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EFFECTIVENESS OF QARD AL-HASAN FINANCING AS A POVERTY ALLEVIATION MODEL

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Abstract

Poverty has been proven to be one of the most difficult problems to handle. This research tries to reveal the effectiveness of poverty alleviation model via Qard al-Hasan financing conducted by *Baitul Mal Wat Tamwil*. It is a model of free-interest financing which financed by *zakah, shadaqah* and other modes of charity. The result of the study shows that Qardh al-Hasan financing model is effective in empowering the economic activities of the needy. This financing model is supported by the prominent figure in the society and moslem religious leader and the economist. QH financing is potential to be developed further as a poverty alleviation model.

Keywords: Qard al-hasan financing, effectiveness, poverty alleviation
JEL classification numbers: G19, I39

Abstrak

Kemiskinan telah terbukti sebagai salah satu masalah yang sulit untuk diatasi. Penelitian ini mencoba untuk mengungkapkan efektivitas model pengentasan kemiskinan melalui pembiayaan *Qardh al-Hasan* yang dilakukan oleh *Baitul Mal Wat Tamwil*. Model ini merupakan model pembiayaan bebas bunga yang dibiayai oleh *zakat, shadaqah* dan bentuk amal-amal lainnya. Hasil penelitian menunjukkan bahwa model pembiayaan Qardh al-Hasan efektif dalam memberdayakan kegiatan ekonomi bagi mereka yang membutuhkan. Model pembiayaan ini didukung oleh tokoh terkemuka dalam masyarakat dan pemimpin agama Islam dan para ekonom. Qardh al-Hasan berpotensi untuk dikembangkan lebih lanjut sebagai sebuah model pengentasan kemiskinan.

Keywords: Pembiayaan Qard al-hasan, efektivitas, pengurangan kemiskinan
JEL classification numbers: G19, I39

INTRODUCTION

In many countries, including Indonesia, microenterprises (MEs) account for a substantial share of total employment and gross domestic product (GDP), and they contribute significantly to the poverty alleviation (Simmons, 2004). It means that MEs development could be used as one of the most diverse and dynamic approaches to poverty alleviation. MEs can be run by providing small capital, but generally they face difficulties in obtaining financing from commercial bank as microfinance institutions (MFI) provide financing to MEs by charging high interest rate. In addition, its fund provision is still limited (there are

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many MEs in the lowest level cannot obtain financing fund). Microfinance has never been a solution for poverty alleviation, especially when it is charging exorbitant interest rate. It precisely creates burden to the poor entrepreneurs, and in the long run, will force them to continuously face the process of impoverishment. In addition, MEs also face uncertainty (bear the entire business risk) as the lender obtains fixed return regardless of the success or failure of their venture. Considering, it is important providing alternative solution for MEs. Therefore, Islam provides the concept of interst free financing system which was developed based on justice principle, affection, and solidarity particularly for the needy. *Qard al-Hasan* (QH) financing (benevolent loan) constitutes one of the intended financing types which. According to Iqbal (1997), Islamic financing promotes entrepreneurship and risk sharing, and its expansion to the poor could be an effective development tool, or generates effective development impact at the grass roots. QH financing model has been implemented in Indonesia that is by Islamic microfinance Institution, *Baitul Mal Wat Tamwil* (BMT) and also has been implemented in other moslem countries such as al-Akhwat in Pakistan (Mustafa, 2008) and Islamic Relief in Kosovo (Khan and Philips, 2010). Unlike the interest system financing, QH financing views the purpose of prosperity and human affection, facilitating and giving solution which may vouched for the appropriate movement of wealth amongst people in all classes in the community. The Qur'an[2] and the Sunnah[3] have much appreciated and encouraged relating to the implementation of QH in Moslem community.

The efforts of poverty alleviation still have to be continued and need to find new formulas so that the poverty alleviation program becomes more effective. Poverty could not be solved only by providing loan, since it also involves the broader aspects, such as education, information, occation, and moral. It means that poverty alleviation program must be conducted in an integrated model (encompassing moral aspect, spiritual, material, and social economy) and need to involve the other competent parties such as religious (*dakwah*) institutions (for moral aspect) and university (for education). The charracteric of QH financing model is different from other financing models, for some reasons. First, it does not require additional payment to the borrowers when they repay the loan. second, its source of fund is from the social fund (*zakah, shadaqah* and other charity) and it is not based on commercial fund. Third, it fosters affection, brotherhood, and solidarity among fellow being. Therefore, QH financing model is appropriate to help the needy.

The first objectives of this study are to analyze the effectiveness of QH financing for the business development and the improvement of life quality of the QH financing participant, also to identify the affecting factors. The second objective is to analyze the potential source of QH financing fund. The third objective is find out the opinion and commitment of clergy (the leaders of religious *dakwah* institutions) to participate in poverty alleviation program via QH financing.

Islam takes some serious efforts to establish justice and eliminate exploitation in the society and restrain the wealth accumulation in the hand of several people. Therefore, Islam absolutely forbids *riba* which constitutes the root of all injustice in the society. The implementation of QH financing constitutes one of the solutions of *riba.* According to Obaidullah dan Tariqullah (2008), QH financing is suitable for all

[2] For example, in surah Al-Baqarah (2): 245, Al-Taghabun (64): 17, Al-Hadid (57): 18).

[3] Sabiq, Sayid (1987), in Fikih Sunnah 12 (pages: 139 -140) names for examples: Hadits of Moslem, Abu Dawud and At Tirmidzi, Hadist of Ibnu Majah and Ibnu Hibban.

purposes, its capital cost is very low and the borrower will face a very low risk, while the institution will face moderate risk. QH financing can avoid the poor society fall into a debt trap which lead a dance for their life. Thereby, QH financing is proper to be developed as a financing mechanism which involves microenterprises development orientation in order to poverty alleviation. QH financing - which has been implemented in Bosnia & Herzegovina and Kosovo (Khan, 2008) - is expected in order to become an alternative solution in poverty alleviation, since this financing have an advantage in which the borrower is only burdened with a small administrative cost (Ismail and Widiyanto, 2008). According to Farooq (2007) in the cases of QH financing, there shouldn't be any stipulation of excess, especially for needy people forced into a situation to borrow. The other advantage is that the capital source of this financing can be originated from the local community itself - that is from the social fund in the form of *zakah*, *shadaqah* and result of cash *waqf* development – so that the QH financing model does not rely on the government or commercial sources. For example, poverty alleviation program in Yamen it also used the source of fund mentioned above (Hasan, 2007).

It must be understood that MEs development needs an integrated program and it is not enough only by providing financing. Goldmark (2001) asserts that the future of MEs development, however, contemplates an ever wider range of available services, both financial and non-financial through which small business owner can build networks with larger business and more profitable markets. It comprises training, technology access, marketing aid, business advices, monitoring and information. In addition to this, according to Schreiner and Woller (2003), there are two requirements for the business success (ME), i.e. human and financial capital. In line with the opinion, Pulsipher (2004) reveals that business education, training and support services are crucial components of ME development programs. Further, Shaw (2002) clarifies that ME development programs need to be complemented by investment of social and physical infrastructure. In relation with poverty alleviation, Fairly (1998) suggests that MEs should be in a link with other development programs and non-financial business services. It enables MEs to participate in their own transformation, thereby creating a climate of self-confidence and self-reliance. It is very reasonable, since very low income business owners tend to be isolated and marginalized from the active life of the community and thus, their true ability to contribute to the community is systematically ignored. They face obstacles in building networks and relationships which eventually will endanger their survival and success in business. Thus, the construction or development of motivation, attitude and entrepreneurship are very necessary.

According to Sadeq (1991) human welfare cannot be improved in societies that thrive on lawlessness, fetishism and hedonistic pursuits, despite the relative affluence that such society may attain. Human welfare should embrace material and spiritual as well; then output maximization does not only constitute the objective of Moslem society. It means that, the improvement of human welfare needs multi-dimensional approaches. Of course, it encourages more complex program designs that seek to help poor people not only to meet minimum material needs, but also access education (including moral and spiritual) and other services. It indicates that spiritual development via internalizing Islamic moral value in entrepreneur's consciousness also constitutes an important factor of MEs development - which is useful in improvement initiatives in a manner that reinforces values (*akhlaq*) and builds social and human capital. It also motivates the entrepreneurs to hard work, improve the spirit of brotherhood and com-

radeship, honesty and loyalty to God. The result of the study in Bangladesh indicates that imparting Islamic teachings makes the beneficiaries better clients (Ahmed, 2002). Therefore, for this purpose, the involvement of religious (*dakwah*) institutions and Moslem religious leader (*ulama*) are necessary. It is similar to the suggestion of Mask and Borger (2008) about the need of church involvement relating to the effort of ME development and poverty alleviation in Christendom as a result of study in Republic of Dominica, Kenya and the Philippines.

To complete MEs development program conducted by IMFI, the act of preparing social aid system – in the form of *zakah* and *shadaqah* or other charities – is very necessary. In Islamic scheme, *zakah* and *shadaqah* occupy the central position for poverty alleviation. Ahmed (2002) had a notion that IMFI can combine the *zakah* and *shadaqah* institution in microfinancing to provide financial services to the poorest of the poor. *Zakah* can be transferred to the poor as a sincere giving or in the form of QH financing, and also can be benefitted for consumption purposes or investment. According to Laila (2010), as a linkage is established between the MFIs and *zakah* funds, the effectiveness of microfinance towards achieving poverty alleviation would improve. It is clear that the availability of *zakah* and *shadaqah* funds or other charities will be useful for helping the participant of microfinancing, who faces business failure, to pay the instalment and help the needy around the MFIs by creating the social safety net. This model is appropriate with the Islamic dictum in order to ensure equitable distribution of wealth through its social support system, for purpose of mutual guarantee and solidarity (Hasan, 2007).

Another thing which needs to be performed in order to enhance the impact of microfinancing toward poverty alleviation program is as suggested by Hoque (2004) that the supervision of technical and marketing aspect of financing program are necessary - in order that the financing fund will actually be used to activities which generate revenues (productive activities and not to consumptive purposes). The suggestion was asserted after he found that micro-credit program in Bangladesh (Bangladesh Rural Advancement Committee) did not provide a significant impact on poverty alleviation. It happened since most of the loan funds were not used for the right productive purposes. To facilitate monitoring activities (not as giving a guarantee)[4], groups formation of financing participants such as implemented in Grameen Bank is necessary. The other benefits of groups formation is the easy construction process and communication in building good relationship between MFIs and the participants, also amongst the participants. Ahmed (2002) suggests that group formation can be formulated to develop mutual guarantee and solidarity especially for who face difficulties. The finding of Sanyal (2009) shows that group-based ties are more effective than personal ties in promoting the needy.

METHODS

Data and Sample

This research drew upon primary data from MEs which utilised QH financing of BMTs in Central Java Province, the prominent figure of society (moslem religious leader) and the economist from the universities in Central Java. Data was collected by utilizing structured questionnaires. Interview to several managers of BMT which perform QH financing was also executed to complete the needed data relating to potential fund of QH financing (originated from *zakah* and *shadaqah* fund) which is collected by BMTs. The sample of the participant of QH financing (84 persons) was collected from four regencies in which the QH financing has

[4]It has been found that group formation on micro-credit program in Sudan by AZZA (Sudanese Women NGO) was not utilized to bail-out (Schultz et al., 2006).

been implemented and detected (Kendal regency, involved the financing participants of BMT Bismillah, BMT Ben Barokah, and BMT Muamalat; Semarang Municipality, involved the financing participant of BMT Hudatama; Semarang regency, involved the financing participants of BMT Sumber Mulia; and Jepara regency involved the financing participant of BMT Al-Hikmah). The sample of MEs is collected based on the willingness to answer the questionnaire after acquired permission from BMTs. The sample of the prominent figure of society or moslem religious leader (76 persons), who are attached to dakwah institutions, are also collected based on the willingness to answer the questionnaire including the prominent figures of society/moslem religious leaders around the BMT samples, moslem religious leaders who are attached to ulemas council organisation (either in province or regency level) and the other social organisations such as Muhammadiyah and Nahdhatul Ulama leaders. Sampling of the prominent figures of society/moslem religious leaders was intended to know their opinions and commitment to participate in poverty alleviation program via QH financing as well as to know its funding potential. Furthermore, the sample of economists (well educated scholars with doctoral degree, amounting to 69 persons) was taken from several state and private universities in Central Java based on the willingness to answer the questionnaire (Diponegoro University, State University of Semarang, Sultan Agung Islamic University, UNISBANK, Muhammadiyah University of Semarang, and Wahid Hasyim University). The sample of economists is also taken to know their opinion relating to poverty alleviation program via QH financing.

Measurement of Effectiveness of QH Financing

Measurement of effectiveness is performed to evaluate whether QH financing program is able to improve the business performance of MEs (the poor) effectively – that are, who running business in trading, services, agricultural and home industri sector. The effectiveness of QH financing was measured by utilizing paired sample *t* test based on the increase of MEs performance at initial condition and after MEs obtain financing by using business income and profit as indicators. The increase of business performance - in the form of raising a level of income and profit significantly – shows that QH financing is effective and potential for MEs development. Several studies have used paired sample *t* test to evaluate several programs. For example, Kanungo et al., (2001), Taylor et al., (2003), and Coolen et al., (2004) have used paired sample *t* test to evaluate; the effectiveness of a decision support system for credit management; the effectiveness of a resident-led walking program; and the effectiveness of a wheelchair skill training program, respectively. It shows that paired sample *t* test constitutes a very useful method to evaluate an effectiveness of program. Therefore, this method was adopted to analyze the effectiveness of QH financing for developing MEs by pointing out the change of business income and profit of MEs at the first time receiving QH financing from BMT (initial condition) until research was conducted (second condition). Afrane (2003) have used these indicators to assess the impact of micro-credit on MEs, that is, by pointing out the change of performance indicator, such as business income and profit.

Prediction of Business Performance and Affected Factors

Logit model (logistic regression) is utilized to predict whether the MEs achieve high or low performance, as well as to identify the factors affecting the business performance. The result of this model is expected to be able to be used as a prediction basis of variables affecting MEs business performance. Logistic regression has been utilized by many researchers to predict whether the

business will succeed or fail (Lussier, 1995 and 2005; Person, 1999; Choudhury, 2004). It depicts the fact that that logistic regression is able to be used to predict whether MEs achieving high or low performance in business and identify the variables that influence the performance of the business. The advantages in the application of logistic regression can be formulated as follows; According to Hamilton and Khan (2001) logistic regression does not require the strict assumption as is discriminant analysis. Logistic regression requires only the assumption that for each independent variable, all of the observations are independent (no multicollinearity). Logistic regression and discriminant analysis provide very similar, although logistic regression might be more acceptable to senior management. Furthermore, logistic regression does not need normal distribution assumption for its independent variable. So in the case where the normality assumption can be fulfilled, the result of logistic regression approach should more be robust (Green et al., 1998).

To assess the direct impact of QH financing on business performance, researchers adopted model suggested by Marr (2002) by using the business income via comprehend that profit will follow the income of business. In this model, researchers measure the growth rate of business income as a difference of business income, where difference refers to the difference of the first time MEs obtained QH financing (first condition) and the condition when the research was conducted (second condition). This research took seven independent variables in the model, namely size of financing (X_1), business experience (X_2), formal education (X_3), age of entrepreneur (X_4), business control (dummy variable, D_1), marital status (dummy variable, D_2), and religious activities conducted by BMT for motivation (dummy variable, D_3). The model can be formulated as follows:

$$Ln\,[P_i/(1\text{-}P_i)] = b_o + b_1X_{1i} + b_2X_{2i} + b_3X_{3i} + b_4X_{4i} + b_5D_{1i} + b_6D_{2i} + b_7D_{3i} + e_i \quad (1)$$

where, P_i shows the probability that the ith ME will achieve high additional business income. (1 - P_i) shows the probability that the ith ME will achieve low additional business income. MEs are classified into two groups: MEs with high performance in achieving additional business income (additional business income ≥ *median* additional business income of all MEs) with code 1, and code 0 for MEs with low performance (additional business income < *median* additional business income of all MEs), b_0 represents the *intercept*, b_i (i = 1,…,n) represents the *b* coefficient associated with the corresponding explanatory variable X_i (i = 1,…,n), and e_i represents the error term.

RESULTS DISCUSSION

General Outlook of BMT Activities

BMT constitutes Islamic microfinance institution (based on profit sharing principle) which is established by local prominent figure of the society. According to Aziz (2004) conceptually, BMT has dual function – as a *Baitut Tamwil* and as a *Baitul Maal*. It means that BMT has dual missions – business and social. The business mission of BMT is functioning as a financial intermediation which provides financial services such as savings and micro-enterprise financing. While the social missions of BMT are as *amil* (collect and distribute *zakah*), collect and distribute *infaq* and *shadaqah* and provide money on *qard alhasan* financing.

BMTs generally provide several types of saving services and several types of Islamic financing. The type of saving services includes *mudharabah* savings, pilgrim savings, religious offering savings (at rites of *idul adha celebration*), farmer savings, educational savings, pension savings,

etc. On the other hand, BMTs also provide Islamic financing for developing MEs such as *mudharabah, musyarakah, bai'u bithaman ajil*, and QH financing. All of BMTs are able to fully operate their function as a financial intermediation in helping MEs to develop their business. Nevertheless, not all of BMTs are able to operate their function as *amil*. The *zakah* and *shadaqah* funds which have been collected by BMTs are to construct the prosperity of *mosque*, to develop the economy of the needy via QH financing, to develop education via scholarship, to build the candidate of entrepreneur, and to develop the health of society.

Although many BMTs have developed community (*ummah*) empowerment programs through some ways as mentioned above, seemingly the number of BMTs which perform the program of QH financing (for productive activities via MEs empowerment) are still limited. Limitation of zakah, infaq and shadaqah fund (only ranging from IDR 6,000,000 to IDR 13,000,000 per annum) also causes the limited acquiescent number of QH financing (ranging from 10 to 40 persons per BMT), and the limitation of human resources who handle the program of empowerment constitutes the main causal factor why the QH financing have not been performed as productive activities. In addition, the program of QH financing for productive activities (in the short run) did not contribute financial advantage to BMTs directly. So that the development of QH financing for productive activities through MEs financing (the needy) needs a strong commitment from the BMT board and BMT executive, seeing that QH financing not only carry out an economic mission[5] but also social mission[6]. It is expected that the participants of QH financing can improve their prosperity and in the future will become the business partner of BMT on commercial financing which can contribute financial advantage in the future. It encourages BMTs to perform QH financing, although in the short run QH financing does not contribute financial advantage.

On the other hand, in order to achieve their mission, some of BMTs organize religious activities. There are many objectives in implementing religious activities (which vary from one BMT to another) among others are faith improvement, introducing or socializing the *shari'ah* economy, improving the commitment to the *shari'ah* economy, fostering friendship (*silaturrahim*) and communication among participants, etc. Spiritual approach through religious activities is expected to be able to contribute positive impact on community development. All of these activities indicate that in order to develop MEs, BMTs combine material (financial) and spiritual approaches.

The Profile of Micro-enterprises

Generally, micro-enterprises (the participants of QH financing) have different characteristics of gender, age, marital status, and education. They have also developed their business in different sectors based on different experiences.

Gender, Age, Marital Status, Education

The participants of QH financing embrace male and female micro-entrepreneurs with the proportion of female (78.5 percent) which is greater than the proportion of male (21.5 percent). From the age point of view, most of the QH financing participants (67.8 percent) includes micro-entrepreneurs ranged between 31 to 50 years, and those who are less than 30 years old is only 10.7 percent, amounting to 21.5 percent have reached 50 years old. From the marital status point of view, the participants of QH financing embraces married and single or divorced or widowed people. Most of them are married (77.4 percent) and there are

[5] QH financing was performed in order to improve the economic life of the financing participants.

[6] BMT provides aids to the poor and it does not in order to make profit.

22.6 percent of them who are single or divorced or widowed. Furthermore, from the education level point of view, generally the participants of QH financing have showed low level education. The fact shows that there are 54.80 percent of the participants is elementary level graduates; 20.20 percent are junior high school graduates; 22.6 percent is senior high school graduates; and 2.4 percent is university graduates.

Business Sectors

The participants of QH financing run business in different sectors – trading, services, agriculture, and production (home industries). Most of them (86.9 percent) run business in trading sector. The number of participants who run the business in services, or agriculture, or production sector is smaller than those who run the business in trading sector, that is, 2.4, 8.3, and 2.4 percent respectively. It is depicted that BMTs provide more financing to the participants who run business in trading sector rather than the one in service, agriculture and home industry sectors. There are many types of business in each business sectors Such as Trading of chicken noodles, food stall, snack, coconut, fried food, sea food, firewood, second hand product, ice block, chicken, fruits, etc., constitute the form of business in trading sectors. Whereas the form of business in agriculture sector among others are cultivation of mushroon (*jamur kuping*), aquarium fish (*ikan hias*) and goat livestock. Furthermore, there are many types of business in production sector (home industry) among others are jack fruit chips, banana chips, cassava chips, yam chips and *melinjo* chips

Business Experience

Business experience has an important role in developing business in the future. Therefore, generally business experience becomes one of the basic requirements of participant selection. There are 82.14 percent participants who have business experience ranging from one to five years. It is the highest number. Amounting to 10.71, 3.57, and 3.57 percent of the participants have business experience ranging from six to ten years, 11 to 15 years and longer than 15 years respectively.

Effectiveness of Financing

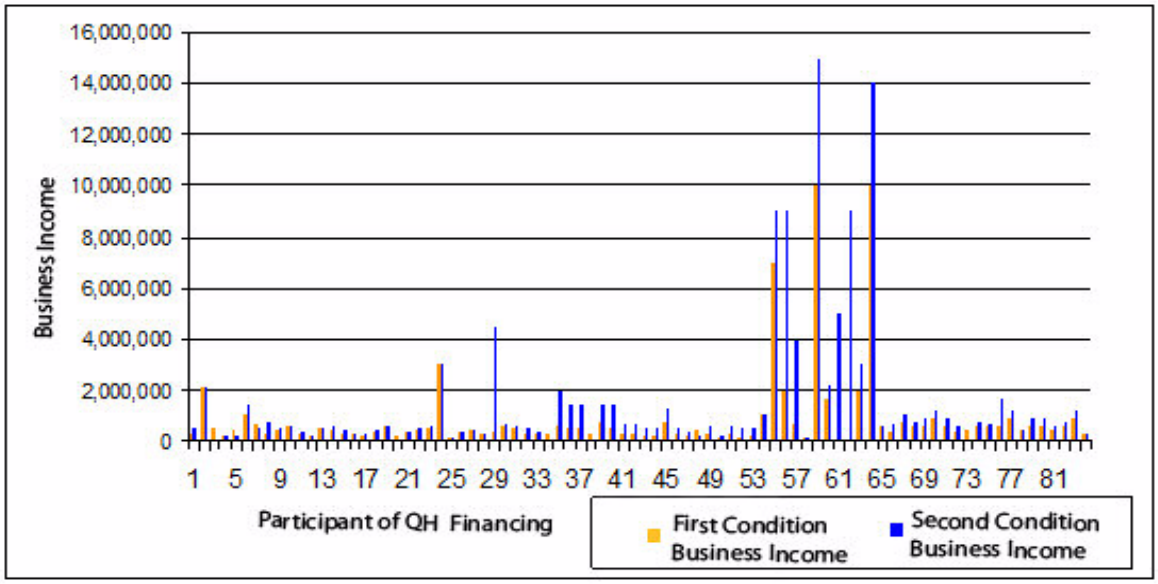
The effectiveness of QH financing (which has been measured by using paired sample *t* test) in developing MEs has been evaluated by by pointing out the change of business performance (income and profit) by comparing the mean value of indicators when MEs received QH financing from BMT for the first time (initial condition) and the condition when the the research was conducted (second condition). It is important to mention that the participants of QH financing are the participants who have not feasibility to obtain the other types of financing (such as *mudharabah, musyarakah, murabahah or bai'u bithaman ajil* financing) so they need to be helped by using QH financing. The results show that the mean of business income and the profit of MEs at the initial condition is significantly different from the mean of business income and profit in second condition (when the research was conducted). The difference can be seen in table 1 (column four).

By using capital from QH financing with relative small value (mean IDR 557,143, with smallest value IDR. 100,000 and biggest value IDR 7,000,000), from the above table 1 it is shown that the business performance of MEs increased significantly by increasing the mean of business income (with difference of mean IDR 673,999) and the mean of profit (with difference of mean IDR 372,560). By percentage, the mean of increasing business income was 78.58 percent and the increasing profit was 98.52 percent. It shows that initial business income and profit is different significantly from the business income and profit when the research was conducted. Figures 1 and 2 will clarify it.

Table 1: Summary of Paired Samples *t* Test of Business Income and Profit of MEs

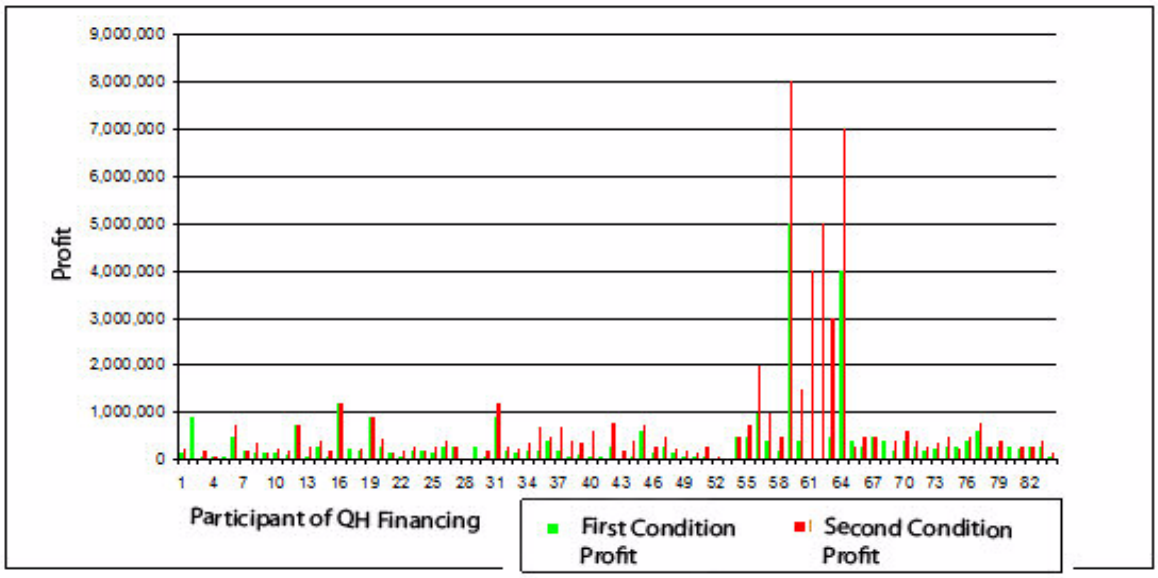
Indicators	Mean 1 (IDR)	Mean 2 (IDR)	Differences of Mean (IDR)	*t*-value
Business Income 1&2	857,500	1,531,488	673,988	3,976 ***
Profit 1&2	378,155	750,714	372,560	4,026 ***

Notes: (1) 1&2 represent the first and second condition of MEs joint to QH financing. (2) *** indicates 1% significant level.
Source: Data Estimation.



Source: Data calculation.

Figure 1: Differences between First and Second Business Income



Source: Data calculation.

Figure 2: Differences between the First and Second Profit

Table 2: Other Benefits of QH Financing

No	Benefit of QH financing	Yes	No
1	Able to pay zakah	56.0%	44.0%
2	Able to pay Infaq	90.5%	9.5%
3	Able to save money	86.9%	13.1%
4	Able to fulfill the basic requirement	92.9%	7.1%
5	Able to pay school fee of the children	57.1%	42.9%
6	Able to pay the cost of medical treatment of household member	66.7%	33.3%

Source: Primary data.

The above result is supported by the evidence that based on the capital (via QH financing) from BMTs, most of MEs (94 percent) state that they can develop their business. This result indicates that QH financing can develop the business of MEs effectively and potentially to be developed further to improve upon the economic of society especially the needy. This finding is in line with the experience of Al-Akhwat (Pakistan) which shows that interest free-loan can be used as an effective tool for against the poverty (Akhtar et al., 2009).

The effectiveness of QH financing can also be indicated from the obtained benefit of the entrepreneurs in relation with their ability to pay *zakah* and *infaq*, to save money, to fulfill the basic requirement, to pay the school fee for their children, and to pay the cost of medical treatment of household members. Generally the percentage of participants who stated that they obtain the benefit is greater than the percentage of participants who state does not. Table 2 shows the benefit which was obtained by the participants of QH financing.

Besides the participants obtained the benefit in the form of increasing material welfare such as have been mentioned above, most of the participants of QH financing also obtained the benefit in the form of spiritual welfare indicated by most of them (77.4%) who were able to increase their religious activity. Islam considers that the welfare is not only welfare in the material point of view, but also spiritual welfare, and what have been mentioned above shows that the implementation of QH financing contributes material and spiritual benefit to the participants. Based on the experienced benefit, most of the participants (96.43 percent) supported the implantation of QH financing to develop MEs, and only small part of them (3.57 percent) did not support it.

The benefit of QH financing is seemingly not only obtained by the participants of QH financing, but it also contributes broader benefit (social and economic) to the society. It can be seen that most of the participants are willing to (are able to) pay *zakah* and *infaq*. *Zakah* and *infaq* funds (which have been paid by the participants) clearly contribute the broader benefit to the other participants who still face the difficulties as a form of mutual guarantee and moreover contribute the benefit to the poor in their neighbourhood (escalating the social security). The existence of *zakah* and *infaq* funds which have been paid by the participants of QH financing and the society around the BMTs will contribute composure and expunge anxiety when the participants get loss and obstacle in running business, since they will get aid from the others. In summary, the above description shows that QH financing is able to help in providing the broader financial services to enhance the prosperity of the poor.

The effectiveness of QH financing can be achieved could probably caused by the application of the QH financing which is accompanied by the selection process, business control, and spiritual construction through religious activities. It means that these factors constitute important compo-

nents which cannot be ignored in the effort to achieve the effectiveness of QH financing. The first is selection process. The selection process comprises administrative selection and interview. Through the selection process, BMTs can select the appropriate participants with the determined criteria so that BMTs can avoid a mistake (miss the target) in distributing QH financing. The second is business control (monitoring). The business control is important to reduce the deviation of the use of fund by MEs for other purposes outside the agreed business and as well as to know the business progress of the participants. The third is giving spiritual motivation through religious activities and building up of the character (*akhlaq*) of micro-entrepreneurs. It is useful to encourage the participants in transforming their self to be more self-reliance, strong-minded and have a good *akhlaq* in running and developing their business. Since the religious activities were conducted massively (for all participants) and periodically, the religious activities will also contribute benefit in developing social capital, that is, formation of network and stronger ties amongs the participants, and broader relationship within the society. All of these will enhance their participation in public affairs.

The above findings are in line with the opinion of prominent figure of society (moslem religious leader) relating to QH financing which generally (more than 96 percent) agree about the development of QH financing for empowering the poor and it is possible to be developed further. Endorsement of prominent figure of society (moslem religious leader) is in line with the endorsement of economists, in which most of them (more than 98 percent) are agree about the development of QH financing for empowering the poor and it can be developed further. So in totality it indicates that QH financing is potential for empowering the needy through MEs development. Endorsement of the prominent figure (moslem religious leader) and the economists will influence the development of QH financing in the future that is by increasing the backing of fund sources and MEs development programs. Therefore, BMTs continually have to develop good relationship and cooperation with the prominent figure (moslem religious leader) and the economists in order to develop financial and social capital.

Logistic Regression

As been mentioned in the previous section, in order to predict the business performance of MEs (high or low) this study used logistic regression. This study has developed model based on business income. The result of the logistic regression analysis is very useful to clarify the effectiveness of financing which was conducted by BMT. Varian Inflation Factor (VIF) was used to detect multicollinearity in logistic regression model. The result shows that all of value of VIF of each independent variable (of 7 variables) is less than 2.5. It indicates that there was no multicollinearity between variables, and therefore these seven variables have been mentioned above can be used to estimate by using logistic regression.

To analyze the factors affecting the business performance of MEs, this study utilized three types of test; Hosmer and Lemeshow Chi-square and Chi-square model test and Wald test. The result shows that Hosmer and Lemeshow *Chi-square* Model is not significant, that is 9.833 (significance level = 0.277). It indicates that the model's estimation fits the data at an acceptable level. Furthermore, the result of chi-square model is significant, that is amounting to 21.168 (significance level = 0.004). The result indicates that the addition of the seven independent variables in the logistic model improves model fitness. In other words, the seven independent variables add or improve the significance to the prediction of outcomes.

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Table 3: Estimated Coefficient of Logistic Model to Differentiate High Business Performance from Low Business Performance

Variable	B	*SE*	Wald	*df*	Sig.	Exp(B)
*X*1 (00,000)	.001	.001	2.933	1	.087	1.001
*X*2	-.141	.077	3.334	1	.068	.869
*X*3	-.077	.101	.583	1	.445	.926
*X*4	-.069	.032	4.671	1	.031	.933
*D*1	-.637	.588	1.173	1	.279	.529
*D*2	-1.105	.721	2.350	1	.125	.331
*D*3	-.164	.553	.088	1	.767	.849
Constant	5.274	2.277	5.366	1	.021	195.111
Hosmer&Lemeshow- Chi-square	9.833				0.277	
Chi-square Model	21.168				0.004	

Notes: *B* is the coefficient of logistic regression, and Exp(*B*) is the odds ratio.
Source: Data estimation.

Based on Wald test (see Table 3), it is indicated that there is only one variable significantly influence the odds of MEs business performance, that is age of entrepreneur (X_4). The age of entrepreneur has a negative impact on the odds of business performance. It means that the higher of the age of the entrepreneur, the lower their ability to improve their business would be. This result is very reasonable, since generally the business activities in micro sector are directly relating to the physical activities of the entrepreneurs. The older people tend to decrease their physical ability.

The other variables such as initial financing, business experience, education level, monitoring, marital status and religious activities have no significant impact on the odds of the business performance of MEs. The initial financing has no impact on business performance. It is estimated to be caused by the variation of QH financing which is too small in which most of micro-entrepreneurs received financing ranging from IDR 200,000 and IDR 300,000 so the impact of financing is invisible. The condition can be seen from the value of beta coefficient (B) which comes near to zero. Education variable also has no impact on the odds of the MEs business performance, it may be caused by the education level of micro-entrepreneurs which is relatively the same - in which most of them have elementary school background. Then the impact of education level on business performance is invisible.

The variable of business experience has no impact on the odds of MEs business performance significantly, it is estimated to be caused by the business experience of micro-entrepreneur which is cliquish between one and five years. Then the variation of business experience is invisible. This condition also applies equally to the variable of business control, marital status and religious activities, in which the data is cliqish .

Potential Funding

Although there are many of BMTs have tried to collect and distribute *zakah* and *shadaqah* funds, but there are not many of BMTs implementing QH financing. In reality, the funds which have been distributed by BMTs for QH financing in productive sectors is relatively still small (ranging from IDR. 6,000,000 to IDR. 13,000,000). BMTs seem have not seen the benefit of implementation of QH financing as an important program. Substantively the greater number of the participants of QH financing,

the greater number of BMTs business partner will be in the future. The participants of QH financing who have got out of QH financing (because of success in running their business) will become more productive (better) business partners. BMTs seem to still view that the implementation of QH financing is an additional burden (responsibility). Only the executive of BMTs who have high commitment in society empowerment (in dimension of social and humanity) and who only realizes the existence of divinity dimension of interest in implementing QH financing. Since based on the financial point of view (in short run) BMTs will not get additional income and profit of QH financing. The other causal factor of why only few BMTs implementing QH financing is the limitation of human resources. So there is an anxiety that the implementation of QH financing precisely will decrease the overall institution performance.

The number of the gatherer institution of *zakah* and *shadaqah* funds which have been organized by Islamic social organisation seemingly becomes the part of causal factor of the small number of *zakah* and *shadaqah* funds distribution to BMTs. Nevertheless it does not mean that the source of fund for QH financing will tighten. It is based on the argument that the prominent figure of society (moslem religious leader) which is merging into Islamic social organisation (around BMT) agree (most of them) that *zakah* fund for the needy (right for the needy) and *shadaqah* fund can be distributed through QH financing in order to educate the needy to be successful (become better off) of their economy. building up close relationship between the BMTs and the prominent figure of the society (moslem religious leader) will bridge source of fund for QH financing in which the prominent figure of society (moslem religious leader) will distribute the *zakah* (right for the poor) and *shadaqah* fund (which has been collected by them) for QH financing. It means that approval of the prominent figure of society (moslem religious leader) concerning QH financing by using source of fund from *zakah* and *shadaqah* constitutes grand potential to the source of fund of QH financing. Nevertheless, it will depend on the proficiency and the commitment of BMTs organizer to perform good relationship with the prominent figure of the society (moslem religious leader) around the BMTs. A good cooperation between BMTs and Islamic society organisation – particularly in procuring the source of *zakah* and *shadaqah* fund and the process of resuscitation to the society –will enlarge fund potential for QH financing. It needs to be conducted since in Indonesia there is no particular act relating to the obligation of moslem citizen to pay *zakah*. Therefore, the procurement of *zakah* and *shadaqah* fund and the process of resuscitation to the society become very relevant, and it constitutes a duty which has divinity and social dimension.

CONCLUSION

Poverty alleviation program has been conducted in many countries through microfinance programs. Providing financial services is expected to be able to help the needy in establishing or developing MEs in informal sector, and help them in enhancing the quality of life or setting free from poverty. However it is deplorable, generally the microfinance programs charging exorbitant interest rate. Vividly this condition precisely creates burden to the poor. Therefore, it is important to provide alternative solution for them. The possible alternative is by providing interest free financing in the form of QH financing. The result of the implementation of QH financing (which has been conducted by BMTs in Central Java area) indicated that it was able to improve the business performance of MEs significantly which is indicated by the increase of their business income and profit accompanied by the increase of the ability

of entrepreneurs to fulfil the basic requirement, to pay *zakah* and *shadaqah*, to save money, to pay school fee for their children and to pay the cost of medical treatment of household members. From the spiritual point of view, most of micro-entrepreneurs were able to improve their religious activities. The involvement in QH financing enhances their material and spiritual prosperity. It indicates that QH financing (in order to MEs development) is potential to be developed further. Most of economists agree with the development of QH financing for empowering the poor via business development. The variable of age constitutes an important variable which needs to be observed, since this variable has a negative impact on business performance. the provision of financing to aged people slated for defend their life only, and it is not to be directed to develop their business.

Relating to the fund of QH financing, currently BMTs still face the limitation of fund. Nevertheless, endorsement and approval of the prominent figure of society on QH financing to empower the needy will bridge source of fund (open an opportunity) for QH financing. By creating a good cooperation between BMTs and the prominent figure of society (moslem religious leader) the potential fund for QH financing will be enlarged. Hard work and high commitment of BMT managers is needed for the success of QH financing.

QH financing is potential to be developed as an instrument of poverty alleviation. Nevertheless the efforts to improve the effectiveness of QH financing is still needed, since it is still found that the business of several participants did not grow (stagnant) and moreover declined. In order to improve the effectiveness of financing, further experiment, which involves certain treatments, is necessary. It is based on the condition that generally the education level of the participants of QH financing was at the low level.

This study has limitation especially relating to the limited number of sample because of the limited number of the QH financing participant. It occurred since the number of BMTs which conducted QH financing for productive purposes was also still limited. Therefore, it still needs a deep study further relating to the QH financing as a comparison.

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