

CHAPTER I

INTRODUCTION

1.1. Background

Islam was the second largest religion in the world after Christianity, with a total of 1.6 billion people or 23% of the world's total population. Although many people associated Islam more with the Middle East and North Africa, almost two-thirds or 62% of the Muslim population actually lived in the Asia-Pacific region. However, in the countries of the Middle East and North Africa, the Muslim population was very dominant, with 93% of the total population in the region or almost 341 Million people are Muslims (Desilver & Masci, 2017)

Islam made up the majority religion of the population in 49 countries around the world. Indonesia was a country with the largest Muslim population in the world, with about 209 million people or 87.2% of the total population. India followed with about 176 million Muslim followers or approximately 14.4% of the total population of India. (Desilver & Masci, 2017).

With a Muslim population of 209 million, Indonesia had great potential for ZISWAF funds (*Zakat, Infaq, Sadaqah* and *Waqf*). Firmansyah (2009) estimated the potential for Zakat by accepting zakat levels of at least 2.5% of each Gross Regional Domestic Product (GRDP) as follows: 1) Agricultural zakat levels amount to 2.5% of the GRDP value of the agricultural sector; 2) Mining zakat level was 2.5% of the GRDP value of the mining sector; 3) Zakat in other sectors was 2.5% for each sectors. Firdaus et al. (2012) showed the overall potential of zakat in Indonesia from various sources, namely household income, corporate income and savings estimated at Rp. 217 trillion annually, which was equivalent to 3.4% of the Indonesian GRDP in 2010. However, Center for Strategic Studies of the National Zakat Agency (Puskas Baznas) in 2017 noted that the potential for zakat in Indonesia reached Rp.286 trillion per year, bigger than previous research.

If the potential of Rp. 286 Trillion of Zakat fund could be managed appropriately, the fund could be used as a response to alleviate poverty, which was a current fundamental problem of Indonesia, since Zakat actually targets people who are considered poor. As of Allah SWT in Surat At-Taubat (9): 60:

“Zakah expenditures are only for the poor and for the needy and for those employed to collect [zakah] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler – an obligation [imposed] by Allah. And Allah is Knowing and Wise.”

(Translation from Sahih International for Surah At-Taubah (9):60)

However, in the reality, the absorption of Zakat fund has not been optimal yet. During the year of 2017, the absorption of Zakat fund that noted in BAZNAS's data was only Rp. 6 Trillion, very far below the estimated amount that BAZNAS noted. Only 2.09 percent of the Rp. 286 Trillion of zakat fund estimation from BAZNAS could be collected.

The Zakat, in fact, had not been able to overcome poverty in Indonesia yet. In March 2018, the Central Bureau of Statistics had noted that the poverty rate was at 9.82 percent¹. However, often missed by the media attention was the definition of BPS's "absolute poverty" and the blurring of the actual number of poor.

The national poverty line in March 2018, which resulted in a poverty rate of 9.82 percent, was IDR 400,995². The Central Bureau of Statistics of Indonesia or BPS defined the poverty line, "used as a limit to classify the population into poor or not poor. The poor are residents who have an average per capita expenditure per month below the poverty line." This meant that the expenditure of Rp. 401 thousand was enough to increase the status from poor to near poor. There were few standard deviations or irregularities depending on local needs. For Bandung, the poverty line was Rp 420,576, which meant that the income of Rp. 421 thousand in the city with Rp. 3.09 million of Regional Minimum Wage was enough to save people from the poverty line, and ironically, Bandung was a city that, according to the BPS of West Java, had the second lowest poverty rate, after Depok, of 4.17 percent (www.bandungkota.bps.go.id, 2017).

However, if the poverty limit was changed using the middle income poverty line standard of World Bank with a figure of USD 3.9 or IDR 56 thousand per day, Indonesia's poverty rate will increase dramatically to 30 percent in 2016. Indonesia

¹ Data From Badan Pusat Statistik Nasional in Month of March 2018

² Data From Badan Pusat Statistik Nasional in Month of March 2018

was even inferior to Vietnam by 11 percent. Even Thailand only had 1 percent of the population with income below USD 3.9 (Ahong, 2018).

Furthermore, the GINI Ratio of Indonesia in March 2018 was 0.389. It decreased from the previous year with 0.391 point of the GINI Ratio (Oxfam Indonesia, 2017). Compared with the economic growth of 5.27 percent³ in second quarter in 2018 (Thertina & Reily, 2018), the economic gap in Indonesia was still in a high level. It meant the level of economic inequality of Indonesia was 38.9% out of the total population.

The GINI Index or GINI coefficient was a statistical measure of distribution developed by the Italian statistician Corrado Gini in 1912. It was often used as a gauge of economic inequality, measuring income distribution or, less commonly, wealth distribution among a population. The coefficient ranged from 0 (or 0%) to 1 (or 100%), with 0 representing perfect equality and 1 representing perfect inequality. Values over 1 were theoretically possible due to negative income or wealth (www.investopedia.com, n.d.).

³ Data from Badan Pusat Statistik Nasional in Month of August 2018



Figure 1. 1. GINI Ratio of Indonesia
(Data Source: Oxfam Indonesia)

Poverty in Indonesia was not only reflected in the middle income poverty line standard of World Bank and the GINI ratio. Indonesia was also the country in the fourth position as the country with the greatest inequality in the world, with data from 1% of Indonesia's richest people controlling 49.3 percent of national wealth. This condition is only better than Russia, India and Thailand. When it was pulled-up to 10 percent of the richest, its control reached 75.7 percent. (Credit Suisse Global Wealth Databooks, 2017).

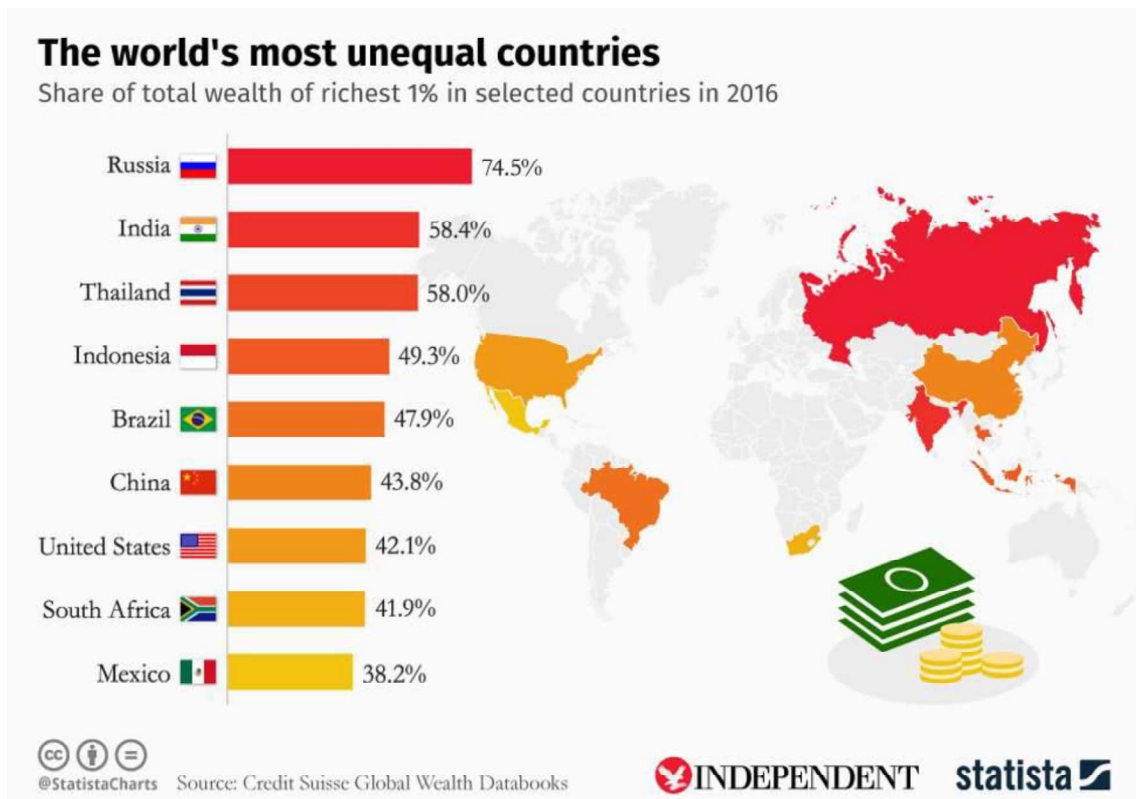


Figure 1. 2. The World's Most Unequal Countries

Source: www.independent.co.uk

The Muslims, as the biggest religion population in Indonesia, ironically contributed only 12 percent of the total economy of Indonesia (Dahuri, 2016). From the 50 of the Richest in Indonesia, only 8 people were Muslims (Tanjung, 2017). The data showed that the contribution of Muslims of Indonesia in the national economic was less contributed. Furthermore, the data indirectly said that Muslims in Indonesia is the biggest contributor of the national poverty index.

Bandung, as the 4th biggest city in Indonesia and the biggest city in West Java province, faced a poverty problem of 117 thousands of household or 444 thousands of people living under poverty line⁴. This number represented 8.1% out of the total population of Bandung City.

In 2017, the Bandung City Government had a target in poverty alleviation efforts in the city of Bandung. To solve this problem, the Bandung City Government organized the "Kredit Mesra" program as a step to provide convenience in igniting and developing micro businesses. This program targeted efforts to improve the welfare of the community through the empowerment of mosque-based microfinance institutions. By involving Bank Perkreditan Rakyat Kota Bandung, the *Kredit Mesra* program was faced with the ability to run in 4000 mosques in the city of Bandung that had served over than 2130 beneficiaries⁵ and be expected increasing in the future since the total mosque and *mushala* in Bandung City that reached almost 6300 mosques and *mushalla*⁶, with the eligible mosque to run this program was around 4500 mosques⁷. The involvement of mosques in the '*Kredit Mesra*' program was connected by the MUI of Bandung City in recommending the mosque management to form a Sharia Cooperative (Baitul Maal wat Tamwil) and the Jamaah to become Customers of the Cooperative.

The Bank Perkreditan Rakyat as a Regional-Owned Enterprise (BUMD) of the city of Bandung on a conventional basis became the main instrument in sustaining the operation of the *Kredit Mesra*. Its position as a party that provided loans to those who needed the loan through the second instrument, namely sharia cooperative. The Sharia Cooperative Instrument was an agency formed through coordination of the management of mosque so that sharia cooperatives could be established as an administrative place for distributing funds to customers. In short words, PD BPR acted as channelling function of fund through the sharia cooperatives and MUI's administration to be distributed to the debtors on condition that the debtor must be a member of the mosque congregation and had a productive business.

From the characteristic of the contract that used, the Kredit Mesra was classified as a loan that used the *Tabbaru'* contract as its principle. In detail, the Kredit

⁴ Basis Data Terpadu Nasional, 2017

⁵ PD BPR Kota Bandung, December 2018

⁶ Sistem Informasi Masjid, Kementerian Agama Republik Indonesia, 2017

⁷ Majelis Ulama Indonesia, Kota Bandung, 2018

Mesra was classified as *Al-Qardh Al-Hasan* or Soft and Benevolent Loan as its sharia' foundation law. It was caused that the creditor only required payment of the loan amount from the beneficiaries without any profit sharing or interest requirements. According the research that held by Said and Mahmuddin (2015), the attention to the development of SMEs through the *qardhul hasan* instrument is based on the fact that SMEs has a greater power to reduce social and economy disparities, unemployment and decreases poverty rate.

In sharia' principle, the granting of Kredit Mesra as a loan to stimulate the *ummah's* economic empowerment was a *muammalah* activity in economic sectors by its nature. The community economic empowerment through SMEs sector became the focus of Kredit Mesra granting.

The government should, as could as possible, create an economic equilibrium by supplying the poor and eliminating dependence on others in their economic performance. Islam had forced the circulation of wealth to all members of society and prevents the circulation of wealth on only a handful of people (only rich people) or conglomerate systems. If in a society that experienced a large gap in the satisfaction of their needs, then the country had to take responses to avoid it, through creating economic equality in the community. As of Allah SWT in the Al-Hasyr (59:7): "...so that it will not be a perpetual distribution among the rich from among you..." (al-Nabhani, 1996).

Islamic economic empowerment became a critical aspect in shaping the Indonesian economy, and the city of Bandung in particular, because the Muslim population in the city of Bandung reached 2,207,375 people or 91.8 percent of the total population of the city. Through the launching of the *Kredit Mesra* program, the City of Bandung expected to be able to build its economy, on the other hand, to create the economic equilibrium in its city, so a large economic gap would not be formed in the society.

Furthermore, through *Kredit Mesra* program, a holistic approach was used by the Government of Bandung City in empowering the micro-small economic level community, particularly they who come from Muslims society. The mosque-based empowerment approach is jointly integrates economy, social, and spiritual aspect by mean to function the mosque as the central place of worship and to reinforce the social awareness, and to shape good conduct and behaviour of the *ummah*. In addition, it is

also meant to build the awareness of the Muslim community on the importance of unifying the spiritual, social and economy aspects. (Said & Mahmuddin, 2015). Indeed, mosques do not only act as a centre of religion and worship of Muslims, but also as a centre for the development and activities of *ummah* in the fields of social, educational, economic, political, and defence, as narrated in *Al-Sira Al-Nabawiyya*. From the research held by Amaney Jamal (2005), the religious aspect not only touches the soul more and builds or constructs the awareness based on the feeling rather than the mind, but also, as explained by Bagby (2004), has a stronger bonding power for the community because there are deep spiritual dynamics, resulting in a feeling of community.

Based on the background above, the Researcher was interested to investigate how the financial treatment given by Bandung City Government, namely Kredit Mesra, becoming able to empower the economy of its beneficiaries. Based on the lending scheme of the Kredit Mesra program, the Researcher gave the title of this research: **“MODEL IDENTIFICATION OF ECONOMIC EMPOWERMENT BASED ON SHARI’A FINANCING: A CASE STUDY ON THE BENEFICIARY OF ‘MESRA SOFT LOAN’”**.

1.2. Problem Questions

1. How to identify the model of economic empowerment based on sharia’ financing?

1.3. The Objectives of Research

Based on the problem question mentioned, this study aimed to identify and to understand the model of economic empowerment based on sharia’ financing scheme that given to its beneficiaries.

1.4. The Significance of Research

This study would give a critical impact to the theoretical and practical use in the society.

From the theoretical aspects, this study would help the academicians improving their knowledge in understanding the model of economic empowerment based on sharia’ financing scheme because the topic about sharia’ economic system was a

booming economic system that could exceed the conventional economic system. This study also gave an additional reference and a suggestion material to the further researcher, especially to them who were interested to study in the same field of research. It was caused the study of sharia' financing scheme in an economic empowerment model was rarely used as a study object.

However, this study also gave a contribution in practical aspects. This study was expected to give a contribution and suggestion to the Government of Bandung City to explore deeper of the potential aspects that might be owned by Kredit Mesra program and gave an evaluation to the government for its Kredit Mesra program. The beneficiaries of the Kredit Mesra program were expected being stimulated through this study as an input to them in exploring and improving the productivity of their business that helped through the Kredit Mesra program

1.5. Limitation of Study

The Kredit Mesra program had several problems by its sharia' principles, legal, and source of fund aspects. However, the study would be limited to focus in identifying the model of economic empowerment based on sharia' financing scheme on the beneficiaries of Kredit Mesra itself. This research was focused to be conducted in Southern Bandung Area that contained five districts which had the highest density of population in Bandung City.

1.6. Writing System

The writing system aimed to ease the readers in understanding the content of the study. This research was composed into 5 chapters with the following details:

CHAPTER I: INTRODUCTION

This chapter explain the results of literature review related to the topic and variables of the study was a general explanation of the research briefly. It was contained the object overview, background, problem question, the objectives of the research, the significance of the research, the limitation of study, and the writing system.

CHAPTER II: LITERATURE REVIEW

This chapter explained the results of literature review related to the topic and variables of the study. The literature review contained the discussion of the theories and the analysis that supported the understanding of this study. This chapter contained the

theoretical framework, similar previous research, conceptual framework, and scope of research.

CHAPTER III: RESEARCH METHODOLOGY

This chapter affirmed the approaches, methods and techniques used to collect and analyse data that could answer and explain research. This chapter contained the types of research, research instruments, research stages, research respondents, data collection, validity and reliability testing, and data analysis techniques.

CHAPTER IV: RESEARCH FINDINGS AND ANALYSIS

This chapter discussed the research findings and analysing data obtained during the study.

CHAPTER V: CONCLUSION

This chapter contained conclusions and the results of research that had been conducted, suggestions to the object of research and suggestions for further research.