

Qardhul Hasan as a Green Financing Instrument For Environmentally Friendly MSMEs

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Abstract. The method used in this article is a systematic literature review by examining studies and research that have been carried out related to Qardhul Hasan as a social financing instrument of sharia banking and its role in developing environmentally friendly MSMEs as support for sustainable finance. Among the obstacles that make it difficult to access sharia banking financing for MSMEs are the administrative requirements which are quite heavy, not having collateral and the small ability to pay installments along with the margin. Qardhul Hasan as one of the social financing products of Islamic banks can be a solution for financing MSMEs because the administrative requirements are not complicated, do not require collateral and there is no margin in paying off the financing and as a form of MSME commitment to Qardhul Hasan financing, MSME businesses are directed to manage with environmentally friendly principles which include the process of producing products or services. The similarity with previous research is that Qardhul Hasan is used as a social financial solution for the community with interest-free payments. What differs from previous research is that Qardhul Hasan is usually used in the form of interest-free loans as a financial solution for the poor, whereas in this research Qardhul Hasan is used as social sharia banking financing for environmentally friendly MSMEs with returns without margin.

Keywords: Qardhul Hasan, Green Financing, MSMEs.

1 Introduction

Micro, Small and Medium Enterprises (MSMEs) are important sectors that can support a country's economic growth but are constrained by financing factors [1]. Among the difficulties of accessing financing or funding for MSMEs, especially from external parties, are types of businesses that belong to the small and medium categories, businesses that have not been established for a long time and business ownership is still an individual [2]. [3] In his research related to financing constraints for MSMEs in developing countries, several obstacles in accessing MSME financing are company size, type of business ownership, financial transparency, concentration of bank financing and GDP per capita. In another study, it was stated that the growth of MSMEs was hampered due to a lack of capital supply [4]. In another

study, it was stated that the creditworthiness of MSMEs, national policies and financing discrimination from financial institutions are among the problems in financing MSMEs [5]. [6] In his research, he stated that the biggest factors affecting MSME financing access to banking are business age, small business size, foreign participation and the manufacturing sector.

From some of the conditions described above, in this case MSMEs need to find alternative financing from other channels that can help MSME business operations. Access to financial financing for MSME businesses is one of the biggest challenges for MSMEs [7]. Among the factors supporting MSME growth is the availability of alternative funding channels [7]. In his research also stated the importance of alternative sources of external financing for MSMEs in developing countries.

Today, environmental change is getting worse and worse is a global concern. Bad environmental changes as a result of long and environmentally unfriendly economic activities must be minimized immediately so as not to cause worse consequences for future generations. MSMEs as the largest economic sector in almost all countries in the world must also play an active and contributive role in efforts to minimize the adverse consequences of these adverse environmental changes. To support this goal, it is important for MSMEs to take the initiative to use green financing as part of efforts to promote the green economy [8]. A sustainable financing strategy for MSMEs should aim to increase low cost and collateral-free lending to MSMEs that have a good track record of payments to banks [9].

Qardhul Hasan is an agreement in the form of a loan applied to Islamic banking. Since interest is not allowed in Islam, Qardhul Hasan is part of an interest-free loan product [10]. Qardhul Hasan in his practice is not only used as an interest-free emergency loan for the poor but also used as a financing product for micro entrepreneurs who can increase the income of micro enterprises by 66% and improve the welfare of the poor by 18% [11]. This study aims to see the potential of Qardhul Hasan as an instrument of social financing for Islamic banking in developing environmentally friendly MSMEs.

Literature review

Access to formal finance has become a major problem in MSME development in developing countries [9]. High interest rates, strict collateral requirements, MSME vagueness, etc. affect MSME access to funding. As a result, most MSMEs rely on expensive informal funding sources [9]. Higher interest rates for SMEs are usually justified due to the high risk of default on MSME loans, which ultimately increases the risk of default on MSME loan costs [12]. In other studies, especially in East Africa, it is stated that funding is the main factor in MSME constraints in their business operations [2]. In another study, in Mexico, it was found that the determinants that had the greatest influence on access to banking finance were: age, small size, foreigners, participation, and manufacturing sector [6]. The main determinants of MSME funding barriers are the type of ownership, length of business, transparency of accounting information, credit/financing information, banking sector priorities and GDP per capita [3]. Other studies have found that low creditworthiness, protection, national policies and discrimination by financial institutions contribute to financing problems faced by SMEs [5].

A sustainable financing strategy for MSMEs should aim to increase low costs and free collateral and also provide loans to MSMEs that have a good track record of payments to banks

[9]. There are at least two solutions that can be done, the first is to involve the government, banks and MSMEs. The government can provide financing subsidies and provide assistance to MSMEs to increase MSME business capacity, this can reduce limited bank funds and reduce the risk of default, the second way is to provide loans with digital financing mechanisms that are carried out to overcome the selection of the right borrower [9]. MSMEs need to adopt Green Finance Initiatives (GFIs) in operating their businesses that have harmful impacts on the environment. Green finance initiatives can promote green investment in the economy, meaning investments that reduce adverse impacts on the environment and promote sustainable development. Governments, businesses, and financial institutions all need to do this and consider and act in ways that will help the MSME sector become more environmentally friendly [8]. Over the last decade, the climate crisis has been recognized as a major threat to humanitarian climate change on a global and constitutional scale [13]. In this context, each country paves the way and plans ways and means of transition in a better direction for a sustainable future. Inevitably, this transition will affect the daily lives of citizens and the country's economy and within this framework, small and medium enterprises (SMEs) have a central role [13].

The urgency to tackle climate change continues to increase and is recognized as a priority for businesses in many countries around the world. It takes efforts to address the climate crisis to a green transition for millions of MSMEs. MSMEs have significant environmental aggregates (at least 50% of the business sector's greenhouse gas (GHG) emissions) and need to adopt cleaner business models. As environmental entrepreneurs and environmental innovators, MSMEs also have an important role to play in designing innovative climate solutions(OECD, 2022).

Sustainable financial growth is accompanied by an increasing number of supporting institutions, instruments and practices. As a result, the sustainable finance ecosystem now includes a wide range of factors, including financing providers (state and private banks, Fintech companies, venture capital funds, etc.), regulators, standard-setters, audit agencies and others. Actors such as ESG rating agencies and index providers have played only a small role in the SME financing landscape to date due to the relatively limited scope of SMEs but are expected to increase in importance [14], and here is an overview of the sustainable financial ecosystem of MSMEs:

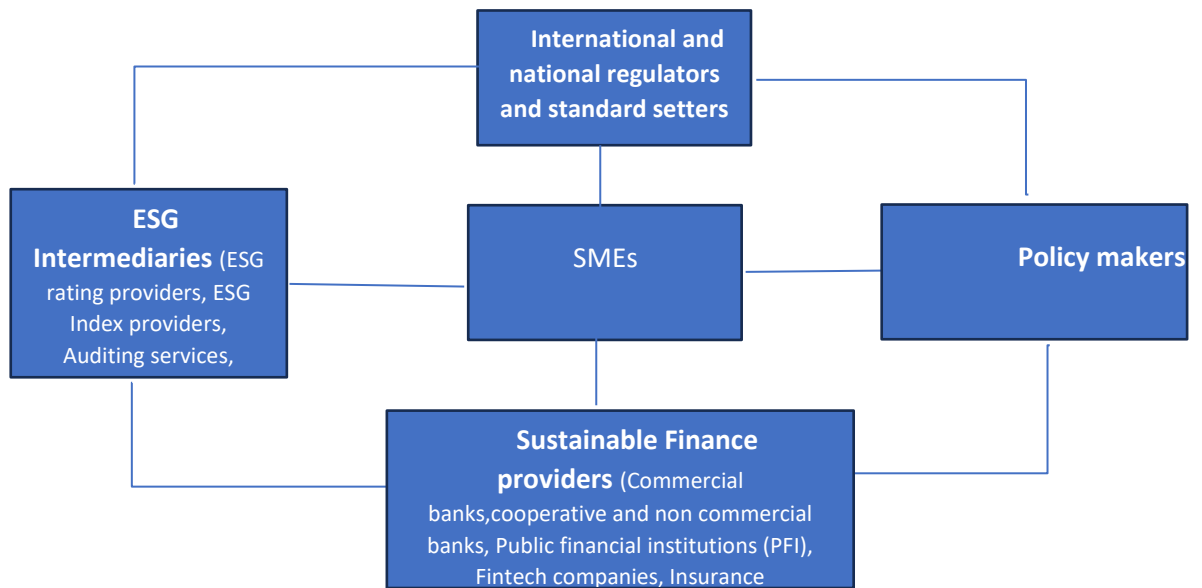


Figure 1. The SME sustainable finance ecosystem

Achieving environmentally sustainable MSMEs is undoubtedly a challenging endeavor. The absence of sustainable funding over a prolonged period, meager profits, diverse hazards, and the inadequate capabilities of market participants collectively pose significant obstacles to the advancement of eco-friendly energy initiatives [15]. The amount of biophysical damage caused as a result of the increasingly large industry makes small companies such as MSMEs have to play a more strategic role in trying, especially related to environmental friendliness [16].

Islamic social finance represents one of the economic tools that can be employed as an appropriate remedy to attain sustainable financial objectives [17]. Over the course of time, Islamic social finance has assumed a significant social function and possesses the potential to be cultivated in the enhancement of commercial enterprises and expertly supervised [17]. Islamic social finance plays a pivotal role in the substantial contribution it makes to the economic and social domains of society [17]. In a separate investigation, Islamic social finance plays a vital function in making substantial contributions to both the economic and social domains of society [18]. Another study asserts that sharia financing has furnished advantages for the operations of Micro, Small, and Medium Enterprises (MSMEs) and can additionally assume a pivotal function in the expansion of MSMEs and their operations in the forthcoming times [19].

Qardhul Hasan financing is a non-commercial loan agreement in which the borrower has the obligation to pay the principal borrowed to the lending financial institution without remuneration or profit sharing within a certain time as agreed [20]. Akad al- Qardh is usually implemented in the social sector for a short period of time or applied to small businesses, this term is known as Qardhul Hasan (benevolent loan) [21]. Qardhul Hasan is needed for social welfare and the fulfillment of small businesses therefore the funds can be sourced from zakat,

infak and alms, then if lent to business actors do not require any additional principal from the loan [21]. The notion of Qardhul Hasan entails the provision of loans without any expectation of reciprocation. These loans are utilized as capital for business expansion and to generate advantages, or solely for societal objectives [22]. Qardhul Hassan denotes loans that are devoid of any form of remuneration or compensation to the creditor and are more commonly recognized as loans without interest [23]. In practice, Qardhul Hasan can increase productivity and benefit business [22]. Other studies have also shown that Qardhul Hasan can increase borrowers' incomes [24]. The objective of this investigation is to assess the prospective application of Qardhul Hasan as a mechanism for social funding in the realm of Islamic banking, specifically in the context of supporting the growth and development of environmentally sustainable Micro, Small, and Medium Enterprises (MSMEs).

2. Method

This research method is a systematic literature review where the author uses *Preferred Reporting Items for Systematic Review and Meta-analyses (PRISMA) 2020*. The author searches for journal articles using the search bases Science Direct, Google Scholar and Crossref. The literature period is obtained from 2010 to 2023. Data analysis uses content analysis that facilitates understanding by analyzing the content of each journal and literature references. Figure 2 below shows the flow chart of the PRISMA 2020 search method.

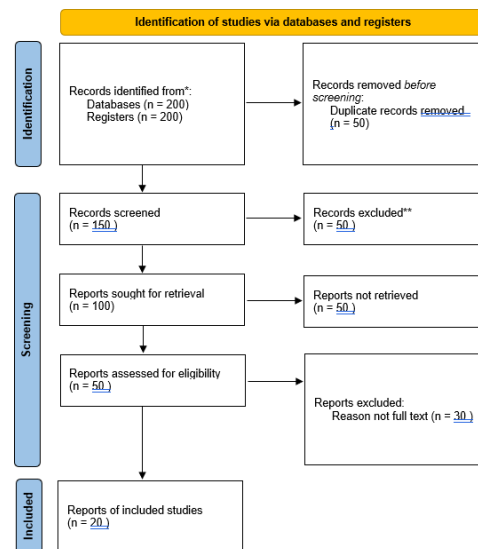


Figure 2. PRISMA 2020 search method flowchart

3. Results and Discussion

The results of the journal articles that have been reviewed are shown in table 1 below.

Table 1. Reviewed journal articles

No.	Title, Author, Year and Country	Research Objectives	Methods	Key Findings
1.	Abdul Saleh (2016) explored the provision of financial support from banks to small and medium-sized enterprises (SMEs), Libya.	To rectify insufficiencies and augment our comprehension of the accompanying elements that aid or hinder small and medium-sized enterprises' (SMEs) ability to obtain bank financing, it is crucial to examine both the demand-side and supply-side perspectives	The amalgamation of qualitative and quantitative methodologies	On the side of demand, the findings expose that bank financing serves as the foremost critical origin of external financing for small and medium-sized enterprises (SMEs) in Libya, specifically in the period subsequent to their establishment
2.	Optimization of qardhul hasan products in empowering the people's economy, Ferry Husnul Mubarak, 2019, Indonesia	Understanding the financing mechanism of the qardhul hasan contract, discerning the mechanisms of empowerment facilitated by qardhul hasan, and identifying strategies for optimizing qardhul hasan as a platform for empowerment.	The research methodology employs a qualitative methodology. Primary sources of data are procured through interviews, observations, and documentation	The process of qardhul hasan financing at BMT Beringharjo Yogyakarta is carried out through a series of sequential stages, namely the submission, survey, contract, and assistance stages.
3.	Sustainability of Islamic Rural Banks: An Approach through Social Qardh Financing, authored by	Exploring the viability of Islamic rural banks by utilizing social funding and	Conducted analyses using OLS (ordinary least squares) and TSLS	Social qardh financing and lending to small- medium halal enterprises

	Hasan al Bana, 2021, Indonesia.	providing loans for halal small and medium enterprises.	(two- stage least squares) methods.	exhibit a favorable and noteworthy influence on the enduring viability of Islamic rural banks.
4.	Exploring the Prospective Use of Qard Hasan in Islamic Microfinance, written by Najeeb Zada, 2013, Pakistan.	Proposing the utilization of qard hasan as a practical alternative for poverty eradication through Islamic microfinance.	This study adopts a qualitative research approach to delve into the significance of qard hasan in the Islamic financial system.	The Akhuwat Foundation in Pakistan stands as a noteworthy example of a successful Islamic microfinance institution. Over the past twelve years, it has played a pivotal role in bringing about substantial improvements and innovations in the lives of underprivileged individuals in Pakistan through the provision of interest-free loans. Notably, it has effectively addressed the challenge of sustainability in its operations.
5.	Reviving Qard Al Hasan as a Financing Alternative for Micro, Small, and Medium Enterprises: An Analytic Network Process Approach by Rudi Dogar Harahap, 2023, Indonesia.	This research aims to investigate aspects of the application of qard al hasan that contribute to the effective implementation of qard al hasan as an Islamic crowdfunding instrument for financing Micro,	The research employed the Analytic Network Process (ANP), derived from a literature review, and incorporated insights from practitioners and experts in	For the successful implementation of qard al hasan as a financing instrument, it is essential to have support from both internal and external facets of the institution offering qard al hasan financing. Internal aspects

		Small, and Medium Enterprises (MSMEs).	the field.	encompass sub-aspects related to system and institutional management, while external aspects involve sub-aspects tied to customers and regulatory authorities.
6.	Analyzing the Impact of Qardhul Hasan Financing on the Growth of Business (Case study of Dompot Pedulu Umat Daarut Tauhid Bogor Branch), authored by Siti Patimah Sari, 2013, Indonesia	Evaluate the impact of qardhul hasan financing provided by DPU-DT and assess whether there is a subsequent increase in income for recipients after receiving qardhul hasan financing From DPU-DT.	Observation, interviews, and questionnaires	There exists a robust and meaningful correlation between qardhul hasan financing and the augmentation of income for mustahik (beneficiaries).
7.	A Case Study on the Implementation of the Qardhul Hasan Concept as a Financing Product in Islamic Banks in Malaysia, authored by Ahmad Zainal Abidin, 2011.	Examine the application of the qardhul Hasan concept as a financing product in an Islamic bank in Malaysia	Implemented a single case study research methodology to address research inquiries and accomplish the predefined research objectives	Guidance on the implementation process of Qardhul Hasan Financing at Islamic Finance Institutions (IFI)
8.	Exploring the funding sources for Qard Hasan-Based Microfinance Institutions : A Case Study of Akhuwat, authored by Adnan Zikri Jaafar, 2018, USA.	Engaging in experimentation with novel alternative lending models and management frameworks	Using a qualitative-descriptive approach to provide a detailed and narrative analysis of the subject under investigation	The experience of Akhuwat in offering qard hasan-based microfinance serves as a valuable perspective that could prompt a reevaluation of the approach to

				comprehending the funding sources of Microfinance Institutions (MFIs), especially in the context of sustainability.
9.	Investigating Green Islamic Microfinance: Empirical Evidence From Tunisia, authored by Asma bin Salem, 2023, Malaysia.	Conducting an investigation into the environmental performance of Islamic microfinance, with a focus on elucidating the synergies between Islamic microfinance and green inclusive finance.	Utilizing secondary data from various sources and employing descriptive data analysis methods.	The findings offer empirical support for the contribution of Islamic microfinance to sustainable finance in Tunisia. The results suggest that the institution demonstrates a proactive stance among its stakeholders in implementing an environmental strategy, whereas conventional institutions are still in the stages of planning or developing products and strategies in this regard.
10.	Exploring the Intersection of Islamic Finance and Sustainable Practices: A Roadmap, authored by Erfanul Alam Siddiquee, 2019, Malaysia	Investigating the role of Islamic finance in advancing the Sustainable Development Goals (SDGs).	Using a qualitative-descriptive approach to provide a detailed and narrative exploration of the subject, offering insights and context.	The research underscores that Islamic finance can exert a substantial influence on sustainable and green projects by emphasizing financial stability, social inclusion, and the adoption of green finance practices.

				Additionally, it emphasizes the pivotal role of innovation, a resilient ecosystem, and well- established guidelines and policies in fostering the growth of Islamic green finance.
11.	Enhancing the Financial Performance of SMEs through Sharia Economy: A Perspective on Economic Business Sustainability and Open Innovation, authored by Firman Menne, 2022, Indonesia	Conducting an analysis of SMEs' financial performance through the lens of Sharia economics, examining the impact of utilizing Sharia fintech on the financial performance and sustainability of SMEs. The study also explores the enhancement of human resource capacity, business diversification, productivity, and product marketing to uplift the financial performance and business sustainability of SMEs.	Utilizing a quantitative survey approach to gather and analyze numerical data in the study of SMEs' financial performance, particularly focusing on the influence of Sharia fintech and various factors on sustainability and success.	The study reveals that human resource capacity and business diversification collectively account for 41.8% of the impact on the financial performance of SMEs. Furthermore, Sharia fintech, human resource capacity, business diversification, business productivity, and financial performance contribute positively to SME business sustainability, with a determination coefficient of 65.9%. As a recommendation, the study suggests managing SME businesses in Makassar, Indonesia, by

				incorporating Sharia fintech to bolster sustainability.
12.	On the Sustainable Development Goals and the Role of Islamic Finance, authored by Habib Ahmed, 2015, World Bank.	Investigating the potential of Islamic finance in contributing to and supporting the achievement of the Sustainable Development Goals (SDGs).	Engaging in a qualitative-descriptive exploration to provide a detailed and narrative analysis of the role of Islamic finance in supporting the Sustainable Development Goals.	The study delves into the role of Islamic financial institutions, capital markets, and the social sector in fostering robust economic growth, improving financial inclusion and intermediation, mitigating risks and vulnerabilities among the impoverished, and more broadly, contributing to financial stability and development.
13.	Advancing Ethical and Sustainable Economy: Islamic Finance Solutions for Environmental, Social, & Economic Challenges in the Digital Age, authored by Mustafa Osman, 2023, Qatar.	Investigating the convergence of Islamic finance principles and Environmental, Social, and Governance (ESG) considerations in investment strategies.	Embarking on a qualitative-descriptive exploration to provide a detailed analysis of the convergence between Islamic finance principles and Environmental, Social, and Governance (ESG) considerations in investment strategies.	Examining the foundational principles of Islamic finance, its substantial growth in the digital age, and its response to global challenges such as environmental degradation, social inequality, and economic instability.
14.	Exploring the Contributions of Islamic Social Financial Institutions in	Re-examining the potential roles of Islamic financial institutions in	Embarking on a qualitative-descriptive exploration to	Promoting an integrated approach to Islamic social

	Achieving Sustainable Economic Recovery for Muslim Communities in the Philippines, authored by Mariam Saidona, 2022, Philippines.	fostering a sustainable economic recovery that can uplift the socio-cultural and economic conditions of Muslim communities in the Philippines	delve into the multifaceted roles of Islamic financial institutions in securing sustainable economic recovery for Muslim communities in the Philippines.	finance while ensuring its proper contextualization in accordance with Shari'ah principles and Philippine laws. A multitude of scholars, leaders, and intellectuals advocate for the revival of Islamic financial institutions and their integration into the national economic system
15.	Empowering Small Businesses through the Implementation of Qardhul Hasan Financing, authored by Masyhuri Mahfudz, 2019, Indonesia	Explain the concept of Qardhul Hasan financing and identify the challenges encountered by micro businesses in the city of Malang	Qualitative-Descriptive	The utilization of Qardhul Hasan financing proved to be quite lucrative.
16.	M.Kabir Hassan's work in 2021, conducted in Turkey examines the interplay between Circular Economy, Sustainable Development, and the involvement of Islamic Finance	Explain the fundamental concepts of Islamic finance, along with the regulatory guidelines of Shari'ah and their alignment with Sustainable Development Goals (SDGs).	Qualitative-Descriptive	The Islamic financial system, as a trailblazer in supporting Sustainable Development, has the potential to play a significant role in driving the shift towards a circular economy.
17.	Analysis of Qardhul Hasan Financing for Micro, Small, and Medium Enterprises (UMKM) at BMT Anugrah Tembung, Melisa, 2022,	Identify initiatives aimed at strengthening Micro, Small, and Medium Enterprises (UMKM)	Qualitative-Descriptive	Effectively utilizing and managing Qardhul Hasan has the potential to generate significant funds,

	Indonesia.	through Baitul Maal Wat Tamwil (BMT). Present precise information on the enhancement of UMKM through Qardhul Hasan agreements in Batang Kuis, Tembung.		making it a valuable asset for the community through its highly beneficial implementation.
18.	The intersection of Islamic Social Finance and Sustainable Development Goals: Challenges and Considerations by Romzie Rosman in 2022, Malaysia	Explored the idea of Islamic social finance and examined each instrument within the realm of Islamic social finance.	A qualitative research approach utilizing the Focus Group Discussion method	Examination and discourse on crucial themes including: (1) the elucidation of Islamic social finance; (2) the correlation between Maqasid Shariah and sustainable development goals within Islamic social finance; (3) The implementation of Islamic social finance in eradicating poverty; and (4) the challenges and considerations in utilizing Islamic social finance to enhance socio-economic well-being
19.	Islamic Blended Finance for Impactful SMEs towards SDGs, 2020, authored by Tariqullah Khan in Singapore.	Propose incentive-compatible frameworks designed to attract funding for socially responsible and impactful Small and Medium	Qualitative-Descriptive	The blended Islamic finance framework could play a pivotal role in furnishing funding for Small and Medium Enterprises (SMEs).

		Enterprises (SMEs).		
20.	Optimizing the Management of Qardhul Hasan in Islamic Banking: Strengthening its Role in Empowering the Community, authored by Peni Nugraheni in 2023 in Indonesia.	Investigate opportunities to expand the channels for sourcing Qardhul Hasan (QH) funding and financing within Indonesian Islamic banks.	Utilizing a descriptive analysis approach and employing a framework-based review to examine the strategy for optimizing the sources, financing, and management of Qardhul Hasan (QH) in Islamic banks.	To foster a positive impact on economic development, Islamic banks can engage in collaborations with entities dedicated to charitable activities, possessing substantial resources for directing and utilizing Qardhul Hasan (QH) funds. This study additionally develops a framework for the management

Islamic financing for Micro, Small, and Medium Enterprises (MSMEs) is gaining significance due to the increasing importance of MSMEs in national economies worldwide. Evidence indicates that MSMEs play a crucial role in various aspects of the economy, such as income distribution, employment generation, and poverty alleviation [25]. Consequently, MSMEs are progressively becoming the focal point of policies and strategies designed to attain sustainable development goals in both developing and developed countries [25]. Nevertheless, despite considerable progress in recent decades, limited access to funding remains a significant impediment to the development of Small and Medium Enterprises (SMEs) [25]. Therefore, bank financing is important so that MSMEs can continue to exist and grow bigger. Many MSMEs are reluctant to apply for bank financing due to lack of collateral, bank loan interest charges and considerations related to Sharia (Islamic law) [25].

By looking at considerations related to sharia (Islamic law), especially related to muamalah and related to financing with the concept of sharia, it is also a concern that sharia financing products can participate in building an economy based on micro, small and medium enterprises, especially micro, small and medium industries that are environmentally friendly. It has been proven that Islamic microfinance contributes to sustainable finance in Tunisia [26]. This shows that Islamic microfinance institutions show interest in contributing more to protecting the environment. Islamic finance is able to provide alternative resources to invest in environmentally friendly projects and is able to exert great influence on sustainable projects [27]. Based on Malaysia's case study, it was found that a strong ecosystem, innovation and the right policies are essential for the growth of sustainable and environmentally friendly Islamic finance [27].

In practice, the implementation of Islamic finance must refer to legal law and sharia law [28]. The two broad categories of prohibitions associated with economic transactions recognized in Shariah are excess of loan contracts (usury) and excessive uncertainty and ambiguity in contracts (gharar) [28]. The Islamic financial system stands out as a trailblazer in sustainable financing. By aligning Islamic finance principles with Sharia regulations and Sustainable Development Goals (SDGs), there exists the potential to offer ample solutions and funding sources for the transition to a circular economy [29]. Islamic social financial institutions, including zakat, waqf, the halal industry, and Islamic microfinance, play a crucial role in mitigating the negative impacts of poverty. They achieve this by facilitating access to quality education, healthcare services, and offering capital or investment opportunities to those in need [30]. The intersection of Islamic finance and ESG (Environmental, Social, Governance) investing underscores common values, including principles of fairness, ethical conduct, and social responsibility [31]. Islamic finance in practice is carried out by Islamic financial institutions that are ideally not only commercially oriented but also socially oriented [32]. One of the financial products in Islamic finance is Qardhul Hasan, an interest-free loan extended for charitable purposes or to address short-term financial requirements. The borrower is solely responsible for repaying the principal amount of the loan (Jaafar, 2018). Qardhul Hasan, being an interest-free loan, can serve as a tool in government monetary policy aimed at attaining full employment and price stability [23]. Qardhul Hasan has contributed to access to capital for MSMEs. This can be seen in another study that Qardhul Hasan's financing to MSME players can make it easier for MSME actors to get funds (capital) to raise people's living standards and create jobs [23]. Qardhul Hasan financing can increase revenue, profit, and sales value in the form of goods or services [23]. Qardhul Hasan financing is aimed at people who are entitled to receive the financing which in applying for financing is easy and does not burden customers [23]. Qardhul Hasan is a Sharia-compliant financing instrument that can effectively contribute to financial inclusion and poverty alleviation. It specifically targets the market of Micro, Small, and Medium Enterprises (MSMEs) that are deemed viable but have not yet met the criteria for conventional bank financing [33].

Qardhul Hasan financing, in essence, imposes no financial burden on borrowers as it does not involve any interest. It is an altruistic, interest-free loan extended to those in need. Lenders provide it with the intention of seeking rewards from God both in the present life and the afterlife. The concept of interest-free loans is explicitly mentioned in Islamic literature, and its validity and virtue are widely accepted without debate. The implementation of Qardhul Hasan has been warmly welcomed by traders and micro-business actors [22]. Qardhul Hasan transactions offer a sense of calm and tranquility for business actors, as the loan repayments do not entail any additional costs (interest) and come with flexible payment schedules [22]. Qardhul Hasan is a social initiative that entails disbursing funds to those in need, with the objective of enhancing the quality of life for the recipients [34]. Qardhul Hasan plays a significant role in empowering the community's economy, contributing to the reduction of unemployment and poverty [34].

Qardhul Hasan financing, as a financial product, yields positive effects, particularly in supporting a sustainable economy aligned with the Sustainable Development Goals (SDGs). It plays a crucial role, especially in providing financing for Micro, Small, and Medium Enterprises (MSMEs) [35]. This is evident in research findings that highlight the substantial impact of social financing and loans for small and medium enterprises on the sustainability of Sharia rural banks. Consequently, there is a need for these banks to augment the quantity of Qardh contracts and

extend more loans to small and medium enterprises. Qardhul Hasan, being an interest-free and beneficial loan, is particularly suitable for small entrepreneurs seeking to develop and sustain their businesses [35]. In a separate study, it is demonstrated that Qardhul Hasan financing can create job opportunities, foster an entrepreneurial spirit, contribute to resolving economic challenges, raise awareness about developing businesses, and enhance overall business income [36].

4. Conclusion

Qardhul Hasan as a non-interest-based sharia financing product is needed to grow an environmentally friendly MSME business for reasons including: in line with the direction in realizing sustainable development goals (SDGs), a process that is not too complicated, does not require burdensome conditions (such as: collateral), a fast application process, no additional costs in loan repayments and prospective in growing the business (income) of MSME business actors.

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