



Qardh Financing in Islamic Rural Banks: Misalignment, Risks, and Opportunities for Sharia-Based Inclusion

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ABSTRACT

This study investigates the extent to which qardh contracts align with their normative role as benevolent financing instruments within Indonesia's Islamic Rural Banks (Bank Pembiayaan Rakyat Syariah - BPRS). Although BPRS are mandated to promote social welfare, qardh practices often intersect with commercial objectives, prompting questions about their genuine social performance. Using a critical realism perspective, this study interprets social reality as an interaction between institutional structures and individual agency, providing a nuanced understanding of the gap between normative ideals and empirical practices. A simple mixed-methods design was applied. Quantitatively, data from 130 BPRS between 2010 and 2022 were analysed to assess the proportion and value of qardh financing and the Average Loan per Borrower (ALB) as an indicator of social depth. Qualitatively, triangulation employed annual reports, OJK Islamic Banking Statistics, fifteen Supreme Court decisions on qardh, and interviews with seven BPRS practitioners. Thematic analysis identified patterns, deviations, and institutional constraints. Results show that qardh financing accounts for a small share of total BPRS portfolios, with highly fluctuating and inconsistent disbursements over time. Nevertheless, despite the generally high ALB in qardh financing, some BPRS demonstrate relatively low ALB values, indicating that certain institutions still uphold qardh practices serving low-income clients. Qualitative evidence reveals a continuum of practices—from purely social qardh aimed at community welfare to quasi-commercial adaptations driven by liquidity pressures and profit motives—while legal case analyses expose weaknesses in contract clarity and governance. The study concludes that the ideal social performance of BPRS should reflect their foundational mission to empower rural and microenterprises and protect vulnerable groups from exploitative lending. It emphasizes the need to realign qardh implementation with its ethical and welfare-oriented essence to strengthen its role as a genuine instrument of Islamic financial inclusion.

Keywords: qardh, Islamic rural banks, social performance, financial inclusion



INTRODUCTION

Based on the Islamic Banking Statistics published by the Indonesian Financial Services Authority (OJK), qardh financing in Islamic Rural Banks (BPRS) has shown a consistent upward trend for more than a decade. In 2009, total qardh financing recorded by BPRS amounted to IDR 50.02 billion, increasing to IDR 123.58 billion in 2015, IDR 498.13 billion in 2020, and IDR 659.88 billion in 2024. This trend reflects BPRS's growing attention to social instruments within their financing portfolios.

Conceptually, qardh is a non-commercial social instrument intended to support micro-entrepreneurs and low-income communities through interest-free loans (Aderemi & Ishak, 2023). This instrument underscores that Islamic financial institutions serve not only as business entities but also as agents of community economic empowerment. In the context of Islamic Rural Banks (BPRS), qardh functions as a key instrument to promote financial inclusion based on Islamic values, particularly for groups underserved by conventional banking systems (Fitriyani & Lidasan, 2023). This social character makes qardh a distinguishing feature of Islamic Rural Banks (BPRS), as it embodies the principles of justice, solidarity, and social responsibility that form the core of Islamic finance.

In contrast, Afriadi (2024) found that the Average Loan per Borrower (ALB) in qardh financing at Islamic Rural Banks (BPRS) was the highest compared to other financing types. ALB serves as a common proxy for measuring the depth of outreach and assessing the social performance of microfinance institutions. A low ALB indicates the institution's ability to reach poorer segments of society, reflecting a strong social orientation (Hermes & Hudon, 2018). Conversely, a high ALB suggests that financing is directed toward clients with better economic capacity, implying a deviation from the institution's primary social mission to serve the most disadvantaged group (Reichert, 2018).

In 2009, the Average Loan per Borrower (ALB) for qardh financing was recorded at IDR 55 million, significantly higher than the ALB for mudharabah (IDR 20



million) and musyarakah (IDR 29 million). A similar pattern persisted in subsequent years; for instance, in August 2021, the qardh ALB reached IDR 277 million, the highest among all types of financing offered by BPRS. Even murabahah financing often criticized for issues related to Sharia compliance had a much lower ALB than qardh. These data suggest that qardh financing practices in many BPRS institutions are more frequently directed toward clients with stronger financial capacity, rather than the micro segment originally intended for this social instrument.

Based on this phenomenon, this study aims to analyze the alignment between the social objectives of qardh and its practical implementation within BPRS. In addition, the study explores potential deviations from its social mission, identifies emerging risks, and examines opportunities to strengthen Islamic financial inclusion in the future. Through this approach, the research is expected to provide both empirical and conceptual contributions to the development of qardh practices so they remain consistent with their social function and underlying moral values.

Unlike most qardh literature, which tends to be normative and conceptually focused, this study emphasizes an a critical realism approach of the gap between ideal values and actual practices in the field. Using a critical realism approach within the context of Islamic finance, the study seeks to uncover the causal mechanisms underlying qardh financing practices in Islamic Rural Banks (BPRS). This approach remains rarely applied in similar studies and is expected to offer a new perspective on how social, institutional, and regulatory dimensions interact to shape the implementation of qardh in the micro-Islamic banking sector.

LITERATURE REVIEW

1. Qardh Financing Practices in Indonesia

In the study of Islamic finance in Indonesia, literature on qardh has grown significantly, particularly within micro-institutional settings such as Baitul Maal wa Tamwil (BMT). Nugraheni & Muhammad, (2024) highlight the need for Islamic institutions to expand



qardh funding sources and strengthen allocation management to enhance their contribution to community empowerment. Wulandari (2019) shows that the effectiveness of BMTs in channeling qardh to lower-income communities (bottom of the pyramid) remains limited, suggesting the need to separate the functions of fund collection (Baitul Maal) and fund distribution (Baitul Tamwil) for greater program efficiency. Furthermore, studies on Islamic Micro Waqf Banks also emphasize qardh as the primary contract used in financing distributed by these institutions (Afriadi & Chasanah, 2025).

In the context of Islamic Rural Banks (BPRS), literature on qardh practices presents diverse themes. Fitriyani & Lidasan (2024) found that qardh can strengthen microfinancial inclusion when managed through appropriate distribution mechanisms and supported by adequate prudential principles. Meanwhile, Salsa & Zainuddin (2024) identified that most BPRS allocate qardh primarily for internal purposes, such as employee advances or limited social activities, thus not fully reflecting its social function in supporting impoverished communities. Furthermore, Afriadi et al., (2024) noted that the Average Loan per Borrower (ALB) for qardh is the highest among all contract types, indicating a tendency to finance clients with stronger economic capacity and suggesting potential deviation from its intended social mission

Unlike previous studies, which are generally normative and focused on the potentials and barriers of qardh implementation Fitriyani & Lidasan (2023), this study provides an empirical evaluation of the alignment between the social objectives and actual practices of qardh in Islamic Rural Banks (BPRS). It examines forms of social mission deviation, emerging risks, and opportunities for strengthening Islamic financial inclusion. Using a critical realism approach within the context of Islamic finance, this study seeks to uncover the causal mechanisms underlying qardh practices in the field, while offering both conceptual and empirical contributions to enhancing the social role of BPRS.



2. Social Performance of BPRS

Studies on the social performance of Islamic Rural Banks (BPRS) in Indonesia have shown notable growth in recent literature, with increasing attention to both financial and non-financial dimensions. (Utami et al., 2024) through an empirical study of several BPRS, found that social indicators such as zakat reporting and community welfare programs have a positive relationship with financial performance, indicating that social orientation aligns with institutional financial sustainability. Meanwhile, Yaya & Purnami (2020) demonstrated that the implementation of Islamic Social Reporting and sound Sharia governance in Islamic microfinance institutions including BPRS and BMT can enhance clients' social mobility by improving access to working capital and financial services. Similarly, Nasution et al., (2023) used the Maqashid Sharia Index to assess the social performance of BPRS Amanah Bangsa, revealing high scores in justice and welfare dimensions, although weaknesses remain in individual education and services for low-income clients.

Although several studies indicate positive progress, the social performance of Islamic Rural Banks (BPRS) remains uneven and faces a number of operational challenges. Some research highlights that social activities such as zakat reporting, corporate social responsibility (CSR), and community welfare programs often function as complementary efforts rather than integral components of institutional strategy (Utami et al., 2024; Yaya & Purnami, 2020). This condition suggests that the social dimension is still treated symbolically, rather than as a core pillar of the institutional mission. Other challenges stem from internal governance factors—including transparency, accountability, and stakeholder engagement which play a crucial role in strengthening social legitimacy and enhancing public trust in BPRS.

Consistent with these findings, Cakhyaneu et al., (2020) revealed that Islamic Rural Banks (BPRS) with strong performance in the *tahdzib al-fard* dimension tend to exhibit greater social commitment. Setiawan & Pramadeka (2020) using the Tawhidly String Relation (TSR) approach, emphasized the importance of morality, ethics, and spiritual values in shaping institutional social performance. Sari & Indrarini (2019)



found that social performance significantly influences public trust, whereas financial performance alone does not always produce a similar effect. Sutrisno (2017) added that differences in risk structures between BPRS and conventional rural banks affect social and financial outcomes differently, highlighting the close relationship between risk management, governance, and institutional social achievement.

In addition to qualitative indicators such as zakat reporting or the Maqashid Sharia Index, the social performance of Islamic Rural Banks (BPRS) can also be quantitatively assessed using the Average Loan per Borrower (ALB) as one of its proxies. ALB represents the depth of outreach of microfinance institutions, where a lower value indicates financing extended to low-income or poor groups, while a higher value reflects lending trends toward middle- and upper-income clients (Ahmad et al., 2020; Fan et al., 2019). Thus, ALB serves as an important indicator for evaluating the extent to which BPRS function as inclusive institutions that support economically disadvantaged segments, in line with their social mission and the principles of Islamic justice.

Conceptually, the ideal social performance of Islamic Rural Banks (BPRS) is not only measured by financial profitability but also by their contribution to empowering small communities, expanding financial inclusion, and strengthening rural socio-economic structures. In line with the spirit of establishing rural banks as stated in Law No. 7 of 1992, these financial institutions were designed to serve low-income communities, promote rural modernization, and liberate small communities from high-interest moneylending practices (Robinson, 2001). In the context of Islamic banking, the values of justice, solidarity, and empowerment grounded in Islamic principles serve as the core benchmarks of social performance that every BPRS must uphold.

Considering these findings, this study adopts a more specific focus than previous research. Rather than merely measuring social performance in aggregate, it examines the alignment between the social objectives of the qardh contract and its implementation practices within BPRS. This approach allows for an in-depth exploration of deviations from social missions, emerging risks, and potential institutional improvements to ensure



that qardh practices truly reflect the values of justice and public welfare within an inclusive Islamic financial framework.

METHODS

This study employs a critical realism approach, viewing social reality as the result of interactions between institutional structures and individual actions. This approach was chosen for its relevance in understanding the gap between the normative ideal of the qardh contract as an instrument of benevolence and its empirical practice in Islamic financial institutions. The research method adopts a simple mixed-methods design, combining descriptive quantitative analysis and case-based qualitative analysis.

Quantitatively, this study analyzes data on the proportion of qardh financing from 130 Islamic Rural Banks (BPRS) in Indonesia and their Average Loan per Borrower (ALB). Qualitatively, the study employs triangulated data comprising BPRS annual reports, OJK Islamic banking statistics, legal rulings on qardh financing, and in-depth interviews with seven BPRS practitioners from various regions. Qualitative content analysis is applied to identify practice patterns, forms of deviation, and emerging risk potentials.

The nominal qardh financing data were obtained from BPRS annual reports available on the OJK website. These data were supplemented with annual reports retrieved from each BPRS's official website. The primary dataset includes the nominal values of qardh, other financing contracts, and total financing for each BPRS. The data cover annual observations from 2010 to 2022. The proportion of qardh financing was calculated by dividing the nominal value of qardh financing by the total financing for each BPRS annually.

The second data column in Tables 2 to 5 presents the average proportion of qardh financing for each BPRS. The annual qardh-to-total financing ratio for each BPRS was calculated, and the multi-year average of these ratios was recorded in this column. For



instance, Table 2 shows that PT BPRS Mandiri Mitra Sukses has an average proportion of 22.5% in column 1, representing the seven-year mean value.

The third column in Tables 2 to 5 shows the maximum proportion value, while the fourth column presents the minimum value across all recorded years. Continuing the example of PT BPRS Mandiri Mitra Sukses with an average proportion of 22.5%, its maximum proportion over the seven recorded years is 46.7% (column 3), and the minimum is 4.2% (column 4). These three columns (2, 3, and 4) illustrate the deviation between the maximum and minimum proportions and their average values.

Table 1. Description of Qardh Financing Proportion Data in Islamic Rural Banks (BPRS)

Data Type	Description
<i>Average Proportion</i>	<i>The mean ratio of qardh financing to total BPRS financing across all recorded periods.</i>
<i>Minimum Proportion</i>	<i>The lowest ratio of qardh financing to total BPRS financing during the recorded periods.</i>
<i>Maximum Proportion</i>	<i>The highest ratio of qardh financing to total BPRS financing during the recorded periods.</i>
<i>Average Nominal Value</i>	<i>The mean nominal amount of qardh financing reported by BPRS across all recorded periods.</i>
<i>Minimum Nominal Value</i>	<i>The lowest nominal amount of qardh financing recorded by BPRS during the observation period.</i>
<i>Maximum Nominal Value</i>	<i>The highest nominal amount of qardh financing recorded by BPRS during the observation period.</i>
<i>Number of Recorded Years</i>	<i>The total number of years in which the BPRS reported qardh financing activities.</i>

Source: Annual Reports of Islamic Rural Banks (BPRS).

While columns 2, 3, and 4 present the proportion of qardh contracts relative to total contracts, columns 5, 6, and 7 display the total nominal value of qardh contracts for each BPRS. Column 5 contains the average total qardh financing value across all recorded years. Columns 6 and 7 respectively present the highest and lowest nominal qardh financing values across all recorded years. These nominal values allow comparisons among BPRS, as a high proportion in one institution may correspond to a relatively smaller nominal amount in another. Moreover, these nominal values serve as a form of validation and transparency for the proportion data presented in columns 2, 3, and 4. Finally, column 8 (the last column) indicates the total number of years in which qardh contracts were recorded out of the 13 years available in our dataset.



ALB data represent the average nominal financing per borrower in a microfinance institution. ALB is widely used to measure social performance, particularly the depth of outreach of a microfinance institution in serving the poorest clients. The ALB data for BPRS were obtained from the annual reports in the OJK Islamic Banking Statistics (SPS OJK). The calculation was performed by dividing the total financing amount of each contract by the number of financing accounts under that contract. Data jumlah total nominal pembiayaan pada masing-masing akad diperoleh dari Tabel 32 SPS OJK, Adapun data jumlah rekening pembiayaan pada masing-masing akad dapat diperoleh pada Tabel 40 SPS OJK. As shown in Figure 1 (Section 4.3), calculations were performed for the Murabahah, Mudharabah, Musyarakah, and Qardh contracts. The data range presented in this figure covers the years 2009 to 2021.

The legal case data were obtained from the Supreme Court Decision Database, which serves as Indonesia's official repository of court rulings. Searches were conducted using the keywords "Qardh" (16 results), "Qordh" (18 results), "Qard" (66 results), and "Qord" (156 results), yielding a total of 256 court decisions. The researcher then filtered the results to include only Qardh-related cases involving BPRS, obtaining 32 decisions. Subsequently, 15 cases containing relatively complete information on Qardh practices in BPRS were identified after assessing the completeness of the data. Based on these 15 cases, the findings were summarized and presented in Table 6 for further analysis.

Interviews were conducted with seven BPRS practitioners from BPRS Formes, BPRS Siak Raya Pekanbaru, BPRS MCI, BPRS Khasanah Riau, BPRS Carana Kiat Andalas, BPRS Tani Tulang Bawang, and BPRS Saruma Sejahtera (Maluku). The main interview themes concerned the characteristics of the Qardh contract, including its form and use, beneficiaries, funding sources, financing amounts, key issues, and practitioners' perceptions. The summarized findings and their presentation are provided in Section 4.3. Each interview was recorded, transcribed, and analyzed using thematic content analysis to identify patterns of practice and the social meanings of qardh.



Ringkasan hasil wawancara disajikan pada Tabel 6, sedangkan analisis naratifnya dibahas secara rinci pada bagian 4.3.

By combining quantitative and qualitative data, this approach enables triangulation that enhances the validity of findings while providing a deeper contextual understanding of the misalignments, risks, and opportunities for strengthening qardh financing as a Sharia-based financial inclusion instrument.

Result And Discussion

This section presents the research results and their discussion, divided into three parts. Section 1 focuses on the research findings concerning the proportion of Qardh financing across 130 Islamic rural banks (BPRS). Section 2 discusses the average nominal value of Qardh financing, combining data from OJK, Supreme Court rulings, and interviews. Section 3 focuses on the analysis and discussion of the research findings.

1. Proportion of Qardh Financing

The findings indicate that 130 out of 164 BPRS engaged in Qardh financing, while the remaining 34 did not. Data from these 130 BPRS are presented in four tables: Table 1 lists 32 BPRS with Qardh financing proportions exceeding 2%; Table 2 includes 24 BPRS with proportions between 1–2%; and Tables 3 and 4 show 74 BPRS with proportions below 1%.

Data in column 1 of Tables 1 to 4 indicate that most BPRS have a very low proportion of Qardh financing. Tables 3 and 4 show 74 BPRS (57% of total institutions) with an average annual proportion below 1%. Combined with Table 2, 98 BPRS (75%) fall below 2%. Overall, 115 BPRS (88%) record average proportions under 5%. Only eight BPRS (6%) have Qardh financing proportions exceeding 10% of total financing, while the remaining 94% are below 10%.

Eight Islamic Rural Banks (BPRS) with an average Qardh financing share exceeding 10% are shown in Table 1. Of these, only three consistently recorded Qardh financing throughout the 13-year data period: PT BPRS Al Ma'soem Syari'ah, PT BPRS



Barkah Gemadana, and PT BPRS Sarana Prima Mandiri. The remaining five banks did not record Qardh financing in certain years. These results indicate that Qardh financing practices are not only infrequent but also inconsistent over time.

Column 3 shows that 18 Islamic Rural Banks (BPRS) have recorded a maximum Qardh financing share exceeding 10% of their total financing. Of these 18 banks, only 10 consistently reported Qardh financing over time, while the remaining eight did not record any in certain years. Among the 10 consistent banks, five at times recorded proportions below 1%, four below 5%, and only one PT BPRS Al Ma'soem Syari'ah maintained a consistent proportion above 5%. These results indicate that Qardh financing practices remain highly volatile from year to year, and almost no BPRS has managed to maintain a proportion above 5%.

Columns 3 and 4 also indicate a substantial fluctuation between the minimum and maximum proportions. In general, when measured against the average proportion, the fluctuation is much closer to the maximum value than to the minimum. Overall, the fluctuation range is roughly three times wider toward the maximum value than toward the minimum. This fluctuation suggests that Qardh is often not managed as a stable portfolio but rather responds to specific conditions, such as clients' emergency liquidity needs or temporary policy measures.

Table 2: List of Islamic Rural Banks (BPRS) with Qardh Financing Proportions Exceeding Two Percent of Total Financing

BPRS Name	Average (%)	Maximum (%)	Minimum (%)	Average Total Financing (IDR)	Maximum (IDR)	Minimum (IDR)	Number of Recorded Annual Periods
PT BPRS Mandiri Mitra Sukses	22,5%	46,7%	4,2%	12.410.392	25.537.520	1.749.224	7
PT BPRS Karya Mugi Sentosa	20,7%	52,0%	1,3%	6.963.769	21.115.156	79.750	12
PT BPRS Al Ma'soem Syari'ah	16,6%	43,2%	9,6%	15.051.173	21.509.770	18.206	13
PT BPRS Barkah Gemadana	15,8%	48,0%	0,0%	9.168.461	36.040.536	2.000	13
PT BPRS Sarana Prima Mandiri	14,5%	33,7%	3,2%	5.601.075	10.335.029	331.558	13
PT BPRS Bhakti Sumekar	12,6%	17,5%	8,7%	62.411.718	94.937.161	25.501.010	11
PT BPRS Mitra Mentari Sejahtera	12,1%	24,0%	0,2%	2.103.807	4.181.538	26.076	2
PT BPRS Rif'atul Ummah	10,8%	17,1%	3,7%	728.597	982.640	453.399	12
PT BPRS Way Kanan	8,4%	22,7%	0,1%	2.112.996	4.336.288	84.991	11
PT BPRS Metro Madani	6,8%	9,8%	3,4%	3.602.121	7.398.532	724.348	12
PT BPRS Daarut Tauhiid	6,6%	14,9%	2,9%	479.636	1.414.199	86.077	13
PT BPRS Bina Rahmah	6,4%	15,5%	0,3%	998.049	2.543.257	25.305	13
PT BPRS Syarikat Madani	5,5%	12,7%	2,6%	4.099.078	7.259.788	586.864	13
PT BPRS Amanah Rabbaniah	5,0%	26,6%	0,6%	1.064.671	2.509.661	391.051	13
PT BPRS Cempaka Al Amin	5,0%	22,0%	0,1%	765.504	3.721.950	59.600	8
PT BPRS Al Ihsan	4,6%	18,7%	0,1%	163.712	447.305	30.200	13
PT BPRS Dinar Ashri	4,5%	19,3%	2,1%	18.868.485	149.924.507	1.950.286	13
PT BPRS Mentari (=BPRS PMN Mentari)	3,6%	7,4%	1,5%	1.682.323	4.809.982	815.604	13
PT BPRS PNM Patuh Beramal	3,5%	6,2%	1,3%	1.177.998	3.243.526	206.811	13
PT BPRS Bina Amanah Satria	3,2%	7,7%	0,8%	757.046	1.401.400	289.518	13
PT BPRS Amanah Ummah	3,1%	7,6%	1,5%	3.677.213	5.465.002	2.632.182	13
PT BPRS Al Barokah	2,8%	8,0%	0,0%	182.645	722.288	1.000	13
PT BPRS Artha Fisabilillah	2,8%	11,1%	0,1%	694.396	3.625.645	5.541	6
PT BPRS Amanah Insani	2,7%	5,5%	1,0%	1.222.611	2.215.959	448.277	10
PT BPRS Musyarakah Ummat Indonesia	2,6%	7,2%	0,8%	129.876	306.858	40.615	13
PT BPRS Nurul Ikhwan	2,4%	3,6%	1,4%	22.233	30.250	13.696	9
PT BPRS Gala Mitra Abadi	2,4%	6,4%	0,3%	242.143	444.325	27.070	13
PT BPRS Harum Hikmahnugraha	2,3%	3,8%	1,6%	1.064.032	1.633.120	689.445	9
PT BPRS Lantabur Tebuireng	2,2%	9,1%	0,1%	2.274.743	5.117.600	24.501	10
PT BPRS Unisia Insan Indonesia	2,2%	2,7%	1,6%	1.196.922	1.222.500	1.175.933	3
PT BPRS Amanah Sejahtera	2,2%	4,8%	0,6%	1.205.949	2.417.357	241.351	13
PT BPRS Kota Mojokerto	2,0%	7,1%	0,5%	1.370.323	2.874.400	314.900	10

Source: OJK Islamic Banking Statistics & Annual Report each Institutions

Table 3. Islamic Rural Banks (BPRS) with Qardh Financing Proportions of Approximately One Percent of Total Financing

BPRS Name	Average (%)	Maximum (%)	Minimum (%)	Average Total Financing (IDR)	Maximum (IDR)	Minimum (IDR)	Number of Recorded Annual Periods
PT BPRS Investama Mega Bakti	1,9%	4,3%	0,1%	677.132	1.454.879	17.000	11
PT BPRS Al Hijrah Amanah	1,9%	4,2%	0,6%	242.439	740.906	58.954	13
PT BPRS Sukowati Sragen	1,6%	13,5%	0,0%	567.827	3.244.900	19.790	13
PT BPRS Formes	1,5%	4,9%	0,1%	330.620	726.250	8.951	10
PT BPRS Mitra Amanah	1,5%	1,8%	1,0%	102.083	131.250	87.500	3
PT BPRS Jabal Nur	1,5%	6,6%	0,1%	85.961	1.945.352	4.892	10
PT BPRS Insan Cita Artha Jaya	1,5%	4,7%	0,2%	321.651	685.988	41.613	13
PT BPRS Berkah Dana Fadhilah	1,4%	4,1%	0,1%	195.749	460.886	23.480	13
PT BPRS Khasanah Ummat	1,4%	4,2%	0,7%	111.728	314.023	39.136	13
PT BPRS Baktimakmur Indah	1,4%	3,7%	0,3%	1.402.811	2.984.417	312.648	6
PT BPRS Dana Amanah	1,4%	5,3%	0,1%	268.799	666.434	3.768	8
PT BPRS Vitka Central	1,3%	2,2%	0,0%	591.554	1.140.301	11.561	11
PT BPRS Patriot Bekasi	1,2%	3,1%	0,1%	1.020.557	2.214.035	29.797	13
PT BPRS Bumi Rinjani Batu	1,2%	1,2%	1,2%	225.947	225.947	225.947	1
PT BPRS Artha Surya Barokah	1,2%	2,4%	0,3%	681.446	1.542.155	267.197	11
PT BPRS Muamalah Cilegon	1,1%	4,2%	0,0%	190.127	520.963	1.000	12
PT BPRS Buana Mitra Perwira	1,1%	2,5%	0,0%	1.352.783	4.988.765	10.000	9
PT BPRS Barokah Dana Sejahtera	1,1%	2,7%	0,1%	499.922	1.082.054	19.054	12
PT BPRS Adam	1,1%	1,9%	0,2%	131.286	241.447	21.125	2
PT BPRS Daya Artha Mentari	1,1%	2,9%	0,0%	135.496	401.759	4.725	10
PT BPRS Bahari Berkesan	1,0%	2,8%	0,1%	306.466	530.164	4.913	9
PT BPRS Central Syariah Utama	1,0%	2,3%	0,1%	140.239	343.333	33.720	9
PT BPRS Mitra Amal Mulia	1,0%	2,9%	0,2%	240.859	808.441	95.900	13
PT BPRS Situbondo	1,0%	2,8%	0,1%	88.376	322.867	10.230	13

Source: OJK Islamic Banking Statistics & Annual Report each Institutions

In nominal terms, as shown in Columns 2, 3, and 4, the scale varies widely, indicating a broad range. The highest average nominal value was recorded by PT BPRS



Bhakti Sumekar (Rp62.4 billion per year), followed by PT BPRS Dinar Ashri (Rp18.8 billion) and PT BPRS Al Ma'soem Syariah (Rp15 billion). At the lower end, many small BPRS recorded average Qardh financing below Rp100 million, with some even below Rp10 million—for example, PT BPRS Ummu (Rp1.2 million). Clear outliers appear, particularly BPRS Bhakti Sumekar with a maximum of Rp94.9 billion and BPRS Dinar Ashri with Rp149.9 billion. These extreme values inflate the average but do not represent the majority of BPRS.

The eighth, or final, column shows the total number of years Qardh contracts were recorded out of the 13 years covered in our dataset. Most BPRS have long annual records (10–13 years), making the analysis relatively stable. However, some newer or less transparent BPRS have only 1–3 years of data, leading to extreme variation—for example, BPRS Bumi Rinjani Batu, which has only one year of data with a consistent Qardh proportion of 1.2%. A BPRS with Qardh financing recorded for 13 consecutive years is considered to have engaged in continuous Qardh financing. Based on Column 8, only 33 BPRS consistently recorded Qardh financing, while the rest did not maintain such consistency.

The overall results in Tables 1–4 indicate that the proportion of Qardh financing in BPRS remains very small relative to their total financing. Although some BPRS show relatively high average proportions, their consistency is unsustainable and appears only during certain periods. The wide range of Qardh financing amounts also reflects significant fluctuations across periods, suggesting that such financing tends to serve temporary needs rather than a sustained social program.

Table 4. Islamic Rural Banks (BPRS) with Qardh Financing Proportions Between 0.4% and 0.99% of Total Financing

BPRS Name	Average (%)	Maximum (%)	Minimum (%)	Average Total Financing (IDR)	Maximum (IDR)	Minimum (IDR)	Number of Recorded Annual Periods
PT BPRS Gunung Slamet	0,9%	3,4%	0,0%	309.115	1.100.500	8.500	13
PT BPRS Al Washliyah	0,9%	3,5%	0,1%	61.843	233.413	8.200	5
PT BPRS Bakti Artha Sejahtera Sampang	0,9%	2,2%	0,0%	657.291	1.672.240	10.000	10
PT BPRS Kotabumi	0,9%	2,1%	0,0%	780.813	2.002.500	2.500	8



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PT BPRS Dana Hidayatullah	0,9%	2,8%	0,1%	138.217	401.281	31.898	13
PT BPRS Bina Amwalul Hasanah	0,9%	2,1%	0,1%	824.517	1.691.151	7.500	7
PT BPRS Dharma Kuwera	0,8%	2,7%	0,1%	143.906	331.522	31.057	10
PT BPRS Baiturridha Pusaka	0,8%	3,6%	0,0%	576.429	3.255.000	7.500	7
PT BPRS Manfaatyariah	0,8%	1,7%	0,2%	54.904	110.558	22.795	3
PT BPRS Aman Syariah	0,8%	3,8%	0,0%	62.233	300.000	1.500	5
PT BPRS Mulia Berkah Abadi	0,7%	1,7%	0,1%	681.963	1.298.290	39.858	6
PT BPRS Gotong Royong	0,7%	1,8%	0,3%	80.911	136.782	44.896	6
PT BPRS Asri Madani Nisantara	0,7%	2,6%	0,1%	132.768	588.143	6.000	9
PT BPRS Harta Insan Karimah Makassar	0,6%	0,9%	0,4%	39.846	58.072	23.717	3
PT BPRS Mentari Pasaman Saiyo	0,6%	1,1%	0,1%	43.475	75.000	18.100	10
PT BPRS Gowata	0,6%	1,0%	0,2%	8.333	13.333	3.333	2
PT BPRS Wakalumi	0,6%	1,3%	0,1%	60.391	187.525	9.650	10
PT BPRS Meru Sankara	0,5%	1,8%	0,0%	30.690	95.000	833	7
PT BPRS Tanggamus	0,5%	0,5%	0,5%	202.149	202.149	202.149	1
PT BPRS Saka Dana Mulia	0,5%	2,1%	0,1%	60.990	185.800	14.550	8
PT BPRS Gebu Prima	0,5%	0,5%	0,4%	47.362	48.904	45.819	2
PT BPRS Arta Leksana	0,5%	1,7%	0,0%	61.658	207.289	2.500	10
PT BPRS Harta Insan Karimah Parahyangan	0,5%	1,6%	0,1%	3.956.670	22.397.153	319.794	12
PT BPRS Madinah	0,5%	1,2%	0,1%	14.263	20.600	8.332	4
PT BPRS Suriyah	0,4%	1,9%	0,0%	203.010	799.500	6.916	12
PT BPRS Attaqwa	0,4%	1,7%	0,1%	90.522	506.524	5.500	12
PT BPRS Danagung Syariah	0,4%	2,7%	0,0%	44.362	197.102	833	13
PT BPRS Bogor Tegar Beriman	0,4%	0,7%	0,1%	378.083	747.000	9.166	2
PT BPRS Artha Mas Abadi	0,4%	1,5%	0,1%	52.903	99.509	21.000	13
PT BPRS Amanah Bangsa	0,4%	1,0%	0,0%	22.436	58.302	1.800	6
PT BPRS Bangka	0,4%	0,6%	0,2%	983.524	1.391.024	305.299	10
PT BPRS Artha Madani	0,4%	1,2%	0,1%	259.507	553.332	72.541	13
PT BPRS Al-Madinah Tasikmalaya	0,4%	2,3%	0,0%	100.404	621.341	4.200	7

Source: OJK Islamic Banking Statistics & Annual Report each Institutio



Table 5. Islamic Rural Banks (BPRS) with Qardh Financing Proportions Below 0.4% of Total Financing

BPRS Name	Average (%)	Maximum (%)	Minimum (%)	Average Total Financing (IDR)	Maximum (IDR)	Minimum (IDR)	Number of Recorded Annual Periods
PT BPRS Al-Yaqin	0,3%	1,4%	0,0%	14.381	58.000	1.290	5
PT BPRS Niaga Madani	0,3%	0,9%	0,0%	73.790	397.142	6.696	12
PT BPRS Cahaya Hidup	0,3%	0,8%	0,0%	66.428	162.500	833	4
PT BPRS Puduarta Insani	0,2%	0,5%	0,0%	58.046	121.663	1.720	4
PT BPRS Margirizki Bahagia	0,2%	0,8%	0,0%	37.972	120.915	833	5
PT BPRS Rajasa	0,2%	0,5%	0,1%	31.792	51.500	18.000	12
PT BPRS Al Salaam Amal Salman	0,2%	0,5%	0,0%	389.998	835.353	66.701	12
PT BPRS Artha Karimah Irsyadi	0,2%	0,5%	0,0%	73.718	129.244	1.800	4
PT BPRS Cilegon Mandiri	0,2%	0,7%	0,0%	148.914	477.931	3.125	13
PT BPRS Artha Amanah Ummat	0,2%	0,7%	0,0%	35.421	170.000	4.500	8
PT BPRS Berkah Ramadhan	0,2%	0,8%	0,0%	41.696	101.569	744	12
PT BPRS HIK Bekasi	0,2%	0,8%	0,0%	379.173	2.200.520	6.000	11
PT BPRS Madina Mandiri Sejahtera	0,2%	0,6%	0,0%	50.084	84.948	6.765	5
PT BPRS Hasanah	0,2%	0,4%	0,1%	14.215	22.644	2.500	3
PT BPRS Ampek Angkek Candung	0,2%	0,5%	0,1%	48.274	138.755	20.757	8
PT BPRS Barakah Nawaitul Ikhlas	0,2%	0,3%	0,1%	5.813	10.750	3.000	4
PT BPRS HIK Surakarta	0,2%	0,2%	0,2%	20.604	20.604	20.604	1
PT BPRS Bhakti Haji	0,1%	0,3%	0,0%	2.805	5.029	580	2
PT BPRS Dana Moneter	0,1%	0,0%	0,1%	31.000	31.000	31.000	2
PT BPRS Al Makmur	0,1%	0,2%	0,1%	56.198	81.500	27.500	7
PT BPRS Bumi Artha Sampang	0,1%	0,4%	0,0%	28.100	72.917	2.400	4
PT BPRS Bandar Lampung	0,1%	0,3%	0,1%	90.221	221.200	12.333	4
PT BPRS Tanmiya Artha	0,1%	0,3%	0,0%	2.491	4.414	611	4
PT BPRS Syariat Fajar Sejahtera Bali	0,1%	0,2%	0,0%	12.325	19.900	4.750	2
PT BPRS Harta Insan Karimah	0,1%	0,1%	0,0%	338.814	695.539	126.724	13
PT BPRS Dana Mulia	0,1%	0,2%	0,0%	17.468	32.720	5.000	13
PT BPRS Artha Pamenang	0,1%	0,2%	0,0%	14.040	37.550	3.752	6
PT BPRS Muamalat Harkat	0,1%	0,1%	0,0%	14.958	22.416	7.500	2
PT BPRS HIK Cibitung	0,1%	0,2%	0,0%	59.593	250.000	1.333	10
PT BPRS Haji Miskin	0,1%	0,1%	0,0%	15.555	28.333	8.333	3
PT BPRS Bangun Drajat Warga	0,1%	0,2%	0,0%	13.442	37.229	833	11
PT BPRS Bina Finansia	0,1%	0,1%	0,0%	7.593	14.444	5.000	6
PT BPRS Al Mabruur Babadan	0,0%	0,2%	0,0%	10.775	45.647	1.582	9
PT BPRS Lampung Timur	0,0%	0,1%	0,0%	4.356	9.025	1.800	4
PT BPRS Carana Kiat Andalas	0,0%	0,1%	0,0%	4.747	10.651	2.167	9
PT BPRS Tani Tulang Bawang Barat	0,0%	0,0%	0,0%	5.267	8.000	2.800	3
PT BPRS Ummu	0,0%	0,0%	0,0%	1.202	1.202	1.202	1
PT BPRS Al Falah	0,0%	0,0%	0,0%	1.071	2.549	100	4
PT BPRS Harta Insan Karimah Tegal	0,0%	0,0%	0,0%	9.783	16.250	4.333	5
PT BPRS Mitra Harmoni Yogyakarta	0,0%	0,0%	0,0%	5.555	10.000	833	3
PT BPRS Mitra Cahaya Indonesia	0,0%	0,0%	0,0%	5.555	10.000	833	3

Source: OJK Islamic Banking Statistics & Annual Report each Institutions.



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2. Nominal Value of Qardh Financing

This section discusses Qardh financing practices in terms of their nominal value, based on three data sources. The first dataset is drawn from the OJK Islamic Banking Statistics, the second from court case decisions, and the third from interview findings. Through this data triangulation, the conclusions become more comprehensive and valid.

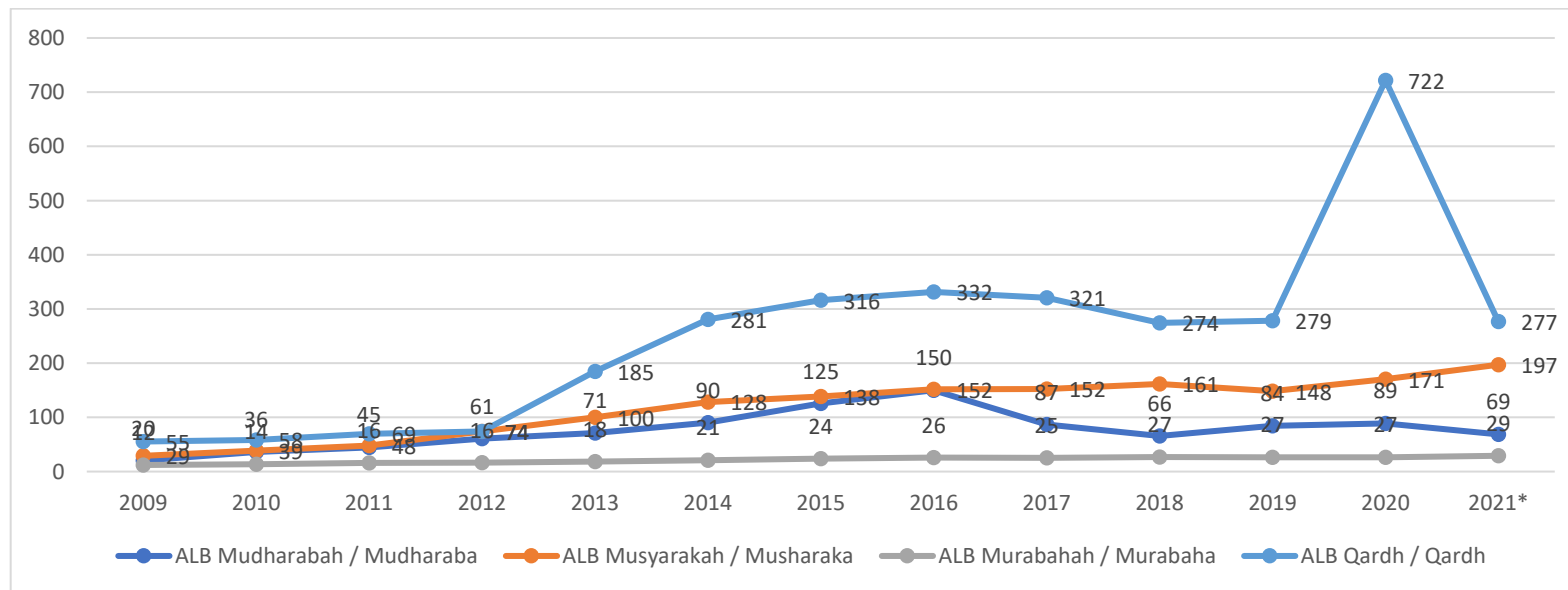


Figure 1. Comparison of Qardh ALB with Other Contract ALBs (in millions).

Source: OJK Islamic Banking Statistics.



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2.1. Average Loan Per Borrower Qardh BPRS

Average Loan per Borrower (ALB) data are often used as a proxy for social performance, reflecting the depth of microfinance outreach to low-income communities (Reichert, 2018). A lower ALB indicates deeper outreach, whereas a higher ALB reflects a bias toward wealthier clients.

The underlying argument is that a higher ALB requires larger collateral, while poorer clients, having limited assets, can only apply for smaller financing amounts.

Figure 1 presents a comparison of the Average Loan per Borrower (ALB) for Qardh financing with those of other contracts, namely Mudharabah, Musyarakah, and Murabahah. Murabahah financing consistently shows the lowest ALB, indicating the deepest and most sustainable outreach. In contrast, profit-sharing contracts exhibit higher ALB levels than Murabahah financing. This higher ALB suggests that profit-sharing schemes tend to serve wealthier clients compared to Murabahah financing. Interestingly, Qardh financing—despite its social nature—shows the highest ALB among all contract types. The exceptionally high ALB in Qardh financing indicates that it primarily serves the wealthiest clients among all financing schemes. This contradicts the social mission of Islamic Rural Banks (BPRS), which are intended to support lower-income clients. It also conflicts with the fundamental nature of the Qardh contract, which is a benevolent (tabarru') social agreement. Further analysis is needed to understand the actual practices of Qardh contracts in BPRS that result in such unusually high ALB values.

As discussed in Section 4.1, the nominal values of Qardh financing exhibit a wide range between the minimum and maximum amounts. This gap is largely driven by the highly fluctuating maximum values observed in certain years. It can therefore be inferred that a few



high-value Qardh loans inflated the overall ALB. Meanwhile, routine social Qardh financing tends to have lower ALB values, which are overshadowed by occasional large-scale loans.

2.2. Nominal Value of Qardh Financing in Supreme Court Decisions

To understand specifically how the Qardh contract is practiced and why its ALB value is unusually high, more detailed case-specific data are required. We obtained data from court rulings available on the Supreme Court's website to examine the purposes and nominal values of Qardh financing in BPRS. We also conducted interviews with BPRS practitioners to understand the actual implementation of Qardh financing. A summary of the court rulings is presented in Table 6, while the interview findings are discussed in the following section.

The summary of court rulings involving Qardh contracts in BPRS shows considerable variation. In the case of BPRS Safir, nine court decisions were identified, with Qardh financing amounts ranging from IDR 6 million to IDR 83 million. The BPRS Safir case involved bankruptcy proceedings, in which all financing was liquidated. The Qardh financing cases of BPRS Safir also displayed relatively long loan tenures, ranging from two to ten years. A similar pattern was observed in the BPRS Cilegon Mandiri case, where loan amounts did not exceed IDR 30 million.

In contrast, the case of BPRS Kota Mojokerto shows a much higher Qardh financing amount, reaching up to IDR 500 million. Unlike the previous two BPRS cases, which involved smaller amounts and longer terms, the Qardh financing at BPRS Kota Mojokerto had a short duration of only a few months. The Qardh financing in this case was used for loan restructuring; hence, despite its large amount, the repayment period was relatively short. By contrast, the Qardh cases in BPRS Cilegon Mandiri—used to support employees—and in BPRS Safir—primarily for social purposes—involved smaller amounts and multi-year terms.

Based on the data in Table 5, social-purpose Qardh financing is characterized by smaller nominal amounts and longer repayment periods. In contrast, non-social Qardh financing tends to involve larger amounts and shorter terms. Given these characteristics, even



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when the number of social and non-social Qardh loans is similar, the overall ALB remains skewed upward due to the larger nominal values of non-social financing.



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Table 6. List of Court Decisions on Qardh Financing in Islamic Rural Banks (BPRS)

Nama BPRS	No Putusan Perkara	No Dokumen Pendukung	Nominal	Tgl transaksi	jatuh tempo
BPRS SAFIR	17/Pdt.G.S/2021/PA.Crp	No. 04.001064/QORD/BPRS-SAFIR/XI/2016	18.000.000	24 November 2016	24 November 2021
	18/Pdt.G.S/2021/PA.AGM	No. 04001744/QORD/BPRSSAFIR/VIII/2016	30.000.000	26 Agustus 2016	26 Agustus 2021
	19/Pdt.G.S/2021/PA.AGM	No. 04001696/QORD/BPRSSAFIR/VI/2016	25.000.000	14 Juni 2016	14 Juni 2026
	20/Pdt.G.S/2021/PA.AGM	No. 04001802/QORD/BPRS-SAFIR/IX/2016.	83.000.000	28 September 2016	28 September 2021
	21/Pdt.G.S/2021/PA.AGM	No. 04001897/QORD/BPRS-SAFIR/II/2017	6.000.000	20 Februari 2017	21 Februari 2019
	22/Pdt.G.S/2021/PA.AGM	No. 04001699/QORD/BPRS-SAFIR/VI/2016.	18.500.000	14 Juni 2016	14 Juni 2026
	23/Pdt.G.S/2021/PA.AGM	No. 04001826/QORD/BPRS-SAFIR/XI/2016.	29.000.000	08 November 2016	08 November 2019
	29/Pdt.G.S/2021/PA.AGM	No. 04001862/QORD/BPRS-SAFIR/XII/2016	27.000.000	28 Desember 2016	28 Desember 2021
	31/Pdt.G.S/2021/PA.AGM	No. 04001807/QORD/BPRS-SAFIR/XII/2016	22.000.000	10 Oktober 2016	11 Oktober 2018
BPRS KOTA MOJOKERTO	99/Pid.Sus-TPK/2024/PN Sby	No. 096/C-QARDH/KC-MJK/V/2019	500.000.000	12 Juni 2019	12 Juli 2019
	100/Pid.Sus-TPK/2024/PN Sby	No. 113/C-QARDH/KC-MJK/VIII/2019	121.000.000	1 Agustus 2019	01 November 2019
		No. 119/CQARDH/KC-MJK/VIII/2019	450.000.000	29 Agustus 2019	29 November 2019
		No. 120/C-QARDH/KC-MJK/VIII/2019	200.000.000	30 Agustus 2019	30 November 2019
	101/Pid.Sus-TPK/2024/PN Sby	No. 030/C-QARDH/KC-MJK/X/2018	500.000.000	2 Oktober 2018	2 Januari 2019



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		No. 035/C-QARDH/KC-MJK/X/2019	100.000.000	11 Oktober 2018	11 November 2018
		No. 108/C-QARDH/KCMJK/VII/2019	500.000.000	31 Juli 2019	31 Oktober 2019
		No. 138/C-QARDH/KCMJK/X/2019	500.000.000	31 Oktober 2019	31 Januari 2020
BPRS SARANA PRIMA MANDIRI	200/Pid.B/2024/PN Pmk	SK No 045/SKDIR/BPRS-SPM/VIII/2019	131.000.000	07 November 2019	N/A
	201/Pid.B/2024/PN Pmk		128.000.000	08 November 2019	N/A
			260.000.000	N/A	N/A
BPRS CILEGON MANDIRI	48/Pid.Sus-TPK/2022/PN Srg	No. 4580100085	5.000.000	31 Agustus 2017	N/A
		No. 4580100105	4.500.000	19 Maret 2021	N/A
		No. 4580100111	7.000.000	13 Agustus 2021	N/A
		No. 4580100037	30.000.000	14 Agustus 2015	N/A
		No. 4580100099	15.000.000	27 Februari 2018	N/A

Source: <https://putusan3.mahkamahagung.go.id/search.ht>



2.3. Qardh Financing Practices Based on Interview Findings

The empirical findings from the field interviews reveal that the practice of qardh financing across various Islamic Rural Banks (BPRS) in Indonesia demonstrates significant variation in both intention and operationalization, indicating a persistent gap between its normative conception as a social, non-profit instrument and its actual use in institutional contexts. While qardh is doctrinally classified as a *tabarru'* (benevolent loan) meant to alleviate short-term financial distress among micro clients, in practice, its implementation tends to be incidental, selective, and often internal in nature—serving managerial staff, shareholders, or existing clients with relatively stable financial positions rather than marginalized micro-entrepreneurs. These patterns and variations are further synthesized in Table 6, which summarizes the key insights obtained from interviews with BPRS practitioners.

At BPRS Formes, qardh is used mainly as a temporary bridging facility (*talangan*) to resolve urgent liquidity gaps or facilitate takeovers from conventional banks. Although the bank asserts that repayment is almost always guaranteed, supported by standing intention agreements or collateral, the institution admits that qardh is rarely deployed due to its non-profitable nature and is not considered a productive asset. The management acknowledges the *fiqh* view that qardh should be regarded as a benevolent product, and thus suggests diversifying other commercial products to maintain financial viability.

Table 7. Summary of Interview Findings with BPRS Practitioners

BPRS	Form & Use	Beneficiaries	Funding Source	Key Issues	Remarks / Insights
Formes	Temporary <i>qardh</i> for liquidity/takeover needs	Internal or strong clients	Internal liquidity; with collateral	Non-profitable, rarely used	Viewed as benevolent but not productive; focus on commercial products
Khasanah Riau	Internal welfare loans (health, education)	Shareholders, staff, families	Internal funds, committee approval	Limited outreach; social goal secondary	Seen as moral duty (<i>akhirat value</i>), not inclusion tool
Siak Raya Pekanbaru	Small emergency <i>qardh</i> (< IDR 10M)	Needy clients, emergencies	ZIS funds; 1–1.5% admin fee	Requires collateral; small scale	Charity-based, cautious approach; maintains liquidity balance



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Carana Kiat Andalas	Productive <i>qardh</i> (esp. COVID-19)	Microenterprises in crisis	Internal funds; flexible 5C approach	Non-repayment; moral hazard	Empathy-based, but clients misperceive as grants
Tani Tulang Bawang	Social-capital <i>qardh</i> (developmental)	Internal, selective micro clients	Limited internal funds	Narrow coverage; informal plan	Suggests inclusion in <i>RBB</i> and collaboration with BAZNAS/local gov't
MCI	Temporary <i>qardh</i> with <i>murabahah/refinancing</i>	Staff, institutional partners	Internal funds; ad-hoc	Large exposure; low literacy	Clients indifferent to contract type; incidental role
Saruma Sejahtera (Maluku)	Welfare <i>qardh</i> (medical, marriage, education)	Employees, select clients	<i>Qardul hasan & non-halal purification funds</i>	Small, internal scale	Aligns with sharia governance; proposes core product elevation

A similar pattern emerges in BPRS Khasanah Riau, where *qardh* distribution is primarily internal—extended to shareholders, management, or their families for health or educational expenses. Although procedures follow tiered committee approval based on nominal thresholds, the social dimension of *qardh* appears secondary. The management perceives *qardh* as a moral obligation rather than a financial product, emphasizing its eschatological value (“*manfaat untuk akhirat*”) over profitability. Yet, the practice’s internal focus limits its contribution to external financial inclusion.

In BPRS Siak Raya Pekanbaru, *qardh* takes the form of small-scale emergency financing, typically below IDR 10 million, funded from ZIS (zakat, infaq, and sadaqah) allocations. The bank imposes a modest administrative fee (1–1.5%) and requires collateral even for micro amounts, indicating a cautious approach to risk. The management expresses reluctance to expand *qardh* usage due to the absence of direct revenue, illustrating the tension between social ideals and institutional sustainability. Despite that, the use of charity-based funds represents an innovative adaptation to support needy clients without burdening the balance sheet.

Conversely, BPRS Carana Kiat Andalas in Padang applies *qardh* more actively, especially during crisis periods such as the COVID-19 pandemic, where loans were extended to productive microenterprises affected by lockdowns. The process remains flexible and needs-based, with emphasis on empathy and 5C assessments (character, capacity, capital, collateral,



condition). However, instances of non-repayment are reported, underscoring the necessity for borrower education on the true nature of qardh, as some clients mistakenly perceive it as a grant rather than a repayable loan.

BPRS Tani Tulang Bawang provides a more holistic understanding of qardh's social and developmental potential. Although funding sources remain limited and disbursement is largely internal, the management recognizes the long-term indirect benefits of qardh in strengthening microenterprise capacity. The institution conceptualizes qardh as a strategic investment in social capital that can eventually convert micro borrowers into sustainable, loyal clients, recommending that qardh be proportionally integrated into the BPRS Business Plan (Rencana Bisnis Bank) and supported through collaboration with local governments, BAZNAS, and community organizations.

At BPRS MCI, qardh operates primarily as a temporary facility embedded within larger financing schemes, often combined with murabahah for refinancing or takeover purposes. Despite occasional large exposures (up to IDR 3 billion), qardh remains incidental and is restricted to urgent cases, mostly for internal staff or institutional partnerships. The management notes that clients are largely indifferent to the contractual form as long as their financial needs are met—reflecting low financial literacy regarding Islamic contract typologies.

Lastly, BPRS Saruma Sejahtera Maluku uses qardh as a welfare tool for employees and select clients, particularly for medical, educational, or matrimonial needs. The funding derives partly from *karḍul ḥasan* allocations or non-halal income purification accounts, which aligns with sharia governance practices that mandate redistribution of such funds. The bank views qardh as both spiritually meritorious and socially essential, advocating for it to be elevated from a supplementary to a core financing product.

Across these institutions, several systemic patterns emerge. First, qardh is predominantly viewed as a non-core, goodwill-based facility, which explains its marginal quantitative presence in BPRS portfolios. Second, risk aversion and profitability pressures have led banks to confine qardh either to internal beneficiaries or to clients with strong repayment



capacity, contradicting its intended redistributive role. Third, most BPRS lack structured funding mechanisms for qardh—relying instead on incidental liquidity or charitable pools—thus constraining scalability.

Discussion of Research Findings

3.1. Misalignment

The findings reveal a misalignment between the ideal concept of Qardh in Islamic finance theory and its actual practice in BPRS. Within fiqh muamalah, Qardh functions as a social instrument promoting economic solidarity through interest-free (tabarru') financing. However, empirically, most BPRS do not treat Qardh as a strategic component of their financing portfolio. About 88% record an average Qardh share below 5% (75% below 2%), and only 6% consistently maintain proportions above 10%. The exceptionally high Qardh ALB averaging hundreds of millions of rupiah and confirmed by court and interview data—further supports its non-strategic role within BPRS.

This phenomenon highlights a misalignment between the social finance paradigm and the profit-oriented paradigm within the BPRS business model. Most BPRS treat Qardh merely as a complementary instrument or a tool for addressing temporary liquidity needs, rather than as part of a sustainable financing strategy. Interview findings reinforce this view: BPRS practitioners often regard Qardh as a “social burden” that must be offset by profit-generating contracts such as Murabahah or Mudharabah. Consequently, in practice, Qardh functions more as a reactive than a proactive instrument for addressing social needs. The group-based Qardh model implemented by BPRS Al-Salaam could serve as an ideal example; however, commercial imperatives appear to make such practices less appealing to most BPRS practitioners.

This condition indicates a policy gap in the regulation and governance of BPRS. Although OJK and DSN-MUI recognize Qardh as a legitimate and socially valuable contract, there is no institutional incentive or reward mechanism for BPRS that implement it consistently. As a result, Qardh has not evolved in line with the social mission of Islamic finance—the very *raison d'être* of BPRS. An incentive mechanism for BPRS with strong social



performance—such as those actively engaging in socially oriented Qardh—should be established to prevent their practices from becoming purely commercial.

3.2. Risks

The low proportion and inconsistency of Qardh practices among BPRS are also closely linked to the high perceived risk associated with this contract. Financially, Qardh is a non-profit contract, often lacking collateral, which places most of the risk burden on BPRS. This condition raises concerns regarding stability, liquidity, and the soundness of productive assets. Most BPRS that disburse Qardh in significant amounts exhibit high volatility in both proportion and nominal value, as reflected in the threefold gap between their maximum and minimum ratios. Court case analyses further indicate that such risks arise in both high- and low-value Qardh financing. These findings underscore the need for a well-structured internal control system within BPRS as a preventive measure.

Beyond financial risk, there is also an institutional risk associated with the reporting and supervision of this contract. Many BPRS appear to struggle in distinguishing between pure Qardh Hasan and Qardh embedded within multiservice financing products (such as Qardh wal Ijarah). This ambiguity results in inconsistent reporting, thereby reducing the accuracy of industry-wide data. From a regulatory perspective, the absence of technical guidelines governing limits, provisioning, and proportional accounting treatment for Qardh portfolios has led many BPRS to minimize their exposure to this contract. Reporting standards that clearly differentiate Qardh Hasan from Qardh within multiservice products need to be established. Such standardization would make the social commitment of BPRS easier to measure and prevent public misperceptions.

However, this risk does not stem solely from the nature of the contract but also from the absence of social return–based mitigation mechanisms. Under Islamic economic principles, social risks should be collectively borne through takaful schemes or waqf-based liquidity buffers. The absence of such supporting instruments renders Qardh vulnerable and less attractive to Islamic financial institutions that must maintain profitability ratios. BPRS that



implement Qardh for social purposes deserve recognition, and regulatory evaluations overly focused on financial performance should be balanced with assessments of social performance.

3.3. Opportunities For Sharia-Based Inclusion

Although the practice of Qardh in BPRS remains quantitatively limited, this study highlights its substantial potential to enhance Islamic financial inclusion. This contract possesses a distinct social advantage—its ability to reach groups underserved by commercial financing, such as vulnerable micro-entrepreneurs, disaster victims, and communities with limited access to capital. With appropriate institutional mechanisms, Qardh could serve as a strategic instrument for BPRS to strengthen its social function without compromising financial sustainability.

Opportunities to strengthen Qardh can begin with the integration of social finance, crowdfunding collaboration, and incentive mechanisms from regulatory authorities (Aderemi & Ishak, 2020, 2023). For instance, establishing a Qardh Fund based on cash waqf, Islamic CSR funds, or takaful surplus collectively managed at the industry level. BPRS could act as the executing agent for these social funds, minimizing financial risk while expanding social impact. They could also collaborate with BMTs or zakat management organizations to ensure more targeted fund distribution. Furthermore, digitizing Qardh Hasan products through Islamic fintech offers opportunities for greater operational efficiency and transparency. BPRS that successfully manage such social products should receive incentives from regulators to ensure the sustainability of both the institution and its social initiatives.

Synergistic management among regulators, BPRS associations, and Islamic philanthropic institutions is expected to transform Qardh from a mere social contract into an impact financing model that promotes economic justice and reduces social inequality. Thus, the future of Qardh depends not only on institutional moral commitment but also on the design of a Sharia financial ecosystem capable of balancing social values with economic sustainability.

More specifically, effective inclusion should prioritize accurate targeting of the most vulnerable clients while simultaneously strengthening risk management. Without collaboration with other stakeholders, implementing social financing products may become an additional



burden for BPRS. BPRS that have successfully implemented social products should also be continuously monitored. The effectiveness of social targeting can be evaluated through the depth and breadth of outreach—where lower ALB levels indicate greater depth, and growth in the number of clients served reflects wider reach. Based on the findings, excessively long financing tenures increase risk; maintaining a maximum period of two years can enhance both risk control and outreach depth.

Conclusion

This study examines the implementation of qardh financing in Islamic Rural Banks (BPRS) in Indonesia and identifies a significant gap between its normative concept as a non-commercial benevolent instrument and its institutional practice in the field. Doctrinally, qardh is classified as a *tabarru'* contract intended to alleviate short-term financial hardship among micro-entrepreneurs. However, empirical findings reveal that its use is largely incidental and selective, often limited to internal beneficiaries such as management, shareholders, or financially capable clients. This pattern indicates a deviation from qardh's social objectives and reflects a persistent tension between the ethical ideals of Islamic finance and the commercial realities of microbanking.

The analysis also shows that qardh remains a marginal component in the BPRS financing portfolio due to its non-revenue-generating nature and the absence of a structured funding mechanism. Most BPRS rely on incidental liquidity or social funding sources such as zakat, infak, and sadaqah, which constrain the scalability of this product. Excessive risk aversion and weak internal controls further reinforce the perception of qardh as a symbolic rather than a strategic instrument. Nevertheless, practices in several BPRS—such as Carana Kiat Andalas and Tani Tulang Bawang—demonstrate that qardh can function effectively as both a social intermediation tool and an economic buffer, particularly during crises.

Conceptually, this study contributes to the literature on Islamic social finance by demonstrating how regulatory frameworks, managerial perceptions, and institutional logics shape the operationalization of benevolent financing. It broadens the understanding of qardh not merely as a juridical instrument but as a socio-economic mechanism rooted in Sharia-based



inclusion principles. The findings affirm that the sustainability of qardh depends not only on financial factors but also on its alignment with the moral principles of Islamic economics, emphasizing justice ('adl) and compassion (rahmah).

From a policy and managerial perspective, several key implications emerge. Regulators such as the Financial Services Authority (OJK) and the National Sharia Board (DSN–MUI) should strengthen the role of qardh in BPRS business plans through clearer guidelines and incentive-based supervision. BPRS are encouraged to establish dedicated qardh funds in collaboration with BAZNAS, LAZ, or waqf organizations to ensure sustainability without compromising profitability. At the institutional level, stronger governance, transparent fund distribution, and financial education are essential to ensure that qardh is recognized as a benevolent loan to be repaid, not a grant.

Future studies should broaden their scope using comparative or mixed-method approaches that include Islamic microfinance institutions across Southeast Asia. Longitudinal studies are also needed to evaluate the long-term impact of qardh on micro-entrepreneurship and community welfare. Such approaches are expected to deepen theoretical understanding and offer an empirical foundation for policies that reposition qardh as a social finance instrument aligned with the maqāṣid al-sharī'ah and equitable financial inclusion.

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