's accuracy (consistency). An instrument can be reliable if it has a reliability coefficient or Cronbach's alpha of 0.6 or more. The results of the instrument reliability assessment on each variable in this study were reliable, with a value > 0.60.

## 4.3 Goodness of Fit

The analysis process in the SEM method requires a model fit test stage (Goodness of Fit) to get a fit model. The compatibility test analysis has many criteria. From the many measures, the researcher does not have to use all of these criteria to see the suitability of the research model. Still, it would be better if more than one model fit test met the requirements [9]. The results of the model fit test are presented in Table 1.

The results of the model fit test in Table 1 show that the model is fit and can be tested at a later stage. Then proceed with hypothesis testing. Testing the proposed hypothesis is based on a model that has met the Goodness of fit criteria. The results of hypothesis testing indicate that the hypothesis is accepted, as shown in Table 2.

Based on the test results, it can be seen that the qardh financing contract has a significant effect on the growth of micro-enterprises in the pesantren environment. This study indicates that the qardh financing contract at the PPM AL KAUTSAR Micro Waqf Bank (BWM) can increase the development of micro-enterprises in the pesantren environment; furthermore, the education control variables and length of business also affect the development of micro-enterprises.

**Table 1.** Goodnes of Fit

| Goodness of Fit Index                                  | <i>Cut of Value</i>           | <i>Hasil Analisis</i> | <i>Evaluasi Model</i> |
|--|-------------------------------|-----------------------|-----------------------|
| <i>Goodness Of Fit Indices (GFI)</i>                   | $0,80 \leq \text{GFI} < 0,90$ | 0,944                 | <i>Good fit</i>       |
| <i>Comparative Fit Index (CFI)</i>                     | $\geq 0,90$                   | 0,985                 | <i>Good fit</i>       |
| <i>Incremental Fit Index (IFI)</i>                     | $\geq 0,90$                   | 0,986                 | <i>Good fit</i>       |
| <i>Normed Fit Index (NFI)</i>                          | $0,80 \leq \text{NFI} < 0,90$ | 0,930                 | <i>Good fit</i>       |
| <i>Root Mean Square Error of Approximation (RMSEA)</i> | $\leq 0,08$                   | 0,040                 | <i>Good fit</i>       |
| <i>Root Mean Square Residual (RMSR)</i>                | $\leq 0,1$                    | 0,041                 | <i>Good fit</i>       |

Source: (Primary data processing, 2022)

**Table 2.** Hypothesis Testing

|        |      |       | Estimate | S.E. | C.R.  | P    |
|--------|------|-------|----------|------|-------|------|
| GROWTH | <--- | QARDH | ,403     | ,069 | 5,864 | ***  |
| GROWTH | <--- | EDU   | ,286     | ,049 | 5,815 | ***  |
| GROWTH | <--- | AGE   | ,069     | ,032 | 2,175 | ,030 |

Source: (Primary data processing, 2022)

## 5 Discussion

Based on the study results, the existence of the PPM Al Kautsar Micro Waqf Bank (BWM) can be a forum for people who do not have collateral when making loans. With the presence of the Micro Waqf Bank, the community is kept away from the entanglement of moneylenders who are very difficult for the community and can help develop their business. Improving the welfare of the community follows the main objective of the Micro Waqf Bank, which is a program of OJK with the government, namely reducing poverty and assisting the community in obtaining business capital loans so that they are more advanced in building and developing their businesses.

Qardh financing provides funds or equivalent claims based on an agreement or agreement between the borrower and the lender that requires the borrower to pay off or return the debt installments after a certain period. The qardh financing model of the PPM Al Kautsar Micro Waqf Bank (BWM) is a group. The payment system is a joint responsibility system with each large group (HALMI) with a minimum of 15 members per group and a maximum of 25 people. Each customer can only borrow IDR 1–3 million. The loan begins with the provision of loan funds amounting to 1 million, which is given without collateral and interest and is enough to be paid in installments once a week with a term of 40 times the payment on a weekly Halakah activity called Halmi. In Halmi activities, officers also assist in business assistance, family economic management assistance, and religious education assistance and play a significant role and positively influence BWM customers’ micro businesses.

The qardh financing provided by the Micro Waqf Bank has a significant effect on the development of micro-businesses in the Al-Kautsar Islamic boarding school environment in Payakumbuh, West Sumatra. This effect can be seen in an increase in customer income, the number of business products, and an increase in operating profit. In addition, through the qardh financing provided, customers gain additional knowledge about spirituality and entrepreneurship. The results of this study are in line with [10]. [11] and [2] which states that qard financing plays a role in the development of micro-enterprises.

This study also found that the control variables of micro-enterprise education and age of micro-enterprises had a positive and significant effect on the development of micro-enterprises. The higher the level of education, the higher their ability to manage their business which affects business development [12] and [13] Based on the research sample, it can be seen that most of them have a high school education so that they can apply the knowledge gained from the guidance and training activities provided in weekly halaqah activities, and this has an effect on business development. Furthermore,

the age of the business, which is the length of time the company operates, also has a significant effect on business development because the longer the business runs, the more experience it gets. This can be seen from more than 50 percent of businesses within the Al Kautsar micro boarding school customers of Micro Waqf Banks that have been operating for more than five years, so it has a positive effect on business development.

## 6 Conclusion

The qardh financing provided by the PPM Al-Kautsar Micro Waqf Bank (BWM) to its customers in the pesantren environment has been used as business capital in developing micro-enterprises that are run. Qardh financing has a positive and significant effect on the development of micro-enterprises. The role of qardh financing on micro-businesses run by customers can increase customer income, total production, and operating profit. In addition, the role of qardh financing provided is to raise spiritual knowledge and knowledge about entrepreneurship. For this reason, it is expected that there will be an increase in the number of recipients and the nominal amount in qardh financing provided by Micro Waqf Banks so that the business they run can develop and innovate.

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