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# Enhancing Access to Microenterprise Financing through the Qardhul Hasan Model: A Sharia-based Solution

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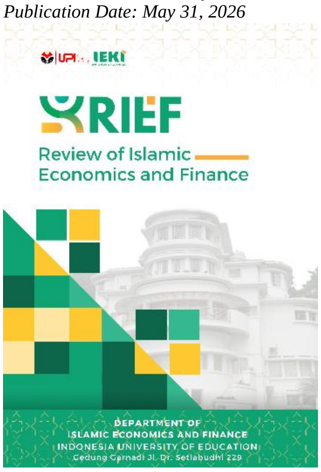


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***Abstract***

***Purpose*** *– The purpose of this study is to find out how the qardhul hasan financing model became a microenterprise financial solution post-covid pandemic. The benefit of this research is that it can be used as a constructive input for related parties, in this case, sharia micro finance institutions, sharia banking, micro-entrepreneurs, and government such as the Department of Cooperatives and SMEs, state-owned companies, and scientific contributions in the literature Islamic economics regarding the qardhul hasan model as a solution to Islamic finance and economics in enhancing microenterprise post-covid pandemic.*

***Methodology*** *- Through research that uses a qualitative approach aims to be able to decipher data from a variety of literature on issues of access to finance faced by micro-companies and qardh al hasan is critically reviewed and used to propose alternative models.*

***Findings*** *- The study reveals that the Qardhul Hasan financing model establishes a structured mechanism connecting donors from both public and corporate sectors with micro-enterprises through Sharia Microfinance Institutions (LKMS). Funds collected from donors are channeled by LKMS as Qardhul Hasan loans (benevolent loans) to micro-enterprises that lack access to conventional financial systems. This model effectively reduces financial exclusion, provides liquidity support, and enables micro businesses to sustain and rebuild operations after the COVID-19 pandemic.*

***Implication*** *- The system fosters collaboration between society, corporations, and Islamic financial institutions in realizing social justice and inclusive economic empowerment. The model also offers practical implications for policymakers in designing crisis-responsive Islamic microfinance frameworks and for scholars in advancing the theoretical foundation of Islamic social finance.*

***Keywords:*** *Qardhul hasan; micro-enterprise; post-COVID-19, model*

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## 1. INTRODUCTION

The COVID-19 pandemic has become a global crisis that affects almost all aspects of human life, including the economy. In Indonesia, the impact is felt very significantly, especially in the micro, small and medium enterprise (MSME) sector, which is the backbone of the national economy. Bank Indonesia noted that 87.5% of 93.2% of MSMEs in Indonesia were affected by Covid-19 in terms of sales, where there was a decrease in purchasing power and disruption to the supply chain due to restrictions on community activities (Saputra, 2021). As an important pillar in the economy, micro businesses face various challenges in facing this crisis, such as limited capital, difficulty accessing financing and market uncertainty. The crisis that occurred also showed the weakness of the financial structure for micro business actors. Access to conventional financing which relies on interest and strict administrative requirements is often an obstacle for micro businesses which generally do not have adequate financial records. The inability to fulfill these requirements means that many micro business actors are trapped in difficult financial situations, even to the point of closing their businesses. In these conditions, financial solutions are needed that not only provide easy access to capital, but are also based on the principles of justice, sustainability and social solidarity.

Indonesia, as the country with the largest Muslim population in the world, has a great opportunity to increase the growth of micro businesses with sharia economic and financial solutions. Providing business capital can be done using a qardh al hasan loan. Qardhul Hasan is a loan agreement given by the lender (muqtaridh), in this case a Sharia Financial Institution, to the borrower (muqridh), namely the customer, with the condition that the customer must repay the loan in the same amount when borrowing without any additional (Zubaidah, 2018). By improving the social welfare, justice, and economic development of the impoverished in numerous nations through financial inclusion, Islamic microfinance has demonstrated itself to be a successful instrument in the fight against poverty (Shikur & Akkas, 2024).

Qardhul Hasan, as a sharia-based financing model, offers innovative solutions to answer these needs. Qardhul Hasan is interest-free financing provided on the basis of benevolence and mutual assistance, where the lender does not seek financial gain, but simply wants to help those in need (Priyono et al., 2022). This approach has great potential to support post-pandemic economic recovery. Apart from providing capital assistance to micro business actors, qardhul hasan also reflects the values of solidarity and mutual cooperation in society. By utilizing this model, it is hoped that micro business actors can revive and contribute to national economic growth.

Previous research on financing models for micro, small, and medium enterprises (MSMEs) has been conducted by Sari et al. (2023), who focused on developing financing frameworks based on the ZISWAF scheme (Zakat, Infaq, Sadaqah, and Waqf). In contrast, the present study adopts the qardhul hasan financing model, as it represents one of the most accessible forms of financing for MSMEs, offering interest-free support and promoting Islamic financial inclusion for micro-entrepreneurs who are often excluded from conventional credit systems. Many previous studies have examined qardhul hasan as a solution for post-Covid-19 economic recovery. As study by Amin (2023) examine factors that could determine breadwinners' willingness to accept qardhul hassan financing in the time of coronavirus disease 2019 (COVID-19). Meanwhile, this research focuses on microenterprise targets. Other study by Syarifuddin (2022) describes several solutions and the role of Islamic socio-economic and financial policies that can be offered in addressing the COVID-19 pandemic in Indonesia, one of which is qardhul hasan. Therefore, this study generally explains possible solutions for COVID-19 pandemic recovery. This study specifically discusses the proposed qardhul hasan financing model as a solution for post-COVID-19 economic recovery. This is reinforced by research by Raji & Ishak (2023), which states that qardul hasan will effectively alleviate poverty by creating opportunities for businesses and closing the gap between the rich and poor in society. Therefore, this research is crucial for discussion as a solution for post-COVID-19 economic recovery.

Based on this background, this research seeks to answer the main question, namely how the qardhul hasan financing model can be a financial solution for micro businesses after the COVID-19 pandemic. This research also examines the implications for strengthening the role of sharia financial institutions and policies for empowering MSMEs during the economic recovery period. In line with this, the aim of this research is to analyze the qardhul hasan financing model as a sharia financial instrument that has the potential to support the sustainability and recovery of micro businesses after the pandemic, as well as provide strategic recommendations for sharia financial institutions and the government in expanding access to inclusive financing based on Islamic values. Thus, it is hoped that the results of this research can contribute to the development of sharia financial practices that are inclusive, innovative and relevant to community needs, especially in supporting the sustainability of micro businesses after the global crisis.

## 2. LITERATURE REVIEW

Qardhul hasan is defined as an interest-free loan (Ajlouni, 2017). Meanwhile, in PSAK 101, it is stated that qardh (charity fund) is a voluntary contribution such as infaq, charity (amal), and the return of productive benevolent funds. Qardh can be used to finance productive benevolent activities, donations, and has other uses for public interest (Menne, 2017). According to Falikhatun et al. (2016), Qardh is a contract to lend money, whereas qardhul hasan is essentially a form of charity, as this contract does not require the return of the loan. However, in several countries such as Malaysia, Iran, Kuwait, Bahrain, and other Middle Eastern countries, there is no distinction between qardh and qardhul hasan**.** When strategically utilized, this financing method offers considerable potential in strengthening the resilience of small and medium-sized enterprises (SMEs), particularly in the face of economic disruptions such as those caused by the COVID-19 pandemic (Syed & Khan, 2020). One important instrument for reducing poverty and promoting economic empowerment is Islamic microfinance. Through the application of the value chain and its financial impact, microfinance can encourage economic empowerment. For instance, it guarantees the sustainability of projects as it offers complete solutions for all obstacles (business opportunity, finance, supportive investment, etc.) and not only cash solutions (Zitouni & Ben Jedidia, 2022).

There are many studies that focus on the role of qardh al hasan financing in improving people's welfare, especially for micro business owners. For example, Vabella et al. (2018) explain that qardh al hasan financing is quite effective for the development of micro businesses by fulfilling the measurement of several indicators such as usability, accuracy and objectivity, scope, accountability, cost effectiveness, and timeliness. In addition, qardh al hasan financing has a significant impact on the development of micro businesses with sales turnover growth as seen from income and customer growth. Furthermore, Zauro et al. (2020) stated that qardhul hassan is an important tool for providing loans to low-income groups. By organizing and creating this microcredit instrument, it aims to redistribute income among the community which can create the structure and background needed for the development of poverty alleviation programs. The implementation of qardh al-hasan financing is quite profitable. As research conducted by Machfudz & Kamila (2019) shows that qardhul hasan allocated to creative economy groups shows a feeling of happiness and calm because loan repayments are not burdened with costs, in addition to having flexibility from the time of payment. Economic actors managed to collect savings from loan installment payments. Qardhul hasan funding received a fairly good response from economic actors. Ismal (2013) conducted a study aimed at building Islamic sharia monetary instruments, namely qardhul hasan, Waqf and Grants. These instruments can provide economic and social benefits to people in need. Falikhatun et al. (2016) stated that implicitly the basic principle of Qardh al hasan financing in Islamic banking is a sense of care, responsibility and obligation to distribute wealth from rich people to people in need. The purpose of providing Qardh al hasan funds is to eradicate Mustahiq from Muzakki.

Regarding its function as a financial tool, Aderemi & Ishak, (2020) state that qardhul hasan may be able to support the advancement of social and economic inclusion in the neighborhood. knowledge, and merits, and eliminating social and economic bias from society. Widiyanto et al. (2011) and Ayuniyyah (2023) argue that the qardhul hasan financing model is effective in empowering economic activities for those in need. Furthermore, qardh al-hasan has the potential to be further developed as a poverty alleviation model. According to Iqbal & Safiq (2015), it is very important to have a policy to utilize the great potential of qardh al hasan towards the goal of social justice, especially in Muslim-dominated countries. Dirie et al. (2023) state that islamic social finance offers a distinctive method of funding development initiatives grounded in moral standards and ideals. Microfinance tools like qard-hasan and Islamic social finance instruments like zakat, waqf, and sadaqat offer a sustainable and moral method of funding development initiatives. Citaningati et al., (2022) in their research explained the implementation of the Qardhul Hasan contract at BAZNAS, BWI and other Islamic financial institutions and discussed the differences in the management of Qardhul Hasan at BAZNAS Semarang Regency and BAZNAS Tulungagung Regency.

Several studies that have been mentioned previously focus on how qardh al-hasan as an Islamic social finance solution is able to provide a fairly effective role in alleviating poverty, improving people's welfare and developing micro-enterprises. Meanwhile, the conceptual framework of this study is based on the state of micro-enterprises during the COVID-19 pandemic, where this sector has experienced quite large losses. Where the use of the qardhul hasan contract as a solution for post-pandemic economic recovery is still limited. Thereforthis study will propose a model of how qardh al hasan as financing in Islamic economics is implemented as a solution to the losses of these microenterprises.

## 3. METHODOLOGY

This research uses a qualitative approach because it wants to understand social phenomena through a holistic picture and increase in-depth understanding (Moleong, 2019). Descriptive and inductive approaches were used in qualitative research to accomplish the goal of the study. Furthermore, this research uses the library research method, namely an approach that focuses on collecting and analyzing data from various literature that is relevant to the topic being studied. Data was collected through systematic searches from various written sources, using academic databases such as Google Scholar, ScienceDirect, Emerald Insight, ResearchGate, and DOAJ, as well as national repositories and reputable journals in the fields of Islamic economics and sharia finance. Keywords used include “qardhul hasan”, “sharia microfinance”, “micro business financing”, and “post-COVID recovery”. The data collection process includes three stages: initial identification of relevant literature, selection and verification of topic suitability, as well as data extraction from selected sources containing concepts, models and findings related to qardhul hasan.

Data analysis was carried out descriptively-critically to identify patterns, themes and relationships between the qardhul hasan concept and post-pandemic microfinance needs. The analysis stages include data reduction, presenting data based on conceptual, implementation and policy aspects, as well as drawing conclusions to formulate alternative models of qardhul hasan financing that are appropriate to the micro business context. With this approach, it is hoped that research can provide an in-depth understanding of the role and potential of qardhul hasan as an inclusive financial solution for MSMEs in the post-COVID-19 economic recovery period.

## 4. RESULTS AND DISCUSSION

### 4.1 Proposed Qardhul Hasan Financing Model for Micro Businesses Post the COVID-19 Pandemic

In recent years, organizations have faced a range of significant, unpredictable events such as the financial crisis, geopolitical tensions, trade disputes, and the COVID-19 pandemic that have dramatically impacted the global economy and society. These challenges have highlighted the need for new frameworks to navigate an increasingly unstable environment. One such framework is VUCA—an acronym for Volatility, Uncertainty, Complexity, and Ambiguity (Shet, 2024). Initially developed by the U.S. military, VUCA has been widely adopted in business and academia to describe the dynamic nature of today's world.Volatility refers to the rapid and unpredictable nature of change, while Uncertainty points to the difficulty in forecasting outcomes. Complexity addresses the interdependencies and intricate connections within systems, and Ambiguity highlights the lack of clarity in interpreting events. By using the VUCA framework, organizations can better understand the challenges they face, fostering resilience, adaptability, and strategic foresight in response to this ever-changing environment.

During the COVID-19 pandemic, the micro business sector was one of the most affected, facing great pressure in maintaining operational continuity and its contribution to the economy. Weakening supply and demand causes micro businesses to experience losses. Azwar in his research (Azwar, 2020), stated that micro businesses are a group that is very vulnerable to falling into poverty and bankruptcy due to economic shocks or impacts. According to a report by the Central Statistics Agency (BPS, 2020), as many as 84.20% of micro and small businesses, as well as 82.29% of medium and large businesses experienced a decline in income during the pandemic. This situation emphasizes that the economic impact of the Covid-19 pandemic is different from previous economic crises, such as the 2007–2009 global financial crisis, where the Indonesian economy was relatively more resilient than other countries. Even though economic growth was disrupted during that period, there was no significant economic contraction. One of the causes is the resilience of Micro, Small and Medium Enterprises (MSMEs) which were not too affected by the global financial shock at that time (Sinamo & Hanggraeni, 2022).

Therefore, efforts to provide capital to businesses are used as a means to reduce the impact of the crisis. One effort to prevent micro businesses from being affected by the crisis is to provide capital facilities for these micro businesses. It is important to integrate financing schemes in the Islamic economy as a solution to post-pandemic economic problems. Because in addition to the commercial mission, Islamic economics upholds the social mission.

According to Zauro et al. (2020), qardhul hasan plays a role as an important instrument in providing loans for people with low incomes. Through the management and development of microcredit, this instrument is designed to support the redistribution of income among society, while building the foundations needed to develop programs focused on poverty alleviation. Implementing qardhul hasan financing provides many benefits. Machfudz & Kamila's research (2019) revealed that qardhul hasan distributed to groups of creative economy actors creates a sense of comfort and happiness because loan repayments do not come with additional costs. In addition, this scheme offers flexibility in repayment times, allowing business actors to set aside savings from paying their loan installments.

However, the qardhul hasan financing discussed still depends on funding sources from zakat, infaq or alms managed by Sharia Microfinance Institutions (LKMS). Therefore, more effective and efficient policies are needed to support micro-enterprise funding. LKMS presents a unique approach to poverty alleviation by combining Islamic spiritual values and best practices in microfinance. This is done through integrated charity management, such as zakat, infaq, waqf, and Qardh Hassan instruments (benevolent loans), which are aimed at meeting basic needs while empowering the community in a sustainable manner. As a non-profit instrument, this approach focuses on inclusive development and expansion. There are 7 main principles in alleviating poverty through LKMS, namely (Ascarya, 2024):

1. Charity as a form of social responsibility;
2. Economic empowerment to create independence;
3. Avoiding debt to prevent excessive financial burden;
4. Cooperation and solidarity as a form of ukhuwah;
5. Family cohesion as the core of social strengthening;
6. Sharia compliance in contracts to ensure fairness and transparency; And
7. Islamic norms combined with modern microfinance practices to achieve efficiency and sustainability.

The qardhul hasan financing model proposed in this research is designed as an alternative for current micro businesses whose financing will be channeled by LKMS, with additional sources of funds that can be allocated as qardhul hasan funds in the post-COVID-19 pandemic period as shown in figure 1.

Below are explained the details of the model:

1. Arrow [1] shows the flow of funds from donors (both the public sector consisting of the community and companies consisting of private companies, BUMN/BUMD) who will contribute to giving alms to LKMS. The community will contribute by donating cash to LKMS voluntarily. The corporate sector can contribute funds as part of their corporate social responsibility (CSR).

2. Arrows [2a] and [2b] indicate that LKMS will provide financial facilities by involving qardhul hasan financing between micro entrepreneurs. Qardhul hasan (interest-free loan) arrangements are where LKMS and micro companies are jointly involved in a loan agreement. The loan is returned at the time agreed in the contract with the same amount when initially borrowed. From these funds, micro businesses can develop their businesses which previously experienced a lack of capital during the COVID-19 pandemic.

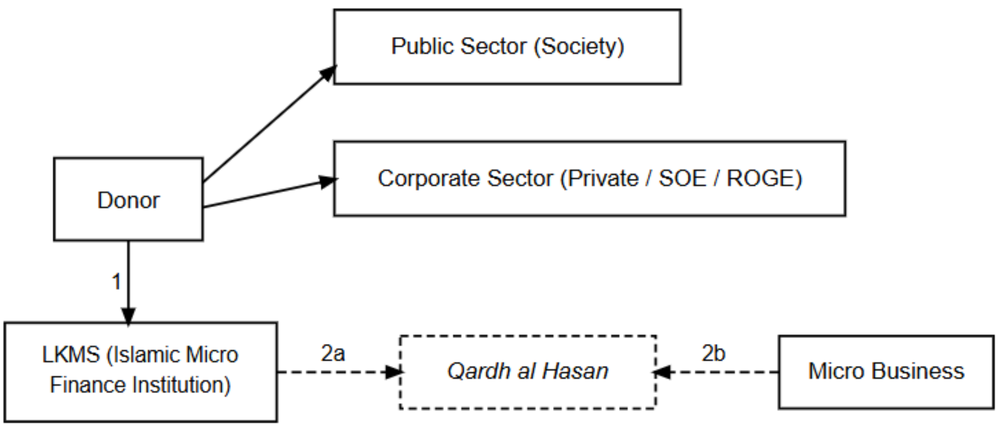


Figure 1. Conceptual Framework of the Qardhul Hasan Financing Model
Source: Author (2025)

In the proposed Qardhul Hasan financing model, Islamic Microfinance Institutions (Lembaga Keuangan Mikro Syariah, or LKMS) provide financial assistance to micro enterprises without requiring collateral, charging interest, or imposing complex and burdensome documentation requirements. This approach is intentionally designed to accommodate the unique characteristics of micro businesses, many of which operate informally and lack the conventional prerequisites for accessing financing through traditional banking systems. By removing these structural barriers, LKMS can promote greater financial inclusion and reach a segment of the economy that is often excluded from mainstream financial services.

However, to ensure the successful implementation and sustainability of this model, a strong framework for monitoring and support must be established. LKMS should not only act as financiers but also serve as development partners who actively engage with the micro-entrepreneurs they serve. This includes conducting regular supervision, providing technical assistance, and offering guidance on financial management and business planning. The supervision process is not intended to restrict entrepreneurial autonomy, but rather to ensure that the funds provided are used productively and in accordance with the purpose of the financing. By maintaining close oversight, LKMS can reduce the risk of fund mismanagement and enhance the chances of successful loan repayment.

On the other hand, recipients of Qardhul Hasan financing namely, the micro businesses carry the responsibility to utilize the funds wisely and efficiently. The capital received should be allocated directly toward the improvement or expansion of their business operations, such as purchasing raw materials, upgrading equipment, or increasing production capacity. A disciplined and goal-oriented use of funds will not only contribute to the sustainability of their business but also enable them to meet their repayment obligations within the agreed timeframe. This mutual commitment between the LKMS and the micro-entrepreneur reflects the spirit of ta'awun (mutual cooperation) and amanah (trustworthiness), which are foundational values in Islamic financial ethics.

Furthermore, by fostering this reciprocal relationship of trust and accountability, the Qardhul Hasan model can evolve into more than just a financial transaction it becomes a tool for empowerment, capacity building, and community resilience. With adequate support systems and clear expectations on both sides, this model can contribute to a more inclusive and ethical economic ecosystem, where financial services are not solely profit-driven, but also grounded in social responsibility and the principles of Islamic solidarity.

This study is in line with the research conducted by Sari et al. (2023), who developed a financing model aimed at enhancing the performance and sustainability of MSMEs. However, while Puspitasari's work focused on ZISWAF-based (Zakat, Infaq, Sadaqah, and Waqf) financing schemes, the present study extends this line of research by adopting the qardhul hasan financing model, which is more accessible to micro-entrepreneurs and represents a sustainable Islamic social finance alternative for MSME development.

### 4.2 The Importance of the Qardhul Hasan Financing Model for Micro Businesses during the COVID-19 Pandemic

Based on the qardhul hasan financing model developed, it can be seen that LKMS and micro businesses can complement each other. Micro enterprises are a means of improving the economy, and LKMS can provide financial support for micro enterprises. Furthermore, during the COVID-19 pandemic, Islamic economics can provide financial solutions for micro businesses. Thus, from a broader perspective, the qardhul hasan model can have a significant influence on micro companies, society and the economy as well as academics and theory.

1. Micro Business

   This qardhul hasan financing model brings benefits to micro businesses. Where in the post-COVID-19 pandemic period, micro businesses need capital assistance to avoid businesses from the impact of the crisis. With capital assistance provided in the form of interest-free loans, it does not make micro businesses heavy in terms of repayment. Then, with the existing capital assistance, it will make micro businesses increase the profits generated. During the recovery phase, many micro-businesses faced acute liquidity shortages and were in urgent need of accessible capital to resume operations and prevent permanent closures. This qardhul hasan financing model can also help in the development of micro, small and medium businesses if the policies of this model in terms of fund providers synergize with each other.

2. Society and Economy
   This model is also anticipated to bring benefits to society and the economy. Since this model emphasizes on financing, it creates an environment of innovation and diversification of economic activities. It also helps to stimulate private ownership among micro-enterprises. The qardhul hasan financing model enables micro-entrepreneurs to access affordable financial services. This model provides initial capital to develop the micro-enterprise sector and gives them access to financing. In addition, since this model is generated from zakat, infaq and sedekah, it can play an intermediary role in helping the corporate sector in carrying out their CSR by contributing to LKMS. On the other hand, this model creates employment opportunities and helps poor micro-entrepreneurs to generate income and thereby reduce poverty. Meanwhile, since Waqf is one of the distribution schemes that exist in the Islamic economic system, it helps to increase wealth, consumption and investment which can then improve the economy. With an interest-free loan scheme, it keeps people away from loan sharks and usury.
3. Academics and Theorists
   For academics and theorists, the proposed model adds to the existing literature in the field of companies and financing. This study provides new literature on the path to effective utilization of qardhul hasan financing for socio-economic development, especially during the current COVID-19 pandemic. This is because Islamic economics has played a significant role in the socio-economic development of Muslims in past history. This model is expected to positively change stakeholders' perceptions about the dynamics and potential of this voluntary sector

### 4.3 Problems and Strategies in Implementing Qardhul Hasan Financing

Qardhul hasan financing is one of the sharia financial instruments that has a social purpose, namely providing interest-free loans to those in need, especially micro-enterprises. This instrument is designed to help people who have limited access to formal financing, especially during a global crisis such as the Covid-19 pandemic several years ago, so that it can improve economic welfare and reduce social inequality, especially for micro-entrepreneurs. In the context of micro-enterprises, qardhul hasan is a potential solution for entrepreneurs who need working capital without being burdened by high interest or costs.

However, on the other hand, in its implementation, the implementation of qardhul hasan financing often faces a number of problems, as research conducted by Wulandari, several problems faced when implementing the qardhul hasan contract (Wulandari & Amir, 2020):

1. Financing is stuck, the partner cannot return 100% of the financing funds;
2. Partners have bad intentions by no longer carrying out the agreements that have been made;
3. Financing partners are not optimal in utilizing funds from financing
4. Qardhul hasan and partner businesses that are not running well;
5. Partners who disappear and die.

In addition to the above, the risk that often occurs in the implementation of qardhul hasan financing is default, where many partners underestimate their responsibilities, their funds are used up for other things, so they cannot return them and so on. Because they know that in qardhul hasan financing if they cannot return it on time, there are no sanctions given to their financing partners.

Therefore, a strategy is needed to overcome this. According to Wulandari in her research, several strategies that can be used to mitigate this problem include the following (Wulandari & Amir, 2020):

1. Assessing the Character of Qardhul Hasan Partners
   In the context of Sharia Microfinance Institutions (LKMS), assessing the character or morals of prospective partners is a very important aspect to determine the extent of their honesty and integrity in fulfilling financial obligations. This assessment aims to ensure that prospective partners who receive financing facilities are not only financially capable, but also have good intentions, responsibility and commitment to maintaining harmonious and mutually beneficial relationships in the future. LKMS carries out this assessment based on previously established relationships between the institution and the partner, as well as collecting relevant information from other trusted parties, such as other financial institutions, the public, or individuals who have previous experience with potential partners. In this way, LKMS can get a clearer picture of partners' track records, whether they have fulfilled their financial obligations honestly and on time, and whether they are likely to develop a constructive relationship or have the potential to cause difficulties in the future. Apart from that, an assessment of the good intentions of potential partners is also carried out to ensure that they are not only seeking personal gain, but are also committed to implementing sharia economic principles that are fair and do not harm other parties. Overall, this character assessment process aims to ensure that every transaction carried out within the framework of sharia financing can take place with full honesty, transparency and in accordance with the principle of mutual assistance which is the basis of Islamic economics.
2. Purpose of Taking Qardhul Hasan Financing
   In the implementation of *qardhul hasan* financing, LKMS adopts a participatory and ethical approach by engaging directly with prospective beneficiaries to understand their motivations, objectives, and financial needs. This initial assessment is critical not only for ensuring that the disbursed funds are aligned with the ethical principles of Islamic finance, but also for fostering a relationship of mutual trust and accountability between the institution and its partners. Applicants are required to disclose, with honesty and clarity, the specific purposes for which the *qardhul hasan* funds will be used. These purposes may range from additional capital for micro-enterprises, procurement of business tools or equipment, to non-commercial needs such as covering school tuition, purchasing essential medications, settling hospital bills, or addressing other urgent and unexpected expenditures. By requiring this level of transparency, LKMS seeks to ensure that the financing serves its intended function as a form of benevolent loan (*qardh*) that upholds social justice, reduces financial vulnerability, and contributes meaningfully to the economic empowerment of marginalized communities. Furthermore, this practice aligns with the maqāṣid al-sharīʻah, particularly in preserving wealth (*ḥifẓ al-māl*) and human dignity, while promoting financial inclusion within an Islamic ethical framework.
3. Partner's ability
   As part of its due diligence in the disbursement of qardhul hasan financing, LKMS undertakes a comprehensive assessment of the prospective partner's qualifications, with particular emphasis on their expertise and competencies within the specific business sector they intend to enter or develop. This evaluation process involves not only identifying the

technical skills possessed by the applicant but also scrutinizing their managerial capabilities, entrepreneurial experience, and capacity for sustainable business operation. Such a multifaceted assessment is imperative to ensure that the individual receiving the financing possesses both the practical know-how and the strategic aptitude required to manage the financed business effectively. From the perspective of the institution, confidence in the partner's ability to run the business is a crucial determinant of the financing's potential success, particularly given the non-profit nature of qardhul hasan loans, which are devoid of interest and rely heavily on the ethical responsibility and repayment commitment of the borrower. Moreover, the partner's competence in managing the business directly influences their capacity to fulfill financial obligations, including the timely repayment of the principal amount. This approach reflects not only prudent financial governance but also the principles of Islamic finance, which advocate for responsible and productive use of resources. It further underscores LKMS's role in not merely extending benevolent loans, but also in fostering a supportive and enabling environment for micro-entrepreneurs, thereby enhancing the socio-economic resilience of the communities it serves.

4. Reminding and tolerance
   In line with its commitment to upholding ethical financing practices and maintaining financial sustainability, LKMS consistently undertakes follow-up efforts to remind partners of their financial obligations associated with qardhul hasan financing. These reminders are carried out both before and after the due date of repayment through accessible communication channels such as short message services (SMS) and direct telephone calls. This proactive approach reflects LKMS's dedication not only to safeguarding its operational integrity but also to instilling a sense of financial discipline among its partners. However, in accordance with the principles of compassion and social responsibility embedded in Islamic financial ethics, LKMS also demonstrates flexibility and understanding toward partners who, despite having the intention to repay, face genuine difficulties in meeting their obligations on time. In such cases, LKMS provides a degree of tolerance by allowing for time extensions or rescheduling arrangements, particularly when the partner demonstrates good faith and a consistent willingness to fulfill the repayment commitment. This balanced approach firm in ensuring accountability yet empathetic toward clients' real-life challenges exemplifies the institution's alignment with the ethical foundations of qardhul hasan, which is intended to alleviate hardship rather than impose further burdens. Through such mechanisms, LKMS not only sustains its financial operations but also reinforces its social mission to empower and uplift economically vulnerable individuals and communities in a manner consistent with the spirit of shariah.

Based on research from Harahap et al. (2023) MSMEs that are deemed viable but not yet bankable are the target market for Qard Al Hasan financing. However, because Qard Al-Hasan financing has a high risk, efforts must be made to revitalize it by strengthening the organizing institution's internal and external components in order to establish a stable and durable financing quality. The goal of Qard Al-Hasan's revival is to provide MSMEs with an alternative for funding their company needs so they can grow and enhance their business credentials from a viable business to a bankable firm. The solution given to this problem is (Harahap et al., 2023):

1. Considering that *qard al-hasan* is inherently a benevolent and non-commercial form of financing, it is recommended that its administration be entrusted to a dedicated institution specifically established to manage *qard al-hasan* alone, rather than integrating it within profit-driven financial institutions (*tijari*).

2. In distributing *qard al-hasan* funds, priority should be given to productive financing over consumptive purposes, as the former tends to yield a more substantial multiplier effect in efforts to alleviate poverty.
3. Given the relatively high-risk nature of *qard al-hasan* financing, regulatory authorities should carefully assess the preparedness of any entity applying to establish such an institution, ideally by evaluating it against a model similar to the one proposed in this study.

## 5. CONCLUSION

Micro businesses constitute a highly vulnerable segment of the economy, particularly in times of crisis such as the COVID-19 pandemic. These enterprises, often characterized by small-scale operations, limited human and financial resources, and informal business practices, are disproportionately affected by economic shocks. Their limited capital base, combined with minimal capacity to absorb financial losses or withstand prolonged disruptions, renders them especially susceptible to the adverse impacts of such a global health and economic emergency. During the height of the pandemic, many micro businesses experienced a dramatic decline in revenue due to decreased consumer demand, disruptions in supply chains, and government-imposed restrictions on mobility and social interaction. These conditions not only reduced daily earnings but also threatened their long-term operational continuity and survival. For many, the pandemic exposed and exacerbated pre-existing structural weaknesses, particularly in financial access and business resilience.

In light of these challenges, the need for concrete, responsive, and inclusive solutions becomes increasingly urgent. Micro businesses require immediate and flexible access to capital in order to cover operational losses, retain employees, maintain inventory, and restart or adjust their business models in response to shifting market dynamics. While financial support from both the private sector and government agencies is essential, the reality remains that a significant portion of micro businesses operate outside the formal financial system. Due to a range of factors including lack of collateral, informal legal status, limited credit history, and insufficient financial literacy many are categorized as unbankable by conventional financial institutions. As a result, they face persistent exclusion from traditional financial services, further compounding their vulnerability during economic downturns.

To address these pressing issues, this study proposes the implementation of a Qardhul Hasan financing model as a viable Islamic financial alternative to alleviate financing constraints experienced by micro enterprises. Qardhul Hasan refers to a non-interest, benevolent loan rooted in Islamic ethical and social values. It emphasizes principles of mutual aid (*ta'awun*), solidarity (*ukhuwah*), and social justice *('adalah ijtima'iyah*), making it a highly suitable instrument for supporting disadvantaged economic groups. Unlike conventional credit, Qardhul Hasan does not impose interest or additional financial burdens on borrowers, which is especially beneficial for micro businesses already struggling with liquidity shortages and operational instability.

More importantly, Qardhul Hasan offers more than just financial assistance; it reflects a holistic approach to inclusive economic development by fostering trust, cooperation, and community-based empowerment. Through partnerships with Islamic financial institutions, zakat and waqf bodies, as well as socially responsible investment channels, Qardhul Hasan can be institutionalized as a structured financing program targeting micro businesses affected by crises. Additionally, it can contribute to building a resilient, ethical, and inclusive financial ecosystem one that prioritizes socio-economic justice and actively works to reduce the barriers that have historically prevented micro-entrepreneurs from accessing much-needed financial support.

The implementation of Qardhul Hasan financing also aligns with the broader goals of Islamic economic development, which emphasize poverty alleviation, wealth distribution, and the empowerment of marginalized communities. If managed transparently and sustainably, this model has the potential to become a cornerstone of a crisis-responsive financing frameworkensuring that micro businesses not only survive the current economic shocks but are also empowered to grow, innovate, and contribute meaningfully to national economic recovery and resilience in the post-pandemic period. This study not only proposes the application of the qardhul hasan model as an alternative solution, but also identifies potential sources of funds that can be allocated for such financing after the COVID-19 pandemic. Qardhul hasan funds can come from various parties, including individual donors, Islamic financial institutions, zakat, infak, or other social donations. With support from these various parties, qardhul hasan financing has a great opportunity to help micro-enterprises not only survive but also grow amidst ongoing economic challenges.

More broadly, the implementation of the qardhul hasan financing model has a significant impact on various aspects. For micro-enterprises, this model provides a real solution to overcome financial constraints while encouraging business sustainability. For the community, this financing has the potential to create a positive social impact by reducing unemployment rates and improving overall economic welfare. On the other hand, for academics and theorists, this model opens up opportunities for further development in Islamic finance studies, especially in overcoming financial challenges during times of crisis. With its various benefits and potentials, the qardhul hasan financing model is expected to be a solution that is not only relevant but also sustainable in supporting the sustainability of micro-enterprises, both during the pandemic and in the post-pandemic economic recovery era. This research is also a real contribution in integrating Islamic finance principles into practical solutions that have a broad impact on the economy and society.

From a policy perspective, this model encourages the establishment of collaborative frameworks among Islamic financial institutions, zakat and waqf bodies, and government microfinance programs. Policymakers can institutionalize Qardhul Hasan through targeted schemes for micro-enterprise recovery, integrating it with existing social finance instruments such as zakat, infak, and corporate social responsibility (CSR) funds. Meanwhile, managerial implications include designing transparent fund management systems, digital-based loan distribution channels, and community-level monitoring mechanisms to ensure sustainability and accountability.

Strategically, the implementation of Qardhul Hasan aligns with national economic recovery agendas and the Sustainable Development Goals (SDGs), particularly those related to poverty alleviation and inclusive economic growth. It provides a moral and practical framework for crisis-responsive financing, enabling micro businesses to rebuild, innovate, and contribute to post-pandemic resilience. Moreover, the model fosters social cohesion and economic empowerment—making it not only a financial instrument but also a catalyst for ethical and sustainable development within the Islamic economic system.

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