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## ANALYSIS OF ISLAMIC FINANCIAL INSTITUTIONS ON POVERTY IN INDONESIA

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### **Abstract**

Poverty is a complex problem and must be addressed immediately. Various efforts have been designed and realized by the government to reduce poverty in Indonesia. One of them is establishing a financial institution that is based on Islamic principles commonly known as an Islamic Financial Institution (LKS). The purpose of this study is to find out the role of Islamic financial institutions in poverty alleviation. This research uses the library research method with the search engine used in the literature search is Google Scholar with the keywords Islamic Financial Institutions, poverty alleviation, and poverty of the Indonesian people. The results of the study show that in the LKS there are instruments that can help solve the problem of poverty, namely through the distribution of zakat, utilizing the insurance sector, the BMT program, and capital development as an effort to alleviate poverty. The conclusions of this study indicate that Islamic Financial Institutions can assist the poor in solving the problem of poverty. in poverty alleviation following the goals of the SDGs. Islamic financial institutions have a role, namely helping underprivileged communities by holding zakat distribution programs, utilizing the insurance sector, increasing people's income and businesses to bring prosperity such as through MSME funding, and being able to reduce poverty. to channel various funding needs so that it can have positive value for economic improvement in society as a poverty alleviation effort in Indonesia.

**Keyword:** Islamic Financial Institutions, poverty alleviation, and Indonesian society

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### **INTRODUCTION**

Poverty is a state of inability to fulfill basic needs such as food, clothing, shelter, education, and health. Poverty can be caused by the scarcity of means to fulfill basic needs or difficulty in accessing education and employment. Poverty is a global problem. Some people understand the term subjectively and comparatively, while others see it in moral and evaluative terms, and still others understand it from an established scientific angle, and so on. Poverty is a complex problem that must be addressed immediately. Indonesia is one of the countries that focuses on overcoming poverty by combining economic growth and development. Poverty in Indonesia is still a serious problem, although statistically, the number of poor people in Indonesia is still very large.

Although poverty is most severe in the developing world, there is evidence of its presence in every region. In developed countries, it presents homeless people wander around impoverished suburbs and ghettos. Poverty can be seen as the collective condition of poor

people, or groups of poor people, and in this sense, whole countries are sometimes considered poor. To avoid this stigma, these countries are usually referred to as developing countries. Various efforts have been designed and realized by the government to reduce poverty in Indonesia, in the SDGs also stated no poverty or no poverty as a top priority to eliminate poverty in any form throughout the world. all over the world, and Indonesia is no exception.

One of them is by forming a Sharia Financial Institution. Islamic Financial Institutions are a banking system whose implementation is based on Islamic law (sharia). In this case, Islamic financial institutions are needed to operationalize functions related to money. Sharia Financial Institutions can help regulate the economic system in industry and trade based on moral and divine concepts and rely on the teachings of halal, good, honest, trustworthy, mutual love, and brotherhood. This journal aims to find out the role of Islamic financial institutions in poverty in Indonesia.

## **METHODOLOGY**

In writing this journal, researchers used a qualitative method with a *library research* approach. The sources of information and data used in this research come from scientific journals, accredited journals, and several sources of writing that can support the results of this research properly and correctly. In this research, the author will focus on understanding the analysis of Islamic financial institutions on poverty in Indonesia. The literature search strategy in this research uses online sites through Google Scholar.

## **RESULT AND DISCUSSION**

### **A. Islamic Financial Institutions**

Islamic financial institutions are financial institutions whose operations use Sharia principles that avoid elements of usury, gharar, and maisir. The main purpose of Islamic financial institutions is to fulfill the commands of Allah SWT in the fields of economics and muamalah and help free the Muslim community from activities prohibited by Islamic teachings. Islamic financial institutions (LKS) are also defined as financial institutions that issue Islamic financial products and obtain operational licenses as Islamic financial institutions. Islamic financial institutions are business entities or institutions whose wealth is mainly in the form of financial assets and non-financial assets or real assets based on the concept of sharia (Rodoni dan Hamid, 2008).

The growth and development of the Islamic economy in the financial sector is indeed very encouraging, but unfortunately, the rapid growth of the financial sector is not balanced with the growth in the Islamic real sector. The development of the Islamic real sector is far behind when compared to the financial sector (Agustianto, 2011).

Given that Islamic banks and other financial institutions are faced with the obstacle of lack of popularity among the public, it is quite important to increase their popularity with customers, through promotion, advocacy, and various channels of socialization in various educational institutions, in collaboration with universities, scholars and Islamic organizations.

Islamic financial institutions, one of whose activities is to try to channel surplus funds to parties experiencing a fund deficit (Arif, 2012), so that these activities can be an effort to alleviate poverty with zakat activities, in achieving these targets, financial institutions products such as insurance and others, which have a positive value in helping the economy in Indonesia.

## **B. POVERTY**

Poverty that occurs in Indonesia can be caused by two things, namely structural poverty and cultural poverty. Structural poverty can be caused by unequal management of resources, unequal access and ability of the community, as well as due to injustice in obtaining employment opportunities, which in turn will lead to income inequality, causing inequality in the structure of society. Meanwhile, cultural poverty is always associated with the attitude and behavior of a person or community that is influenced by habits and attitudes that tend to surrender and not try to get out of this situation.

The government has conducted many programs to alleviate poverty. However, in reality, these programs have not been right on target. So there needs to be a new design so that it can be ensured that the program is right on direction and right on target. The Islamic economic system, including the Islamic financial institutions in it, has the right and obligation to participate in managing the resources in this country. One of them is the involvement of Islamic financial institutions in encouraging poverty alleviation.

Poverty in economics is not only related to material and money but also to individual, environmental, political, social, and economic problems. Poverty is a problem that faced by all countries in the world which makes it a problem that is continuously discussed to find the right treatment. Poverty can originate from individuals and causes problems for every human being and is difficult to overcome because it is human nature. The attitude of deprivation and the attitude of wanting to live in luxury is proof that poverty will always occur.

## **C. ISLAMIC FINANCIAL INSTITUTION ON POVERTY ALLEVIATION**

Islamic financial institutions are institutions in the field of financial services that move by collecting funds from the public and channeling them back through funding. The benefit of this financial institution is to get cash so that there will be no worries about the lack of availability of cash circulating in the community. Financial institutions also act as a forum for asset transfer activities by channeling funds to other parties to be managed within a certain time. Another benefit of financial institutions is that they facilitate financial transactions. With this institution, people can save time and energy in carrying out activities related to finance. Islamic financial institutions are institutions that apply a non-interest system. Islamic banks have principles and operational bases that are integrated with social values and economic activities.

Islamic financial institutions are financial institutions whose operations use sharia principles based on the Koran and Hadith. Islamic financial institutions play a role in helping the community's economy and helping in poverty alleviation efforts with the function of as well as the benefits of Islamic financial institutions such as ease of transactions, saving time and energy in carrying out activities related to the financial agenda, in addition to the application of a non-interest system as well as principles and operational work that are integrated with social values and economic values, where this can be created by expanding access to micro, small and medium enterprises (MSMEs), by providing capital in addition to the products of Islamic financial institutions provided which apply profit sharing under Islamic teachings, namely mudharabah financing, which this financing activity is productive by investing capital for MSMEs which can empower the economy of small communities, as well as improve the economy of small communities. Income also helps to reduce the population of the poor and reduce unemployment due to the opening of new job opportunities. However, there are

limitations to Islamic financial institutions, and public awareness of Islamic financial institutions that are still low and more interested so more people prefer to make transactions with conventional financial institutions, this is due to public assumptions about the Islamic financial institution system which seems difficult and complicated so that it does not attract much public enthusiasm, even though when viewed from economic development in Indonesia, especially for micro-business actors, this Islamic financial institution helps so that the role of Islamic financial institutions in expanding the market is needed so that it can increase a large contribution to the country's economy, this is a way provided by Islamic financial institutions in meeting the needs of the community so that it can prosper as well as a form of poverty eradication efforts.

Baitul Maal Wattamwil (BMT) is a supporting institution for small community economic activities based on sharia which functions to collect zakat, infaq, sadaqah and waqf funds and other social resources. Along with its development, BMT develops its business in the financial sector such as saving pinajm which collects funds from members and prospective members (customers) and distributes them to halal and profitable economic sectors.

The strategic role of BMT in reducing poverty can be seen from the economic activities of BMT which has social activities (Baitul Maal) and business activities (at Tamwil). BMT's socio-economic activities are carried out with the zakat, infaq sedeqah, and waqaf movements. This is an advantage of BMT in reducing poverty. By using this ZISWAF fund, BMT runs a virtuous loan product (Qardhul Hasan). This BMT social activity can be referred to as an effort of protection or social security that can maintain the development process of the poor significantly, this social protection ensures the distribution of a sense of well-being from people who do not have to people who have.

This is where BMT acts as an agent of asset distribution (agent of asset distribution from those who have to those who do not have) which can empower the ummah economy. This social function of BMT will also be able to create a harmonious relationship between two different classes. As for its business activities, BMT provides financing to people who need business capital and serves people who want to entrust their funds to BMT with the concept of sharia. This will certainly be able to provide loan assistance to people who need it.

These two virtues make BMT an institution that is most suitable for overcoming the problem of poverty experienced by most of the people of Indonesia. The two sides of fund management (Baitul Maal and Baitul Tamwil) should go hand in hand, if one is missing then the concept becomes lame and becomes not optimal in achieving its goals. Schemes like this will later become a symbiotic mutualism in contributing to empowering the community which in turn can contribute to reducing poverty in Indonesia. However, this will not be realized properly, if it is not balanced by support from various aspects, both the community, the government, and the BMT itself in realizing these great goals.

In addition, BMT must be able to improve the performance of all elements in the institution, both related to services, products, promotion, and health of the institution (BMT) itself so that people can trust BMT as one of the shariah financial institutions that should be taken into account. More importantly, BMT must carry out its activities following the principle of Shariah, considering that BMT is an institution based on Shariah. If the business or activity of BMT is by sharia then it is not difficult for BMT to help people to get out of poverty. Increasing the effectiveness of the role of BMT in Indonesian society can be done by increasing

activities through education, utilization of *baitul maal*, and increasing the motivation of members.

#### **D. POVERTY IN INDONESIAN SOCIETY**

Poverty is defined as a situation in which a person is unable to provide for himself under the standard of living of the group and is also unable to utilize mental and physical energy in the group. It can also be interpreted as the economic gap or inequality in income distribution between high-income groups and low-income groups and the poverty rate or the number of people below the poverty line are two major problems in many developing countries, including Indonesia. Empowerment is one of the activities carried out to reduce poverty to achieve development goals. According to Chambers, poverty, especially in rural areas, has five interrelated characteristics: material poverty, physical weakness, isolation and remoteness, vulnerability, and powerlessness.

Poverty that continues will certainly have an undesirable social impact on society. Natural symptoms in society such as norms, social groups, social institutions, social processes, and social and cultural changes and their manifestations will turn into pathological symptoms, this is because the elements of society cannot function, causing disappointment and suffering.

Some of the characteristics of a culture of poverty include fatalism, low levels of aspiration, low willingness to pursue goals, lack of personal progress, feelings of helplessness/incompetence, feelings of constant failure, negative self-esteem, preference for manual labor positions, and deplorable levels of compunction.

Poverty that occurs in Indonesia caused by two things, namely structural poverty and cultural poverty. Structural poverty can be caused by unequal management of resources, access and The unbalanced capabilities of the community, as well as the result of injustice in obtaining employment opportunities, will ultimately lead to income inequality, resulting in inequalities in the structure of society. Meanwhile, cultural poverty is always associated with the attitude and behavior of a person or community that influenced by habits and attitudes tend to surrender and not try to get out of this situation.

The point of view in Islamic economics, Allah SWT prohibits poverty in the Qur'an surah al-Isra verse 29. In hadisth says that: "Work for your world as if you will live forever and worship for your hereafter as if you will die tomorrow". Therefore, based on the above references, it can be a basis for Muslims to work and fight against all forms of poverty that exist.

The government has conducted many programs to alleviate poverty. However, in reality, these programs have not been right on target. So there needs to be a new design so that it can be ensured that the program is right on direction and right on target. The Islamic economic system, including the Islamic financial institutions in it, has the right and obligation to participate in managing the resources in this country.

##### **1. Poverty Reduction**

The issue of poverty and social inequality still become a big problem in Indonesia, especially in rural areas. The issue of poverty and social inequality can become a conflict for it must find alternatives to poverty reduction. Poverty is a condition of not fulfilling the basic (essential) needs of individuals as humans. One of the efforts in poverty reduction is empowerment, for example, environmental empowerment and entrepreneurial empowerment.

Empowerment is a process that develops and strengthens the ability of the community to continue to be involved in a dynamic development process so that the community can solve the problems faced and make decisions. Empowerment is a comprehensive and integrated program to improve the quality of human resources, and human capital, which is also directed at achieving the Millennium poverty and improving the quality of cultured and democratic people.

## **2. Strategies for poverty reduction include (Dirjen Dikti, 1998):**

Strategies to overcome the poverty crisis can no longer be seen from one dimension only (economic approach), but require a complete and comprehensive diagnosis (systemic) of all aspects that cause poverty locally. To achieve the target of reducing poverty, the KPK established a community empowerment strategy in 2 (two) ways, such

- a. reduce the burden of consumption expenditure on the poor.
- b. Increase the productivity of the poor to increase their income

Increased productivity is carried out through the development and empowerment of community businesses, especially Micro, Small, and Medium Enterprises, which includes program sharpening, funding, and assistance. The assistance referred to a program of preparation, promotion, and protection to increase the capacity of community resources and institutions as program beneficiaries so that the funding channeled can be absorbed and utilized properly.

## **CONCLUSION**

Islamic Financial Institutions can help in poverty alleviation. Overall, governments at both the national and regional levels have thought about and provided specific programs to overcome poverty levels. However, the increasing population has forced the government to reform the poverty alleviation policy. In Islamic economics, it has been taught to use zakat in overcoming poverty to achieve equality of social inequality. Furthermore, the existence of Islamic financial institutions can help the poor in terms of funding without having to use an internet system that sometimes torments them. Islamic financial institutions have a role, namely helping underprivileged people with the implementation of zakat distribution programs, utilizing the insurance sector, increasing income and community businesses to bring prosperity to the existence of BMT, and channeling various funding needs so that they can be of positive value for economic improvement in society as an effort to alleviate poverty in Indonesian society.

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