

## THE EFFECTIVENESS OF VILLAGE MICROFINANCE FINANCING PROGRAM BY BAZNAS IN ENCOURAGING THE DEVELOPMENT OF MICRO-ENTREPRISES

Jasri<sup>1</sup>, Andi Syarifah Wahdah<sup>2</sup>, Abdul Malik<sup>3</sup>  
[jasri@unismuh.ac.id](mailto:jasri@unismuh.ac.id)<sup>1</sup>, [andisywahdah02@gmail.com](mailto:andisywahdah02@gmail.com)<sup>2</sup>, [abdulmalik@unismuh.ac.id](mailto:abdulmalik@unismuh.ac.id)<sup>3</sup>

### Abstract

This research aims to identify how the implementation of the village microfinance program by Baznas affects the development of micro-enterprises owned by the beneficiaries in BAZNAS Maros Regency. The research methodology employed in this study involves a qualitative approach with a descriptive nature. Data collection methods include observations, face-to-face interviews, and documentation. The research findings reveal that the execution of the Village Microfinance program by the National Zakat Agency in Maros Regency significantly contributes to micro-entrepreneurs in enhancing their businesses, especially those facing difficulties in accessing capital. The program also assists micro-entrepreneurs in mitigating the decreased income impacts caused by the COVID-19 pandemic. In addition to financial support, beneficiaries entering the micro-business sector also receive market access support from the BAZNAS Village Microfinance program, aiding them in promoting their commercial products more effectively.

**Keywords:** BAZNAS, Mikrofinance, Micro Enterprises, Zakat

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<sup>1,2,3</sup> Universitas Muhammadiyah Makassar and Jl. Sultan Alauddin No. 259, Gn. Sari, Kec. Rappocini, Kota Makassar, Sulawesi Selatan

E-mail: <sup>1</sup>[jasri@unismuh.ac.id](mailto:jasri@unismuh.ac.id), <sup>2</sup>[andisywahdah02@gmail.com](mailto:andisywahdah02@gmail.com), <sup>3</sup>[abdulmalik@unismuh.ac.id](mailto:abdulmalik@unismuh.ac.id)

## Introduction

The development of microeconomics plays a crucial role in reducing poverty and enhancing the well-being of society. In various countries, microenterprises have become a key pillar in generating employment, driving local economies, and reducing socio-economic disparities. In Indonesia, they indirectly contribute to national economic growth while decreasing the poverty rate (Jasri et al., 2022). However, microenterprises often need help accessing adequate financial resources to support their growth and development.

BAZNAS plays a significant role in managing and distributing zakat, infaq, and sadaqah funds in Indonesia to enhance the economic empowerment of vulnerable groups. One tangible effort BAZNAS undertook is through the village microfinance program, aiming to provide financial access to micro-entrepreneurs among the underprivileged to foster sustainable business growth. Baznas Microfinance is an initiative utilizing zakat funds to uplift the economy by providing micro-funding to underprivileged groups as a business capital (Suryanto, 2018). This approach involves engaging various groups and applying principles of Islamic microfinance. The program also implements various support activities that play a role in monitoring after the funding is provided. This mentoring encompasses aspects such as supervision, imparting Islamic values through preaching, and the role of collectors.

However, despite concrete efforts in the form of the village microfinance program by BAZNAS, further analysis is still needed to measure the effectiveness and impact generated by this program. Fundamental questions need to be addressed: To what extent has the village microfinance program successfully driven the development of microenterprises among the underprivileged? Has this program contributed significantly to the increase in income and well-being of the underprivileged groups engaged in the micro-business sector?

Several previous findings have also yielded differing outcomes regarding the effectiveness of the Baznas Village Microfinance program. For instance, in the study by Febriansyah et al. (2021), it was mentioned that implementing the Baznas Village Microfinance fund management has operated effectively due to strict oversight and selection of potential beneficiaries intending to apply for capital loans. Conversely, in the research by Asmita et al., it was noted that the assets owned by the beneficiaries stayed the same despite receiving assistance from the BMD program (Asmita et al., 2022), according to Izzaturrahman, M.D. & Mahmudah (2022) and Ernawati (2023), there is high enthusiasm among micro-business

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communities for this program due to the progress offered, such as entrepreneurship training and interest-free business capital.

Regarding the above, this research aims to investigate the effectiveness of the Baznas Village Microfinance program in fostering the development of microenterprises among the underprivileged. Through a comprehensive analysis of program implementation, this study is expected to provide profound insights into the extent of the positive impact of the village microfinance program in aiding the underprivileged to overcome financial barriers and enhance their micro businesses. The findings from this research are anticipated to offer valuable contributions to BAZNAS and other relevant entities in designing more effective policies to support the economic empowerment of underprivileged groups through microfinance programs.

## **Methods**

This research falls under the qualitative approach category, utilizing the qualitative descriptive method. This approach generates descriptive data in written or oral form and observes behavior through direct observation. The primary data sources in this study originate from Baznas and the underprivileged groups engaged in microenterprises in Maros Regency. Meanwhile, secondary data sources encompass legal materials such as books, laws, theses, dissertations, journals, magazines, newspapers, media, or information from other individuals (Sugiyono, 2019). Meanwhile, tertiary sources involve dictionaries and encyclopedias to comprehend specific words or phrases requiring linguistic definitions. The data were obtained by adopting observation techniques, interviews, and documentation. Observation serves the purpose of observing, gaining understanding, seeking solutions, and collecting information related to the payment process involving rice as compensation in the context of rice milling in that area. Subsequently, interviews were conducted with select informants chosen by the researcher to validate the accuracy of the obtained data. Various data sources like photos and videos relevant to the research topic were also collected as supporting material. Data processing was carried out by systematically, objectively, and precisely breaking down, describing, or mapping each issue related to the research problem. The data analysis in this study was conducted through three stages: data reduction, data presentation, and conclusion.

## **Result and Discussion**

### **The implementation of the Village Microfinance Program by the National Zakat Agency in Maros Regency**

The Baznas Village Microfinance Program at BAZNAS Maros Regency was initiated in September 2019 (Admin Sulsel, 2019) and has been in operation for approximately four years. The Baznas Microfinance Program is carried out in rural areas. Consequently, in line with the local context, this microfinance initiative is called Baznas Village Microfinance (BMD). Given the crucial role of villages, particularly in discussions about poverty, their presence becomes highly significant.

Through the initiative of BAZNAS Maros Regency via the Baznas Village Microfinance Program, it is hoped that micro-entrepreneurs dependence on loan sharks can be reduced (Tim SINDOnews, 2019). Furthermore, it is anticipated that this program can facilitate micro-entrepreneurs access to capital to expand their businesses. Baznas Village Microfinance is an efficient form of financial assistance for the underprivileged group, founded on non-profit principles to stimulate business growth. This program also includes providing revolving loans to micro-entrepreneurs through the Qardh contract. This revolving loan scheme aims to offer financial support to micro-entrepreneurs and break free from reliance on loan sharks. Under this loan scheme, no interest is charged, ensuring the repayment amount remains unchanged.

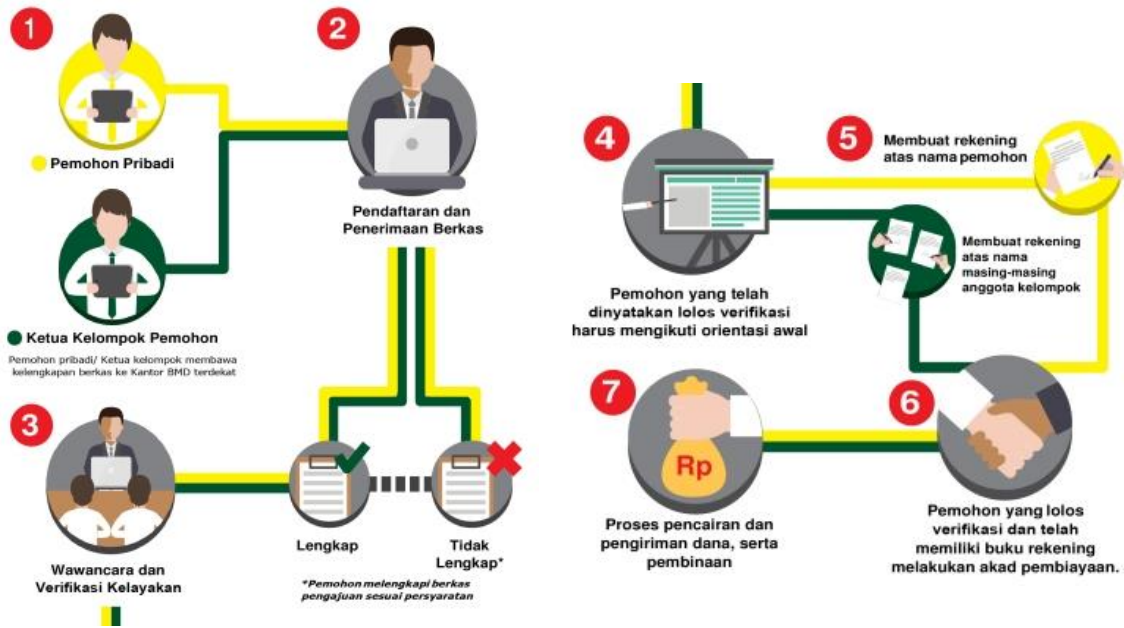
The requirements for businesses eligible to receive funding through Baznas Village Microfinance include micro-enterprises that have been operational for at least six months, possess a minimum business permit from the subdivision, maintain financial records reflecting business assets, and have an active bank account. In another aspect, applicants must go through a series of stages to apply for funding and determine the amount to be provided through the Baznas Village Microfinance program. This is necessary to determine the appropriate funding amount based on the applicant's business needs. To obtain a loan through the Baznas Village Microfinance program, underprivileged individuals must go through several stages, including general conditions and administrative requirements. General conditions encompass an active micro business status, while administrative requirements are categorized into two groups as detailed in the following table:

**Table 1.** Requirements for Baznas Village Microfinance Financing

No.	Administrative Requirements of the Institution	Administrative Requirements for Individuals
1	Written application submitted to BAZNAS.	Letter of application addressed to BAZNAS.
2	Legal documents of the institution guaranteeing its validity.	Proof of a Certificate of Inability to Pay (STM) provided by the Village Office.
3	Overview and structure of the institution along with the ID of the chairman.	Copies of ID card (KTP) and Family Card as identification.
4	Detailed budget plan required.	Business notification document submitted by the Village Office.
5	List of beneficiary names.	Form documenting the formation of the group from the Village Office.
6	Copy of the applicant institution's bank account.	Form proposing the assistance application for the business.
7	Recommendation letter provided by BAZNAS at the district/city/province level.	Detailed estimated expenses needed.
8	Commitment letter (contract) provided by BAZNAS.	Personal savings record
9	Contact information of the applicant.	-

The sequence of steps to apply for financing through Baznas Village Microfinance is as follows:

1. Individual applicants or group leaders visit the Baznas Village Microfinance Maros office with complete documentation.
2. Registration process and document submission (Applicants complete the submission files according to established requirements).
3. Conducting interview interactions and feasibility evaluation.
4. Candidates successful in the evaluation must participate in the initial orientation stage.
5. Creation of accounts in the borrower's name (for each group member).
6. Candidates who pass the evaluation and have an account will undergo the financing agreement formation process.
7. The fund disbursement process will be executed, with money transferred, while continuing to guide the recipients.



**Figure 1:** Flow of Baznas Village Microfinance Financing Application

*Source: Baznas Microfinance Desa (BMD) Maros*

While implementing Baznas Village Microfinance, various challenges are faced by Baznas Village Microfinance itself. These challenges include limited funding, lack of discipline among some beneficiaries in repaying installments due to negligence, and the extended time required to respond to aid requests, conduct investigations, and carry out disbursement processes. Nevertheless, these challenges do not impede or disrupt the smooth operation of the Baznas Village Microfinance program.

Baznas Village Microfinance continues its efforts to address these challenges. One of the steps taken is to conduct widespread socialization, particularly among micro-business operators, to enhance the recognition of the Baznas Village Microfinance Desa program. These challenges are also considered valuable lessons for improving the program in the future. Evaluations will be conducted, especially regarding allocating capital and efforts to enhance services to beneficiaries. Hence, this support initiative aims to tackle micro-business capital issues and reduce reliance on lenders. With the presence of Baznas Village Microfinance Desa, it is anticipated that micro-businesses will flourish and achieve self-sufficiency.

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**The Growth of Micro Enterprises among Mustahik Groups in the Baznas Village Microfinance Desa Program in Maros Regency**

The design of the partnership program for empowering micro-enterprises through Baznas Village Microfinance aims to provide financial assistance to those engaged in micro-enterprises and fall under the Mustahik group. The Baznas Village Microfinance Desa program is part of BAZNAS's efforts to facilitate economic growth by providing interest-free business financing. This program aims to fully harness the potential of micro-enterprises managed by the supported partners. The funds received by micro-entrepreneurs are utilized as capital for business operations (Jasri et al., 2021). The financing assistance provided through Baznas Village Microfinance offers entrepreneurs capital and extends support in business development. This includes training and guidance across various production aspects in different economic sectors mastered by the Mustahik. Through such mentoring, they acquire a diverse set of skills (Mustamin et al., 2022), So that they can engage in productive business activities. This program also aims to strengthen the sustainable marketing of Mustahik's products.

An element that affects the success of implementing the Baznas Village Microfinance Program in Maros Regency is the response demonstrated by the target group, namely the Mustahik, who have been running micro businesses. The level of achievement in the execution of the Baznas Village Program can be gauged from the development of the micro businesses owned by the Mustahik after they participate in this mentoring program. The mustahik directly experiences the success of this financing; for instance, Novianti (a fried food and beverage vendor) stated that:

“Alhamdulillah, I am very grateful for this assistance, considering it is very meaningful, especially since there is no interest or usury as applied elsewhere”.

Novianti's statement as above serves as one form of this program's success in developing the beneficiaries' businesses. The absence of usury elements such as interest also eases the financial burden on the beneficiaries as they are not burdened with additional repayment costs. Moreover, at the same time, the program has also curtailed the growth of loans from loan sharks, which is indeed one of the objectives of establishing this program (Tim SINDOnews, 2019). Due to the importance of combating usurious practices that are detrimental and prohibited (Basyariah et al., 2023), this program also indirectly plays a role in efforts to combat such usurious practices.

This program continues to be actively operated by BAZNAS Maros, and the activation of this program was evident in 2022 when the majority of funding allocation from BAZNAS was used to help alleviate the capital burden of the community's micro-enterprises. For instance, a sum of Rp 80,730,000 was disbursed to 33 beneficiaries, and, of course, these loans were provided without any interest (Baznasmaros.com, 2022a). In the same year, BAZNAS also allocated funds to 19 partner beneficiaries involved in BMD, with a total interest-free loan amounting to Rp 55,320,000 (Baznasmaros.com, 2022b). The assistance provided falls within Rp 2,000,000 to Rp 3,000,000, and the repayment is planned over 10 (ten) months. The funding of the capital assistance to the beneficiaries is implemented through groups consisting of 5 individuals, with the group leader responsible for coordinating members and the installment payment process each week

Based on the research conducted by the researcher regarding effectiveness, it was found that the implementation of this program is highly effective. This outcome is consistent with the study by Febriansyah et al. (2021), which stated that implementing BMD has been effective. One form of effectiveness of this program is manifested in the significant impact felt by the beneficiaries with the presence of this program, as expressed by Kurniati (jalangkote snack vendor), who said:

“I manage a Jalangkote fried snack business that I initially started through online sales. Now, with gratitude, this business has grown, and I have successfully opened a physical store. I plan to open a new shop on the main road next year, God willing.”

Positive income development perceived by the beneficiaries in this program are indicators of the program's success towards the established goals. Research conducted has shown that the Baznas Village Microfinance Program has a substantial effect in restoring the income of the beneficiaries who were impacted by the crisis caused by the COVID-19 pandemic. The program also provides ease to micro-business operators in obtaining capital funding without additional costs or interest, along with simple administrative requirements. This enables beneficiaries to access funds through the Baznas Village Microfinance Program easily. The research findings are also in line with the studies by Nurfiyani & Khanifa (2021) and Nazah & Amri (2022) that the presence of Baznas Village Microfinance contributes to the welfare improvement of the beneficiaries

The effects of participating in the Baznas Village Microfinance Program are evident in financial aspects and business development and have a positive impact on increasing the business income of the beneficiaries. This income can be used for savings and meeting the basic needs of the beneficiaries, their family members, and the involved workforce. The



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program also equips micro-business operators with more in-depth knowledge about trade and assists them in expanding market opportunities for their products. This is one of the successful outcomes of the BMD program, and micro-business operators will also receive training to enhance their business management skills. The opportunities for market access presented by Baznas Village Microfinance encourage the promotion of commercial products owned by micro-business operators while also advancing their knowledge in the commercial sector

### **Conclusion**

Implementing the Baznas Village Microfinance Program (BMD) in Maros Regency has proven its effectiveness significantly. This is evident in the positive impact experienced by the beneficiaries who are participants of the program. One of the most important outcomes of this program is the increase in the income of BMD's partner communities. In addition to enhancing the financial aspect, the program also positively impacts expanding the knowledge of the beneficiaries. With broader insights, these beneficiaries can gain more information and knowledge about various aspects of business and trade. This increase in knowledge has positive implications for ease in marketing the products they produce. By better understanding the market and evolving trends, the beneficiaries can more effectively promote their products and reach a wider audience.

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