

NON-PERFORMING FINANCING, *QARDH* LOAN AND ZAKAT: ANALYSIS OF *QARDH* LOAN PRACTICES AT BAZNAS MICROFINANCE PROGRAM

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Abstract

The Financial Services Authority (OJK) has documented a rising trend in sharia financing over the last four years, encompassing both Sharia Commercial Banks and Sharia Business Units. This increase is evident in both the financing amounts and the financing health ratio. According to OJK's Sharia Banking Statistics (SPS) report, there has been a general rise in financing, which includes contracts like *mudharabah*, *musyarakah*, *murabahah*, *qardh*, *istishna'*, and *ijarah*, alongside a reduction in Non-Performing Financing (NPF) from 2020 to 2023. In Islamic finance, NPF refers to financing that fails to generate income for Islamic financial institutions due to customers not fulfilling their payment obligations, categorized as substandard, doubtful, and bad debts. BAZNAS Microfinance Desa (BMD) acts as an alternative financing source, complementing Islamic banks and non-bank Islamic financial entities like Baitul Mal wat-Tamwil (BMT), which were established earlier. BMD is a program by the National Amil Zakat Agency (BAZNAS) aimed at distributing productive zakat funds through a *qardh* loan financing model. This study examines the *qardh* loan practices in BMD Bedono, Central Java, in relation to the financing health ratio factor, Non-Performing Financing (NPF). The *qardh* loan practices using zakat funds show distinct dynamics at the community level, where zakat, as a tool for poverty reduction, is interpreted differently based on the *fiqh* perspectives adopted. This variation affects the collectability of BMD financing, leading BMD to establish a new standard for the quality ratio of problematic financing debts, called Non-Performing *Qardh* (NPQ). NPQ indicates the quality ratio of financing debts derived from zakat funds. However, this study does not explore NPQ theory in a formal legal context, unlike NPF developed by regulator. This limitation provides an opportunity for further research on different topics.

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Introduction:

The utilization of zakat funds for financing is a compelling area of research, mainly due to two reasons. Firstly, the financing involves a *qardh* loan contract; secondly, the source of these funds is zakat, which has led to significant *fiqh* debates about whether zakat funds can be used for loans. These factors have given rise to a new health ratio theory known as Non-Performing *Qardh* (NPQ), which serves as a measure or health ratio for financing, complementing existing ratios like Non-Performing Loan (NPL) in traditional banking and Non-Performing Financing (NPF) in the Islamic finance sector. NPQ was developed in response to challenges associated with financing through zakat funds, which often result in a high NPF.

The discussion on whether zakat funds, which ideally should not be repaid, can be utilized as loans has created a niche for research. The broader application of *qardh* loan financing to benefit a larger group of recipients opens new research opportunities. According to Bank Indonesia, financing involves providing funds or claims equivalent to funds through profit-sharing transactions such as *mudharabah* and *musyarakah*, leasing transactions like *ijarah* or lease-to-own in *ijarah muntahiya bittamlik*, sale-and-purchase transactions such as *murabahah* and *istishna'*, loan transactions in the form of *qardh*, and service-leasing transactions in the form of *ijarah* for multi-service transactions. These transactions are based on agreements between Sharia Commercial Banks (BUS) and/or Sharia Business Units (UUS) and other parties, requiring the financed party and/or the recipient of the fund facility to repay the funds within a specified period, with a return in the form of fees (*ujrah*), no return, or profit-sharing.

Qardh, as mentioned in the fatwa of the National Sharia Council of the Indonesian Ulama Council (DSN-MUI) NO: 19/DSN-MUI/IV/2001, is a loan provided to a customer (*muqtaridh*) in need, who is obligated to return the principal amount received within the agreed period. The question then arises: Can zakat be used for *qardh*? This issue is addressed in the Indonesian Ulema Council (MUI) Fatwa Number: 71 of 2022 regarding the permissibility of distributing zakat funds through the *qardh* mechanism. The fatwa states that zakat mal funds not yet distributed by *amil* to *mustahik* can be utilized through the *qardh* scheme, under the following conditions:

- a. There is no urgent need for *mustahik* in the surrounding area.
- b. The *amil* acts as the *muqridh*, and the *mustahik* acts as the *muqtaridh*.
- c. Zakat funds used for *qardh* financing must come from the *gharimin* category of zakat recipients.
- d. The *amil* ensures that the *muqtaridh* has the ability to repay the loan.
- e. The *amil* has not yet recorded the zakat funds as distributed.
- f. The *amil* is responsible for guaranteeing the return of zakat funds so they can eventually be distributed to *mustahik*.

It is evident that zakat may be utilized through a *qardh* loan scheme. The issue, however, lies in whether the MUI fatwa on this matter has been effectively disseminated and accepted by the public, especially by financing beneficiaries. This is an area that warrants further investigation. This study does not focus on this particular aspect but rather on the implications of zakat understanding, which impacts low financing repayment rates. It also examines the response to the financing health ratio, which has traditionally relied on Islamic banking approaches through the NPF concept, considered insufficiently relevant for measuring the health ratio of financing based on zakat funds, leading to the emergence of NPQ.

The National Amil Zakat Agency (BAZNAS) is a non-structural government agency tasked with managing zakat, encompassing planning, implementation, and coordination in terms of collection, distribution, and utilization of zakat. One form of zakat utilization is the financing program using a *qardh* scheme. This program is designed to provide capital access to *mustahik* MSMEs in rural areas. It is known as the BAZNAS Microfinance Desa (BMD) program, which currently operates in 26 locations across Indonesia. This study will focus on BMD Bedono in Central Java.

Literature Review

Qardh Loan Practices and NPF Analysis in Islamic Financial Institutions

It is interesting to observe the financing and NPF reports based on contract types from both Shariah Commercial Banks (BUS) and Shariah Business Units (UUS) as released by the Financial Services Authority (OJK) in the July 2024 Islamic Banking Statistics. These statistics contain monthly financial reports for Islamic banking, covering financing with contracts such as *mudharabah*, *musyarakah*, *murabahah*, *qardh*, *istishna'*, *ijarah*, and *salam*. The table below focuses on the *qardh* product compared to total financing.

Table 1. Financing and NPF on *Qardh* - Shariah Commercial Banks and Shariah Business Units (in billions)

Indicator	2020	2021	2022	2023
Financing	11,872	11,920	13,438	15,866
NPF	294	354	425	568
NPF %	2.48%	2.97%	3.16%	3.58%
Financing Total	383,944	409,878	491,489	568,436
NPF Total	11,844	10,540	11,343	11,596
NPF % Total	3.08%	2.57%	2.31%	2.04%

Source: Sharia Banking Statistics, Financial Services Authority, July 2024

From the table above, we can see that the financing value, including *qardh* loans, in Shariah Commercial Banks (BUS) and Shariah Business Units (UUS) has increased year on year. The total financing of BUS and UUS rose by 6.75% in 2021 compared to the previous year, then surged by 19.91% the following year. However, the increase somewhat tapered to 15.66% in 2023. Total NPF improved significantly each year, decreasing from 3.08% to 2.57% in 2021 and then to 2.31% in the following year. By the end of 2023, NPF improved further to 2.04%. This declining trend is an indicator of good performance for BUS and UUS over the past four years.

However, not all financial products or services show a declining NPF trend as seen in the total NPF. This issue is experienced with *qardh* and *istishna'*. For *qardh*, the NPF trend has been increasing over the last four years. The NPF for *qardh* rose from 2.48% to 2.97% in 2021, then again to 3.16% the following year. By the end of 2023, the NPF for *qardh* increased to 3.58%. This upward NPF trend indicates that the health of *qardh* loan financing in BUS and UUS is currently less favourable, although still safe under the regulator's standard of 5%.

Non-Performing Financing (NPF) is a financial ratio used to measure the quality of financing in Islamic banks. NPF reflects financing risk, where a higher NPF indicates lower financing quality (Hasanah et al., 2017). NPF is one of the financial ratios in banks that determines the bank's performance and the level of health in Islamic banking.

NPF significantly impacts the profitability of Islamic banks. Several studies show varied results concerning the effect of NPF on profitability. One study found that NPF does not always impact profitability due to the relatively small amount of problematic financing (Afkar, 2018). However, another study showed that NPF impacts Return on Assets (ROA) by 8.4% with a significance level of 0.361 (Qodari, 2022).

The factors influencing NPF include both macro and micro variables. In the long term, significant variables affecting NPF include exchange rates, the Industrial Production Index (IPI), inflation, Shariah Bank Indonesia Certificates (SBIS), Financing to Deposit Ratio (FDR), and Capital Adequacy Ratio (CAR) (Poetry & Sanrego, 2014). Additionally, GDP growth and the ratio of murabahah financing allocation to profit-sharing financing allocation also have a significantly negative effect on NPF (Sulastris et al., 2016). To address NPF, Islamic banks need to have the right strategies, including focusing on one main issue (Bangun & Angraini, 2023; Bangun et al., 2022).

Research Method

This study uses a descriptive quantitative method. Data were obtained from the financial reports of BMD Bedono for the years 2021 - 2023. The data were collected at the end of September 2024. The analysis was conducted by calculating the NPF and NPQ ratios, then categorizing customers (hereafter referred to as beneficiary partners) based on financing collectibility.

Location and Time of the Study

The study was conducted on BMD Bedono which is established in 2019. BMD Bedono has 574 beneficiaries, respectively, spread across 10 subdistricts, and 48 villages.

Table 2. Distribution of Beneficiaries' Locations in BMD Bedono

Subdistrict	Village	Number of Beneficiaries (persons)
Bonang	Jali	37
	Morodemak	3
	Poncoharjo	3
	Purworejo	60
	Tlogoboyo	1
	Tridonorejo	1
	Weding	3
	Wonosari	1
Demak	Betokan	1
	Bintoro	6
	Cabean	1
	Karangmlati	3
	Katonsari	3
	Mangunjiwan	5
	Raji	1
	Kadilangu	6
	Kalicilik	8
	Kedondong	10
Guntur	Turitempel	2
Karangtengah	Batu	63
	Karangsari	2
	Karangtowo	24
	Wonoagung	45
	Wonokerto	2
	Sokokidul	5
Kebonagung	Mangunrejo	11
Sayung	Bedono	70
	Gemulak	7
	Loireng	2
	Prampelan	53
	Tambakroto	2
	Timbulsloko	28
	Berahan wetan	1
Wedung	Buko	4
	Mandung	78
	Ngawen	3
	Wedung	5
Wonosalam	Botorejo	7
	Jogoloyo	4

	Kalianyar	1
	Karangrejo	7
	Karangrowo	1
	Kendaldoyong	11
	Mranak	1
	Wonosalam	15
	Sidomulyo	1
Karanganyar	Ngaluran	1
Mijen	Ngelowetan	1
	Jumlah	574

Source: Data on the distribution of BAZNAS RI utilization

Figure 1. Map of the Distribution of Beneficiaries in BMD Bedono



Source: Data on the distribution of BAZNAS RI utilization

Measuring Non-Performing Financing and Non-Performing *Qardh*

Measuring Non-Performing Financing (NPF) and Non-Performing *Qardh* (NPQ) essentially uses the same calculation method, which is the total amount of problematic financing (substandard, doubtful, and impaired) divided by the total financing.

$$NPF = \frac{\text{Financing (ls,d,b)}}{FT} \times 100\%$$

ls = less smooth collectibility

d = doubtful collectibility

b = bad collectibility

FT = financing total

OJK formulates the categories of less smooth, doubtful, and bad collectability in the Indonesian Financial Services Authority Regulation Number 35/POJK.05/2018 on the Implementation of Financing Company Business, Article 92 paragraph 3 points c, d, and e, which reads:

c. less smooth if there is a delay in the payment of principal and/or interest that has exceeded 90 (ninety) calendar days up to 120 (one hundred twenty) calendar days;

d. doubtful if there is a delay in the payment of principal and/or interest that has exceeded 120 (one hundred twenty) calendar days up to 180 (one hundred eighty) calendar days; or

e. bad if there is a delay in the payment of principal and/or interest that has exceeded 180 (one hundred eighty) calendar days.

Standard analysis indicators

OJK also provides a standard for problematic financing receivables or NPF with a maximum of 5%, as stated in the Indonesian Financial Services Authority Regulation Number 35/POJK.05/2018 in Article 95 paragraph 3, which reads:

"The Financing Company must, at all times, maintain the ratio of Outstanding Principal with problematic financing receivables (non-performing financing) as referred to in paragraph (2), after deducting the provision for bad debts that have been established by the Financing Company for receivables with less smooth, doubtful, and bad qualities compared to the total Outstanding Principal, with a maximum of 5% (five percent)."

Therefore, it is clear that an NPF above 5% falls into the unhealthy category, which means that the Islamic Financial Institution managing that financing is not in a good state.

In the NPF ranking assessment criteria, it can be illustrated as follows:

- Rank 1: $NPF < 2\%$
- Rank 2: $2\% \leq NPF < 5\%$, the rank where the financing is still considered healthy or good.
- Rank 3: $5\% \leq NPF < 8\%$
- Rank 4: $8\% \leq NPF < 12\%$
- Rank 5: $NPF \geq 12\%$

Referring to the Guidelines for the Initiation, Management, and Development of BAZNAS Microfinance Desa (BMD), the maximum healthy ratio for non-performing qardh (NPQ) is below 10%, as explained in the following table:

Table 3. Rankings in NPQ Compiled by BMD

Rank 1	$NPQ < 5\%$	Very Good (VG)
Rank 2	$9,9 < NPQ < 5\%$	Good (G)
Rank 3	$14,9 < NPQ < 10\%$	Fairly Good (FG)

Rank 4	19,9 < NPQ < 15%	Less Good (LG)
Rank 5	NPQ > 20%	Not Good (NG)

Source: Guidelines for the Initiation, Management, and Development of BAZNAS Microfinance Desa (BMD), 2023

RESULTS AND DISCUSSION

NPF and NPQ of the BMD Bedono Program 2021 (accumulation: 2019-2021)

$$NPF = \frac{\text{Financing (ls,d,b)}}{FT} \times 100\%$$

$$ls = 0$$

$$d = 0$$

$$b = 31,957,000$$

$$FT = 578,000,000$$

$$NPF = \frac{31,957,000}{578,000,000} \times 100\%$$

$$NPF = 5.53\%$$

NPF and NPQ of the BMD Bedono Program 2022 (accumulation: 2019-2022)

$$NPF = \frac{\text{Financing (ls,d,b)}}{FT} \times 100\%$$

$$ls = 0$$

$$d = 0$$

$$b = 153,067,000$$

$$FT = 1,422,000,000$$

$$NPF = \frac{153,067,000}{1,422,000,000} \times 100\%$$

$$NPF = 10.76\%$$

NPF and NPQ of the BMD Bedono Program 2023 (accumulation: 2019-2023)

$$NPF = \frac{\text{Financing (ls,d,b)}}{FT} \times 100\%$$

$$ls = 61,250,000$$

$$d = 23,250,000$$

$$b = 169,967,000$$

$$FT = 1,622,000,000$$

$$NPF = \frac{266,467,000}{1,622,000,000} \times 100\%$$

$$NPF = 16.43\%$$

From the calculations above, the NPF and NPQ for BMD Bedono for the operational years 2021 until 2023 are as shown in the table below:

Table 4. NPF and NPQ of BMD Bedono for the years 2021-2023

Indicator	2021 accumulation: 2019-2021	2022 accumulation: 2019-2022	2023 accumulation: 2019-2023
Less smooth collectibility	0	0	61,250,000
Doubtful collectibility	0	0	23,250,000
Bad collectibility	31,957,000	153,067,000	169,967,000
Financing Total	578,000,000	1,422,000,000	1,622,000,000
NPF dan NPQ	5.53%	10.76%	16.43%
NPF	Not Good	Not Good	Not Good
NPQ	Good	Fairly Good	Less Good

Source: BMD Installment Monitoring Dashboard

Conclusion

BMD Bedono experienced an increase in NPF/NPQ 2021-2024, from 5.53% in 2021 to 16.43% in 2023 indicating not good performance in its health. BMD Bedono showed increase in NPF/NPQ in 2022-2023 it means that BMD Bedono requires continuous efforts to further reduce the still high NPF in order to reach below 5%. From the NPQ perspective, BMD Bedono has already entered the "Good" category, under 10% in 2023, but become "Fairly Good" and "Less Good" in next years.

Recommendations:

1. Improve monitoring and evaluation of financing periodically to ensure NPF and NPQ remain below standards for BMD Bedono.
2. Develop risk mitigation strategies to anticipate potential increases in NPF and NPQ in the future.
3. Provide guidance and assistance to beneficiaries to maintain financing quality.
4. Advocate for the NPQ nomenclature to be established as a financing health ratio specific to zakat-based funds by the regulator.

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