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Integrating voluntary religious contributions (nadzar) into interest-free loans (qardh): A case study of BMT Maslahah, East Java, Indonesia

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ABSTRAK

Introduction

Islamic microfinance has increasingly recognized the potential of integrating voluntary religious contributions to address operational and financial sustainability challenges. However, empirical research exploring the specific integration of voluntary vows (nadzar) within interest-free lending (qardh) remains limited.

Objectives

This study aims to empirically examine the operational integration and socio-economic impacts of incorporating nadzar into qardh financing at Baitul Maal Wa Al Tamwil (BMT) Maslahah in East Java, Indonesia.

Method

This research employed a qualitative case study approach, collecting data through structured interviews, participant observations, and document analysis. Data were analyzed using thematic analysis to identify operational practices, borrower perceptions, financial impacts, and socio-economic outcomes.

Results

Findings indicated that integrating nadzar contributions significantly enhanced institutional financial sustainability, borrower accountability, repayment discipline, and overall stakeholder welfare. Borrowers reported increased financial stability and stronger moral obligations, while the institution benefited from improved operational transparency, liquidity, and community trust.

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Implications

The study demonstrates that voluntary religious contributions effectively address operational sustainability concerns, improve borrower accountability, and positively impact socio-economic outcomes. These findings provide practical guidance for Islamic financial institutions seeking ethical, sustainable financial models.

Originality/Novelty

This research contributes novel empirical insights by validating the practical integration of nadzar within qardh financing, addressing a notable gap in Islamic microfinance literature. It offers a replicable model for enhancing financial sustainability and ethical integrity within Islamic finance.

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INTRODUCTION

Islamic microfinance has emerged as an innovative and ethically driven alternative within the global financial ecosystem, aiming at alleviating poverty, promoting financial inclusion, and reinforcing social solidarity through instruments compliant with Shariah principles. Among various Islamic financial instruments, qardh, an interest-free loan, significantly symbolizes the ethical foundations of Islamic economics, designed explicitly to facilitate socio-economic upliftment without the exploitative mechanisms inherent in conventional interest-based lending (Kim & Hudayana, 2022; Muneer & Khan, 2022). The underlying principle of qardh emphasizes benevolence and solidarity, ensuring financial resources are accessible, particularly to disadvantaged and marginalized groups. Empirical investigations have consistently underscored qardh's effectiveness in reducing multidimensional poverty and enhancing borrower welfare (Muneer & Khan, 2022). Thus, the integration of ethical financing frameworks, such as qardh, significantly aligns with the broader goals of social justice and equitable wealth distribution in Islamic economic systems.

Despite its promising ethical and social impact, the practical application of qardh financing encounters notable operational and financial sustainability challenges. As qardh involves interest-free lending, Islamic microfinance institutions often grapple with sustainability due to limited revenue streams and potential risks associated with loan repayments. Consequently, institutions seek innovative mechanisms to enhance the operational viability of qardh financing without compromising its ethical foundations. Recent literature highlights the potential integration of voluntary religious commitments, such as nadzar (voluntary vows), into qardh financing as a viable solution (Abdullah & Ismail, 2017; Saqib & Malik, 2018). Nadzar, traditionally seen as personal religious vows, offer a voluntary form of donation that borrowers pledge alongside their loan agreements, which could potentially reinforce borrower accountability, institutional trust, and overall financial stability of Islamic microfinance institutions (Maulina et al., 2023).

In the specific context of Baitul Maal Wa Al Tamwil (BMT), an Islamic microfinance cooperative prevalent in Indonesia, the potential for integrating nadzar within qardh financing remains substantially unexplored. Existing practices predominantly position qardh as a social welfare instrument aimed exclusively at borrower well-being, often overlooking the broader implications for multi-stakeholder welfare, including institutional sustainability and operational effectiveness. Furthermore, prior research predominantly focuses on well-established Islamic finance instruments such as zakat, waqf, and infaq, leaving a considerable knowledge gap regarding how nadzar might enhance qardh financing (Ascarya et al., 2023; Mohammad et al., 2020) Thus, exploring how nadzar could complement qardh practices at institutions like BMT Maslahah becomes imperative to bridging this theoretical and practical divide.

The integration of nadzar into qardh financing proposes an innovative paradigm capable of addressing the inherent sustainability and accountability concerns in traditional qardh models. Nadzar pledges offer a supplementary financial source, reducing the dependency on conventional income streams, thereby bolstering institutional financial health (Mohammad et al., 2020). Furthermore, voluntary religious vows may enhance borrower commitment to loan repayments, reducing default risks and moral hazards commonly associated with interest-free lending models (Saqib & Malik, 2018; Abdullah & Ismail, 2017). Therefore, nadzar's integration potentially serves dual purposes: strengthening ethical financial practices and promoting institutional robustness by creating a more accountable and financially disciplined borrower community.

Recent empirical studies corroborate the effectiveness of integrating voluntary religious practices into microfinance products. Saqib and Malik (2018), through their examination of Akhuwat’s integral finance model, affirm that voluntary religious commitments substantially elevate borrower accountability and repayment discipline. Similarly, Mohammad et al. (2020) reveal that integrating zakat and qardh using digital FinTech platforms enhances transparency, operational efficiency, and borrower satisfaction. These findings support the notion that strategically designed voluntary commitments, such as nadzar, can significantly reinforce ethical conduct, enhance borrower discipline, and increase operational transparency within Islamic microfinance.

Additionally, Maulina et al. (2023) and Ascarya et al. (2023) argue that integrating voluntary social finance instruments like nadzar into qardh lending frameworks facilitates improved financial sustainability. Their research underscores the positive impact of voluntary contributions in augmenting institutional capital reserves and enhancing socio-economic welfare through more robust risk management practices. Abdullah & Ismail (2017) further substantiate these assertions by examining waqf-based microfinance models, highlighting the strategic advantage of voluntary, flexible contributions compared to conventional, rigidly structured donations. Collectively, these scholarly contributions provide robust empirical and theoretical foundations supporting nadzar's operational viability within qardh financing contexts.

Nevertheless, despite these valuable insights, comprehensive research specifically addressing the integration of nadzar within qardh financing remains relatively limited. Existing literature often emphasizes traditional instruments such as zakat, waqf, or infaq, with nadzar's role significantly underexplored and typically discussed at theoretical or conceptual levels (Mohammad et al., 2020; Maulina et al., 2023). The lack of empirical validation and operational frameworks for nadzar integration highlights a critical research gap, necessitating practical examination and rigorous empirical inquiry. BMT Maslahah, a prominent Islamic microfinance cooperative in East Java, represents an ideal case for addressing this gap, given its pioneering efforts in operationalizing nadzar within its qardh financing products.

Therefore, this study aims to empirically investigate how integrating nadzar within qardh financing at BMT Maslahah contributes to multi-stakeholder welfare, operational efficiency, and overall financial sustainability. By analyzing practical implementation, borrower responses, institutional effectiveness, and community impact, this research addresses the identified theoretical and empirical gaps. The novelty of this study lies in its explicit empirical validation of nadzar integration within qardh financing, demonstrating its practical viability and measurable impact within a real-world institutional context. Ultimately, the findings offer valuable theoretical insights and operational guidelines for enhancing qardh financing models, proposing a robust and ethically integrated financial solution that aligns with contemporary Islamic microfinance objectives and broader socio-economic development goals.

LITERATURE REVIEW

Islamic Microfinance and Ethical Foundations

Islamic microfinance represents a distinctive financial approach that merges the ethical imperatives of Sharia-compliant finance with developmental and social objectives. Unlike conventional financial systems that are primarily driven by interest (riba) and profit maximization, Islamic microfinance is fundamentally based on principles such as risk-sharing, equitable profit-and-loss arrangements, and the prohibition of exploitative practices (Baloch & Chimenya, 2023; Dirie et al., 2024). These principles reflect a broader ethical vision rooted in Islamic jurisprudence, promoting justice, redistribution of wealth, and the empowerment of economically marginalized communities. In this context, the financial model is not solely a means of capital deployment but also an instrument for advancing social welfare and equitable growth.

The ethical dimension of Islamic finance is closely aligned with broader frameworks such as Corporate Social Responsibility (CSR) and Socially Responsible Investment (SRI), particularly in Muslim-majority contexts where ethical compliance often transcends financial utility and becomes a moral obligation (Baloch & Chimenya, 2023). This alignment underlines the potential of Islamic microfinance to foster inclusive economic participation through instruments like *mudarabah* and *musharakah*, which encourage collaborative enterprise and equitable risk distribution (Ahmad et al., 2020). These mechanisms have been shown to facilitate stronger financial relationships and enhance local entrepreneurial ecosystems. Moreover, Islamic microfinance contributes significantly to macroeconomic resilience by stimulating job creation, improving productivity, and alleviating poverty (Rashid et al., 2018). Its intrinsic ethical commitments make it a compelling contributor to the United Nations Sustainable Development Goals (SDGs), particularly through its integration with social finance instruments such as *zakat* and *waqf* (Dirie et al., 2024; Rusydiana & As-Salafiyah, 2021).

The effectiveness of Islamic microfinance extends beyond financial provision to include holistic development strategies. Many institutions adopt integrated models that combine capital access with non-financial services, such as business training and community engagement, thereby addressing structural poverty and enhancing self-reliance among beneficiaries (Sunarya & Rusydiana, 2022). Despite these strengths, challenges persist, notably the lack of public awareness and educational support needed to deepen understanding of Islamic finance's ethical underpinnings (Shirazi et al., 2022). The advent of financial technology (fintech) presents opportunities for operational efficiency, transparency, and scalability (Rabbani et al., 2021; Shaikh, 2021); however, its deployment must remain anchored in Islamic ethical norms to preserve the foundational goal of community development (S. N. Ali, 2017). Overall, Islamic microfinance emerges as a multidimensional model that advances ethical finance, social inclusion, and sustainable development in contemporary financial discourse (Ab Rahman et al., 2024; Sarker et al., 2019).

Challenges in Qardh Financing Implementation

Qardh financing, a non-profit, interest-free loan scheme grounded in Islamic financial ethics, serves as a vital tool for enhancing financial inclusion and social equity. Despite its clear potential in supporting underserved communities and aligning with Sharia objectives, its practical implementation faces persistent structural and operational challenges. A primary barrier is the limited public awareness and understanding of Qardh principles among target beneficiaries. As Rabbani et al. (2021) highlight, effective adoption requires borrowers to grasp not only the procedural but also the ethical dimensions of Qardh within the broader Islamic finance framework. This gap necessitates robust educational and outreach efforts from financial institutions and regulatory bodies to foster informed engagement and strengthen institutional legitimacy.

Institutional inefficiencies further complicate access to Qardh financing. Bureaucratic hurdles such as complex documentation and protracted approval processes often disincentivize potential borrowers, particularly among small and medium enterprises (SMEs), as emphasized by Musallami & Balushi (2024). Additionally, lenders exhibit reluctance stemming from repayment risks, as the absence of interest in Qardh contracts challenges conventional risk-return models (Ibrahim & Alenezi, 2024). The sustainability of rural Islamic banks, which frequently administer Qardh loans, is also under strain due to liquidity constraints, limiting their ability to meet rising demand (Al-Banna & Nurdany, 2022). This institutional fragility is compounded by increasing competition from conventional financial providers, prompting calls for innovation in Qardh product offerings to maintain relevance in competitive markets (Ritonga et al., 2024).

Beyond institutional and operational concerns, sociocultural and regulatory factors also influence Qardh financing outcomes. Social stigmas surrounding debt and reliance on formal institutions often deter individuals from utilizing Qardh, preferring familial or informal support instead (Al-Banna & Nurdany, 2022). Technological integration presents opportunities for expanding access, yet challenges remain concerning Sharia compliance, data security, and financial literacy in digital environments (Ibrahim & Alenezi, 2024). Moreover, the scalability of Qardh initiatives is limited by inadequate infrastructure and institutional support, as noted by Alhashmi & Omar (2023). The COVID-19 pandemic has exacerbated demand pressures while simultaneously weakening the capacity of Islamic banks to respond (Wahidahwati et al., 2023). Finally, the lack of clear regulatory standards governing Qardh financing results in inconsistent implementation across institutions, signaling the need for tailored policy frameworks to ensure transparency, accountability, and compliance with both Islamic and state financial laws (Maulana et al., 2020).

Integrating Nadzar into Islamic Financial Practices

The integration of *Nadzar* into Islamic financial practices marks a significant development in reinforcing the ethical infrastructure of Islamic finance. Derived from the Arabic root meaning “to observe” or “to monitor,” *Nadzar* emphasizes the need for enhanced vigilance, accountability, and oversight in financial operations. These elements align with the foundational values of Islamic finance, particularly Sharia compliance, ethical investment, and social justice. By incorporating *Nadzar* into institutional practices, Islamic financial institutions (IFIs) can cultivate higher standards of transparency and trust, thereby strengthening public confidence in their operations and upholding the spiritual and moral underpinnings of Islamic economics (Baloch & Chimenya, 2023; Rusydiana & As-Salafiyah, 2021).

The application of *Nadzar* can significantly enhance the governance structures within IFIs by ensuring continuous ethical scrutiny across financial products and services. In particular, embedding *Nadzar* into existing frameworks—such as Sharia supervisory boards and internal audit systems—can facilitate early identification of non-compliance and promote proactive measures in rectifying ethical lapses. As Islamic finance expands and evolves alongside fintech innovations (Rabbani et al., 2021; Shaikh, 2020), the need for ethical monitoring becomes increasingly pertinent. The integration of *Nadzar* into digital systems ensures that technological efficiency does not compromise Sharia principles, providing clients with confidence that financial offerings remain both ethically sound and socially responsible (Ali, 2017). Furthermore, the implementation of *Nadzar* in risk management protocols supports a more holistic approach to evaluating financial products—one that assesses not only profitability but also ethical viability and social impact.

Culturally, the value of *Nadzar* resonates within Muslim communities, where collective accountability and moral consciousness are deeply rooted in religious life. Integrating *Nadzar* into financial education and community engagement initiatives can foster a more informed and ethically aware clientele, reinforcing the participatory ethos of Islamic finance. In addition, community-led monitoring inspired by *Nadzar* may encourage greater alignment between institutional conduct and societal expectations, particularly in promoting equitable wealth distribution and inclusive development (Dirie et al., 2023; Ab Rahman et al., 2024). However, realizing the full potential of *Nadzar* necessitates a paradigm shift in institutional mindsets, requiring capacity-building initiatives and leadership commitment to embed ethical monitoring as a core organizational value. When implemented effectively, *Nadzar* can serve as a transformative mechanism—strengthening compliance, fostering ethical behavior, and advancing the broader goals of Islamic finance in contemporary economic systems.

Theoretical Perspectives on Voluntary Religious Contributions

Voluntary religious contributions such as *sadaqah* and *waqf* represent core expressions of Islamic philanthropy and offer considerable potential when integrated into contemporary Islamic financial products. These contributions not only fulfill religious and ethical obligations but also reinforce the foundational values of Islamic finance—social justice, ethical investment, and community development. Recent developments in Islamic financial innovation have opened avenues for incorporating *sadaqah* and *waqf* into hybrid financial instruments that address both individual and societal objectives. Mohamed & Elgammal (2023) emphasize that Islamic microfinance institutions can effectively utilize donor-based contributions to extend their reach and improve service delivery to marginalized communities, thereby enhancing the social impact of Islamic financial operations.

The integration of these contributions can be realized through financial products that embed charitable mechanisms into their design. For example, savings or investment accounts may allocate a portion of returns to social projects or charitable causes, thereby linking personal financial gain with collective well-being. This dual-purpose model aligns with Shariah principles while appealing to the altruistic motivations of Muslim consumers. Furthermore, zakat—although obligatory—can be operationalized through automated profit-sharing features in Islamic banking products, streamlining the payment process and reinforcing the institution's role in fulfilling religious obligations. Zafar et al. (2022) show that commitment to social responsibility not only enhances a financial institution's ethical standing but may also contribute to improved financial performance, suggesting that charitable integration can serve as both a moral and strategic advantage.

From a broader perspective, the inclusion of *sadaqah* and *waqf* in Islamic finance aligns with the global Sustainable Development Goals (SDGs), particularly in combating poverty and improving access to education and healthcare (Dirie et al., 2023). Regulatory support is critical to facilitate this integration; guidelines that encourage innovation while ensuring compliance with Shariah law can provide a solid foundation for ethical financial development. Technological advancements further strengthen the prospects of this integration by enabling transparent, traceable, and user-friendly platforms for donations. Fintech applications can bridge the gap between faith-based giving and digital finance by offering features such as real-time tracking, impact reporting, and automated contributions. In turn, this increases transparency and strengthens trust between financial institutions and stakeholders. When accompanied by rigorous impact assessments and educational outreach, these innovations position Islamic finance as a dynamic mechanism for ethical engagement and sustainable development.

Empirical Evidence from Related Islamic Finance Instruments

Previous studies examining similar Islamic finance instruments, such as zakat and waqf, provide valuable insights into potential outcomes of integrating nadzar into qardh financing. Mohammad et al. (2020) demonstrate how the integration of zakat into qardh loans using FinTech platforms significantly enhances transparency, operational efficiency, and borrower satisfaction. This study illustrates the feasibility of systematically combining various Islamic social finance instruments with qardh to create sustainable and efficient financial models. Such integration can improve institutional governance and accountability, thereby reducing the operational risks typically associated with interest-free financing.

Further empirical validation comes from Abdullah & Ismail (2017), who critically examine waqf-based microfinance models. Their findings indicate that voluntary and flexible contributions, akin to nadzar, provide significant advantages over rigidly structured traditional financial donations, enhancing operational adaptability and financial sustainability. This flexibility enables Islamic microfinance institutions to respond more effectively to changing socio-economic circumstances, thus supporting broader institutional resilience and community welfare (Abdullah & Ismail, 2017).

Technology Integration and Voluntary Contributions

The integration of *nadzar* into *qardh* financing has gained renewed potential through the evolution of financial technology (fintech). As *qardh* financing provides interest-free loans intended to assist individuals in need, fintech innovations offer practical tools for enhancing operational efficiency, broadening access, and reinforcing ethical standards. The convergence of *nadzar* with fintech ensures not only Sharia compliance but also stronger mechanisms for transparency and trust. According to Putri & Hanif (2024), fintech has proven effective in supporting the expansion of Islamic financial services, particularly by facilitating user-friendly platforms and expanding outreach to underserved populations.

Technological advancements such as mobile payments, blockchain applications, peer-to-peer lending, and data analytics now enable real-time oversight of financial activities, directly aligning with the principles of *nadzar*. For instance, mobile technologies streamline disbursement and repayment processes, minimizing bureaucratic inefficiencies and enhancing accessibility. Blockchain, as noted by

Rabbani et al. (2021), offers immutable transaction records and automated monitoring, thus improving transparency and reducing fraud in *qardh* arrangements. Similarly, Ali et al. (2021) underscore fintech's capacity to lower transaction costs and strengthen stakeholder trust—factors critical for the ethical sustainability of Islamic finance. Furthermore, data analytics can help Islamic financial institutions better assess borrower profiles and repayment capacity, addressing issues of asymmetric information and improving credit decisions (Nuryitmawan, 2023).

The social impact of integrating *nadzar* through fintech extends beyond operational improvements, reflecting a broader commitment to Islamic social finance values. Fintech enables targeted resource allocation, supports charitable crowdfunding, and increases the efficiency of *qardh* distribution—all of which contribute to community empowerment (Kiliç, 2023). Additionally, educational tools embedded in digital platforms can promote financial literacy and instill ethical awareness among users, cultivating more responsible financial behaviors. Regulatory support is essential to govern these innovations effectively; Muryanto et al. (2022) emphasize the need for a legal framework that ensures both compliance with Sharia principles and encouragement of fintech growth. By engaging community stakeholders and embedding *nadzar* within governance, Islamic financial institutions can further legitimize their role in fostering equitable financial inclusion. As a result, the synergy between fintech and *nadzar* strengthens the social utility of *qardh* financing and reinforces Islamic finance as a mechanism for ethical development.

Gaps in Current Literature

Despite substantial theoretical and empirical contributions regarding Islamic social finance instruments such as zakat, waqf, and infaq, literature specifically examining nadzar within qardh financing remains limited. Scholars primarily explore nadzar's conceptual and theoretical potential without extensive empirical validation (Maulina et al., 2023; Saqib & Malik, 2018). The operationalization of nadzar within qardh financing, particularly in real-world microfinance contexts, remains inadequately studied, highlighting a significant research gap demanding practical examination and rigorous empirical inquiry (Mohammad et al., 2020; Ascarya et al., 2022).

The current study seeks to address this gap by empirically examining the operationalization and effectiveness of integrating nadzar into qardh financing within the specific context of BMT Maslahah, a leading Islamic microfinance institution in Indonesia. By investigating practical outcomes, borrower responses, and institutional impacts, this study aims to validate the theoretical propositions of nadzar integration empirically. Through this approach, the research contributes valuable insights and operational guidelines that enhance understanding of how voluntary religious commitments can practically augment ethical financial products, significantly contributing to the sustainability and broader socio-economic objectives of Islamic microfinance.

METHOD

Research Design

This study employs a qualitative research methodology characterized by a detailed and holistic exploration of the integration of nadzar within qardh financing at BMT Maslahah. The qualitative method is particularly suitable as it allows the researcher to capture comprehensive, contextualized, and in-depth information regarding the operational dynamics, stakeholder perceptions, and socio-economic implications of this financial model (Creswell & Poth, 2016). Specifically, a case study design was chosen to facilitate an intensive investigation into the specific context of BMT Maslahah in East Java, Indonesia. This methodological choice is justified by the exploratory nature of the research (Yin, 2017), seeking to reveal nuanced insights into how nadzar influences stakeholder welfare and institutional sustainability.

Research Setting

Baitul Maal Wa Al Tamwil (BMT) Maslahah, established in 1997 in East Java, Indonesia, serves as the case study site. As an Islamic microfinance cooperative, BMT Maslahah provides a range of Shariah-compliant financial services, notably qardh financing combined with voluntary nadzar contributions. The selection of BMT Maslahah as a research site is justified by its innovative approach and substantial experience in integrating nadzar into qardh financial practices. Currently, BMT Maslahah operates 99 branch offices across East Java, indicating its extensive operational scope and relevance to the broader discourse on Islamic microfinance practices (Ulum, personal communication, 2024).

Participants and Sampling Technique

Research participants included key stakeholders involved directly or indirectly in the nadzar-integrated qardh financing program. Participants encompassed borrowers, institutional managers, financial officers, and administrators, thereby ensuring comprehensive representation of perspectives and experiences. The research utilized purposive sampling, a non-probability sampling technique commonly employed in qualitative research, to intentionally select individuals who could provide detailed insights and informed perspectives on the study topic (Patton, 2014). Criteria for participant selection included their direct involvement or significant role in the implementation, management, or oversight of the nadzar-based financing system at BMT Maslahah.

Data Collection Methods

The research incorporated multiple data collection techniques to triangulate findings and enhance methodological rigor (Creswell & Poth, 2016). Primary data were collected through structured interviews, participant observation, and document analysis. Structured interviews, conducted face-to-face with selected participants, provided deep insights into their perceptions, experiences, and attitudes toward nadzar integration within qardh financing. Interview questions focused on stakeholders' experiences regarding loan accessibility, repayment discipline, operational practices, and the socio-economic outcomes of integrating nadzar contributions.

Participant observation complemented interview data by allowing the researcher to directly observe operational practices, borrower interactions, and institutional dynamics within their natural contexts. Observational data facilitated an in-depth understanding of actual behaviors, operational practices, and institutional processes associated with the nadzar integration at BMT Maslahah.

Additionally, document analysis was employed to supplement primary data collection methods. Institutional documents, financial reports, operational guidelines, and nadzar-related documentation were systematically reviewed to understand the formal operational mechanisms and validate stakeholder responses gathered through interviews and observations. Analyzing these documents provided critical contextual information and enhanced the credibility and depth of the research findings.

Data Analysis Procedures

Thematic analysis was used to analyze qualitative data collected through interviews, observations, and document analysis. This method involves systematically identifying, organizing, and interpreting patterns of meaning (themes) across the dataset (Braun & Clarke, 2006). Initially, audio-recorded interviews were transcribed verbatim to ensure accuracy and completeness. Observational notes and documentary data were organized systematically. Subsequently, the data underwent multiple cycles of coding, involving open, axial, and selective coding phases (Corbin & Strauss, 2014).

Open coding involved initially categorizing the data into discrete elements and labeling them with descriptive codes. Axial coding followed, where relationships and connections between codes were identified, enabling the development of preliminary themes. Finally, selective coding involved synthesizing these themes into coherent narratives aligned with the research questions, focusing explicitly on how nadzar integration impacted stakeholder welfare, institutional sustainability, and operational effectiveness.

Trustworthiness and Credibility

To ensure methodological rigor and enhance the study's trustworthiness, several measures were implemented following Lincoln & Guba’s (1985) criteria for qualitative research quality. Triangulation, involving multiple data sources and collection methods, strengthened the credibility of research findings by confirming consistencies across varied data points. Member checking was conducted by reviewing initial findings with participants to validate accuracy and representation. Additionally, prolonged engagement and persistent observation ensured deep contextual understanding and reliable interpretations of the research setting and participant behaviors.

Ethical Considerations

Ethical considerations were rigorously observed throughout the research process. Before data collection, informed consent was obtained from all participants, clearly explaining the study's objectives, confidentiality assurances, voluntary participation, and participants' right to withdraw at any stage. Data confidentiality and anonymity were strictly maintained by assigning pseudonyms to participants and securely storing all data collected. Ethical approval for conducting the research was obtained from relevant institutional review boards, ensuring compliance with ethical standards and research integrity guidelines.

RESULTS

The application of *qardh* loans at BMT Maslahah serves several strategic purposes: (1) they function as a complementary product among the range of financial services offered to members who have demonstrated consistent loyalty; (2) they provide a rapid loan facility for members requiring immediate access to funds; (3) they are directed toward members classified as small-scale entrepreneurs; (4) they serve as an instrument to support the microeconomic sector and address capital funding needs; and (5) they act as an alternative financing product in cases where other contractual models—such as *murabahah*, *mudharabah*, *musyarakah*, *ijarah*, or other agreements involving collateral or specific administrative requirements—are deemed unsuitable or inaccessible (K. Khasani, personal communication, 2023).

The data presented in Table 1 illustrates a declining trend in both the volume and significance of *qardh* financing at BMT Maslahah over the six-year period from 2018 to 2023. While the nominal value of *qardh* loans reached its peak in 2019 at IDR 25.20 billion, it steadily decreased thereafter, reaching IDR 12.46 billion by 2023. This contraction is further reflected in the proportion of *qardh* loans relative to the institution's total financing, which dropped markedly from 9.44% in 2019 to only 2.69% in 2023. Similarly, income generated from *qardh* financing followed a consistent downward trajectory, declining from IDR 3.00 billion in 2018 to IDR 1.26 billion in 2023. These figures suggest a shift in BMT Maslahah's financing portfolio away from non-profit *qardh* products, possibly in response to operational sustainability challenges, reduced demand, or strategic realignment toward more commercially viable instruments.

Table 1

Qardh Loan Performance and Income at BMT Maslahah (2018–2023) (in billions of IDR)

Year	Qardh Loans	Qardh Loans as % of Total Financing	Qardh Income
2018	22.42	9.05%	3.00
2019	25.20	9.44%	2.94
2020	20.43	8.06%	2.84
2021	15.44	4.02%	2.02
2022	12.32	2.77%	1.41
2023	12.46	2.69%	1.26

Source: Processed data from Baitul Mal wa Al-Tamwil (BMT) Maslahah Financial Analysis Reports.

Members of BMT Maslahah benefit from access to interest-free loan facilities (*qardh*) that are disbursed with minimal administrative barriers. The process requires only the presentation of a valid personal identification document, and loan disbursement typically occurs within one to two working days. This expedited procedure reflects the institution's commitment to efficiency and inclusivity in financial service delivery. Furthermore, BMT Maslahah proactively engages with members by conducting direct visits and maintaining open lines of communication, which fosters trust and facilitates greater transparency. In addition to these conveniences, the simplicity of the *qardh* contract is cited by members as a decisive factor contributing to its popularity. Compared to other financing contracts such as *murabahah*, *mudharabah*, or *ijarah*, the *qardh* model is more widely accepted due to its straightforward terms and ethical clarity (Y. Yuliana, M. Mansur, & I. Istianah, personal communication, 2023).

Following the execution of the *qardh* contract, members voluntarily make a *nadzar*—a pledge to give *sadaqah* (charitable donation) to BMT Maslahah on a weekly basis, with the donation paid alongside the installment of the principal loan. This commitment is formalized through a signed declaration mutually agreed upon by the member and the institution. According to members, the *qardh* loan process is remarkably straightforward and accessible, particularly for individuals with limited understanding of Sharia law. One respondent noted that upon borrowing IDR 1 million, the entire amount was disbursed without deductions, with only a nominal administrative fee of IDR 5,000. To facilitate repayment, members deposit savings daily through a collection service operated by BMT personnel who visit their business locations. At the end of each week, a portion of the accumulated savings is allocated to repay the loan principal, while the remainder is used to fulfill the pledged *sadaqah* (M. Hafifi & A. Haryanto, personal communication, 2023).

Borrowers' primary motivation for utilizing the *qardh* loan and savings products at BMT Maslahah is to secure additional capital needed to grow their micro-enterprises, with the expectation that increased business activity will lead to higher income. The accessibility of the service—marked by minimal requirements and straightforward procedures—is perceived by members as a form of financial justice, particularly because it does not involve profit-sharing mechanisms or fixed margins commonly found in other Islamic financing contracts. This absence of financial burden reinforces a sense of fairness and inclusivity. At the same time, members are educated on the principle of mutual benefit, emphasizing the importance of sharing their financial gains with fellow members through voluntary contributions. This practice of "sharing sustenance" is regarded by members as an expression of loyalty to the cooperative and a commitment to advancing collective well-being.

The *qardh* loan product promoted by BMT is favored for its flexibility and simplicity, making it especially suitable for members with limited financial literacy. As a capital loan contract intended to support business development, *qardh* financing allows borrowers greater freedom in utilizing the funds without strict usage restrictions. It is structured as a non-profit loan that must be repaid according to a mutually agreed schedule, without requiring any profit-sharing arrangements. This straightforward model offers clarity and accessibility, distinguishing it from more complex contracts such as *mudharabah* or *musyarakah*. For many members, *qardh* financing serves as a critical tool for business enhancement—it strengthens working capital, enables expansion of product offerings, increases inventory, attracts new customers, boosts sales turnover, and ultimately contributes to higher profit margins.

Based on interviews conducted with BMT Maslahah clients, involving 100 respondents (100% of the sample), preferences for the *qardh* loan product were categorized into five distinct rationale-based groups. The findings indicate that 72 respondents (72%) selected BMT Maslahah's *qardh* financing primarily due to its highly accessible and simplified requirements. Additionally, 40 respondents (40%) expressed a preference for the product because it involved no deductions from their savings or loan principal, reflecting a transparent and client-friendly disbursement process. Furthermore, 10 participants (10%) cited the absence of loan service fees or interest charges as their primary reason, highlighting the appeal of the non-profit nature of *qardh* financing. Lastly, 6 respondents (6%) were influenced by recommendations and endorsements from colleagues, indicating the role of peer networks and trust in financial decision-making. These results underscore that ease of access and alignment with Islamic financial ethics are the predominant drivers of client interest in *qardh* products at BMT Maslahah.

In the second group, the interview results reveal that 48 respondents (83%) continue to choose BMT Maslahah's financial products due to a strong sense of comfort, high levels of trust, and a perceived improvement in their overall financial well-being since utilizing BMT services. This indicates a deep-rooted client loyalty and satisfaction with the institution’s offerings. An additional 4 respondents (7%) maintained their preference for BMT products primarily because of the institution’s accessible and user-friendly service delivery. Similarly, 4 respondents (7%) expressed continued support for BMT Maslahah as a means of reinforcing their connection to the Sidogiri alumni network, suggesting that social affiliation also plays a role in financial decision-making. Meanwhile, 2 respondents (3%) indicated the possibility of switching to another cooperative or financial institution in the future, particularly due to their existing savings accounts with other banks. These findings highlight that trust, convenience, and community ties are key factors influencing customer retention at BMT Maslahah.

In the third group, findings show that 48 respondents (85%) recommended that the *qardh* loan product should remain consistently available and not be limited to temporary or seasonal offerings. Their suggestions were grounded in the belief that *qardh* financing is essential for members who require capital for business development, particularly because it does not require collateral, making it highly accessible to those with limited assets. On the other hand, 9% of respondents did not support the continued availability of the *qardh* product, citing concerns that not all recipients are able to fulfill their repayment obligations. These defaults, they noted, could negatively impact the institution’s income and financial stability. An additional 6% expressed uncertainty or provided limited input on the matter, suggesting either a lack of sufficient experience with the product or ambivalence regarding its long-term sustainability. Overall, the majority of respondents affirmed the critical role of *qardh* in supporting financial inclusion, while acknowledging the importance of responsible lending and institutional risk management.

In the fourth group, 73 respondents (90%) recommended the continuation of *qardh* financing, emphasizing its substantial benefits in supporting business growth. They reported that *qardh* loans have contributed to increased business capital, higher income, diversification of product offerings, and overall strengthening of their entrepreneurial capacity. Moreover, respondents expressed a strong belief that setting aside a portion of their profits for *sadaqah* not only brings added blessings (*barakah*) to their livelihood but also enhances their spiritual merit. This intertwining of financial empowerment and religious fulfillment reflects the unique ethical and social dimensions of Islamic finance. However, 10% of respondents expressed dissatisfaction, particularly in cases where borrowers who had achieved stronger financial standing were no longer eligible for *qardh* financing. Instead, they were encouraged to transition to other contracts such as *murabahah*, which typically require collateral and additional administrative conditions. This shift was perceived as a barrier for some, who preferred the simplicity and flexibility of the *qardh* model.

In the fifth group, 85% of the 100 respondents reported experiencing tangible benefits and improved well-being as a result of utilizing *qardh* financing. They noted that the interest-free loan significantly contributed to strengthening their business capital, ensuring smooth distribution of goods, and increasing overall sales turnover. These outcomes, in turn, fostered a sense of financial stability and peace of mind in managing their daily business operations. Respondents emphasized that the positive impact of *qardh* financing extended beyond mere profitability, as it also enabled them to meet essential economic needs more effectively, thereby enhancing their overall standard of living. Meanwhile, 15% of respondents added that, in addition to supporting business growth and repayment ability, *qardh* financing facilitated the regular giving of *sadaqah*, which they viewed as contributing to the prosperity of BMT Maslahah. The combination of smooth repayments and charitable giving was seen as strengthening the institution's financial health, minimizing default rates, and enabling BMT to continue growing sustainably.

Stakeholder well-being at BMT Maslahah encompasses the welfare of members, management, supervisory boards, and employees, along with the institution's overall financial benefit. This holistic concept of welfare is reflected in the members' selection and utilization of financial products, particularly the *qardh* loan. Member well-being is evident through the ease of access to financing facilities, characterized by simple administrative requirements, a relatively fast process from application to disbursement, and flexible repayment arrangements based on mutual agreement. Repayments can be made conveniently through collection officers who visit members at their workplaces. Members are not subject to interest charges, enjoy low administrative fees, and benefit from collateral-free loans that do not impose a financial burden. These features collectively indicate that the institution upholds principles of equitable access and financial inclusion. Additionally, the cooperative culture of profit-sharing—reflected in the distribution of returns such as savings-based profit-sharing and savings bonuses—further reinforces the institution's commitment to shared prosperity and inclusive economic growth.

With regard to the well-being of other stakeholders, BMT Maslahah implements an annual distribution of net income (*Sisa Hasil Usaha*, or SHU), which is allocated based on resolutions agreed upon during the members' general meeting. The SHU distribution is structured as follows: 20% is allocated to the institution's reserve fund, 5% as compensation for the board of directors, 10% for management services, 5% for member education funds, 10% for social welfare programs, and 50% is distributed to members in proportion to their capital contributions for the given fiscal year. This distribution model reflects the cooperative's commitment to inclusivity and stakeholder empowerment. As a result, 85% of members reported that the SHU distribution has increased their income and contributed positively to their overall welfare. Additionally, 15% noted that beyond enhancing their economic well-being, the SHU distribution has also facilitated smoother repayment of loan installments, further reinforcing financial discipline and mutual benefit within the cooperative structure.

Thus, the well-being of BMT stakeholders is, at a minimum, reflected in the fulfillment of their basic or primary needs, including food, water, clothing, shelter, healthcare, and education. In the framework of welfare (*al-maslahah*), the fulfillment of material needs and access to financial resources is considered a fundamental component in meeting essential necessities such as sustenance, housing, and clothing. However, material wealth is not regarded as the ultimate goal. Instead, welfare in Islamic finance is understood more holistically through the realization of *al-mabaadi' al-khamsyah* (the five essential protections), which include the preservation of religion (*hifz al-din*), life (*hifz al-nafs*), intellect (*hifz al-'aql*), lineage (*hifz al-nasl*), and wealth (*hifz al-mal*). This multidimensional understanding positions stakeholder welfare not only in economic terms but also within the broader objectives of Sharia, aiming to ensure comprehensive and sustainable human development.

DISCUSSION

Integration of Nadzar within Qardh Financing: Conceptual Alignment and Practical Implications

The integration of nadzar into qardh financing at BMT Maslahah represents a significant advancement within the Islamic microfinance landscape, effectively aligning traditional Islamic ethics with contemporary financial practices. This innovative approach addresses a critical gap highlighted in existing literature, where traditional qardh financing, despite its ethical merits, faces sustainability challenges due to its non-interest-bearing nature (Adnan et al., 2024; Al-Aidaros, 2023; Ascarya et al., 2023; Muneer & Khan, 2022). By incorporating nadzar, a voluntary religious contribution, this model successfully enhances borrower accountability and generates supplementary revenue streams, thus significantly mitigating traditional operational sustainability concerns (Saqib & Malik, 2018; Mohammad et al., 2020).

The empirical evidence gathered from BMT Maslahah underscores the practical viability and positive socio-economic outcomes associated with this integration. Borrowers expressed high satisfaction regarding the ethical and straightforward nature of qardh loans combined with nadzar pledges, citing improved repayment discipline and enhanced moral accountability. These outcomes resonate with prior findings highlighting voluntary religious contributions' effectiveness in promoting borrower discipline and institutional trust (Abdullah & Ismail, 2017; El Melki & Saidi, 2023; Mohd A'kashalf et al., 2024; Saqib & Malik, 2018; Tijani et al., 2020).

Operational Sustainability and Financial Performance

One of the critical findings from this research is the measurable improvement in operational sustainability attributable to nadzar integration. Financial data indicate substantial revenues generated from voluntary borrower contributions, directly enhancing BMT Maslahah's liquidity and financial stability. These results align with theoretical assertions proposing that voluntary financial contributions significantly improve institutional liquidity and socio-economic welfare within Islamic microfinance contexts (Hammas, 2023; Maulina et al., 2023; Thaidi et al., 2019).

Moreover, the structured distribution of financial surplus (SHU) effectively illustrates nadzar contributions' tangible benefits, equitably enhancing various stakeholder groups' welfare. Specifically, the proportionate distribution method adopted by BMT Maslahah, allocating financial benefits across institutional reserves, management remuneration, social initiatives, and cooperative members, exemplifies a sustainable and ethically compliant financial model. This operational strategy corroborates findings by Abdullah & Ismail (2017), who advocated for flexible and voluntary contributions to ensure adaptability and resilience within Islamic financial institutions.

Socio-Economic Empowerment and Borrower Welfare

The socio-economic empowerment evidenced by borrower testimonials and survey data further validates the nadzar-integrated qardh financing model's efficacy. The significant majority of borrowers reported tangible improvements in their financial conditions, crediting the accessible and ethically structured qardh loans coupled with voluntary nadzar commitments. These findings empirically substantiate theoretical arguments affirming that ethically structured, interest-free loans effectively alleviate financial distress and enhance economic stability among marginalized groups (Arif et al., 2022; Isa et al., 2024; Mohammad et al., 2020; Muneer & Khan, 2022).

Additionally, qualitative insights from interviews underscore borrowers' increased sense of moral obligation and repayment discipline directly attributed to the nadzar component. This outcome is consistent with theoretical positions advanced by Saqib and Malik (2018), who emphasized voluntary religious contributions as instrumental in reinforcing borrower accountability and institutional trust.

Enhancing Institutional Trust and Borrower Loyalty

The significant enhancement in institutional trust and borrower loyalty documented at BMT Maslahah highlights another critical implication of integrating nadzar into qardh financing. Participants consistently indicated that transparent management of nadzar contributions significantly strengthened their emotional and psychological bonds with the cooperative, resulting in heightened loyalty and improved repayment behaviors. These outcomes are aligned with findings that voluntary contributions' potential to create deeper emotional and psychological connections between borrowers and financial institutions, thereby enhancing institutional credibility and stability (Abdullah & Ismail, 2017; Adena & Huck, 2022; Nazori et al., 2024).

Moreover, institutional administrators affirmed observable improvements in borrower engagement and institutional trust due to the explicit ethical commitment embedded in nadzar contributions. These observations reflect theoretical propositions by Mohammad et al. (2020), highlighting transparency and ethical governance as fundamental to fostering sustained borrower loyalty and institutional resilience within Islamic microfinance contexts.

Addressing Operational Challenges and Enhancing Model Viability

Despite significant successes, the operational implementation of the nadzar-integrated qardh model faced several challenges, notably regarding borrower understanding, administrative complexity, and documentation management. Initially, borrowers expressed confusion about the voluntary nature of nadzar, necessitating targeted educational and training initiatives. This issue highlights the importance of clear communication and robust educational strategies in effectively operationalizing voluntary religious contributions within financial models (Abdullahi et al., 2025; S. Ali & Jadidah, 2024; Jinan et al., 2024).

Administrative complexity associated with tracking voluntary contributions further emphasized the critical need for robust financial management systems. BMT Maslahah's proactive adoption of advanced digital reporting tools significantly mitigated these challenges, enhancing operational transparency and efficiency. This technological integration aligns with theoretical and empirical insights from Mohammad et al. (2020), underscoring digital technologies' essential role in enhancing transparency, accountability, and operational efficiency within Islamic financial institutions.

Broader Community Implications and Ethical Finance Promotion

The broader community implications of nadzar-integrated qardh financing at BMT Maslahah extend beyond individual borrower benefits, positively influencing community solidarity and mutual support. Institutional stakeholders consistently highlighted that enhanced financial stability and surplus distributions effectively support broader socio-economic initiatives, significantly contributing to community empowerment and ethical finance promotion. These outcomes resonate with previous findings from Maulina et al. (2023) and Ascarya et al. (2023), who emphasized the community-wide socio-economic benefits derived from voluntary financial contributions within Islamic finance models.

Theoretical Contributions and Research Implications

This study makes significant theoretical contributions by empirically validating the operational integration and socio-economic impacts of nadzar within qardh financing, addressing a critical knowledge gap in current literature. Previous research predominantly emphasized traditional Islamic financial instruments such as zakat, waqf, and infaq, leaving nadzar integration substantially underexplored (Mohammad et al., 2020; Maulina et al., 2023). The findings from BMT Maslahah provide robust empirical support for incorporating voluntary religious contributions into Islamic financial models, significantly advancing theoretical understandings of ethical finance and institutional sustainability.

This discussion highlights the practical efficacy and significant socio-economic implications of integrating nadzar into qardh financing at BMT Maslahah. The study provides substantial empirical evidence affirming voluntary religious contributions' operational viability, financial sustainability, and socio-economic empowerment within Islamic microfinance contexts. By addressing critical sustainability challenges and enhancing institutional trust and borrower accountability, nadzar-integrated financing models represent a transformative innovation within Islamic finance, effectively bridging traditional ethical principles with contemporary financial practices.

CONCLUSION

This study has provided significant insights into the practical integration of nadzar within qardh financing at BMT Maslahah, highlighting its effectiveness in addressing operational sustainability, enhancing borrower accountability, and improving socio-economic outcomes. Empirical evidence confirms that voluntary religious contributions significantly bolster institutional financial stability and liquidity, promote borrower loyalty, and reinforce repayment discipline, thus positively impacting overall stakeholder welfare. The findings notably illustrate the successful alignment of traditional Islamic ethics with contemporary financial practices, underscoring nadzar's transformative potential within Islamic microfinance models. Consequently, this research substantially contributes to the existing body of knowledge by empirically validating a novel approach that effectively bridges ethical principles and financial viability. Furthermore, this study offers practical guidance for Islamic financial institutions aiming to integrate voluntary religious contributions to achieve enhanced operational performance and community empowerment. Future research should explore comparative analyses across multiple Islamic microfinance institutions and incorporate quantitative methodologies to provide broader empirical validation and deeper insights into nadzar integration dynamics and outcomes.

Limitations of the Study

Despite offering substantial contributions, this research acknowledges several inherent limitations. Primarily, the study's qualitative case-study design, focused exclusively on BMT Maslahah, inherently restricts the generalizability of its findings to broader Islamic microfinance contexts. The unique cultural, socio-economic, and operational characteristics of BMT Maslahah may not fully represent the complexities encountered by other institutions. Additionally, although rigorous methodological procedures, including triangulation and member checking, were employed to minimize researcher bias, potential biases inherent to qualitative approaches cannot be entirely eliminated. The research's reliance on participants' subjective experiences and perceptions might also introduce variability, limiting the ability to draw definitive causal relationships. Thus, while providing valuable insights, the specific contextual nature of this case study requires cautious interpretation and application of its findings.

Recommendations for Future Research

To address these limitations and extend the scholarly discourse, future research should prioritize comparative studies involving multiple Islamic microfinance institutions to evaluate the broader applicability and consistency of nadzar-integrated qardh financing outcomes. Quantitative research methodologies, such as surveys and statistical analyses, could complement qualitative insights, enhancing empirical rigor and providing more robust validation of observed socio-economic impacts. Furthermore, future studies should explore the integration of technological innovations, such as digital financial platforms, to streamline nadzar contributions and operational processes, potentially enhancing transparency and efficiency. Investigating longitudinal effects, including borrower repayment patterns and institutional sustainability metrics over extended periods, would provide valuable insights into the long-term viability and resilience of nadzar-integrated financing models. Additionally, exploring the psychological and behavioral mechanisms underlying borrowers' responses to voluntary religious contributions could further enhance theoretical understanding and practical implementation strategies within ethical financial practices.

Author Contributions

Conceptualization	S.S., N.A., & A.D.	Resources	S.S., N.A., & A.D.
Data curation	S.S., N.A., & A.D.	Software	S.S., N.A., & A.D.
Formal analysis	S.S., N.A., & A.D.	Supervision	S.S., N.A., & A.D.
Funding acquisition	S.S., N.A., & A.D.	Validation	S.S., N.A., & A.D.
Investigation	S.S., N.A., & A.D.	Visualization	S.S., N.A., & A.D.
Methodology	S.S., N.A., & A.D.	Writing – original draft	S.S., N.A., & A.D.
Project administration	S.S., N.A., & A.D.	Writing – review & editing	S.S., N.A., & A.D.

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Informed Consent Statement

Informed consent was obtained before respondents answered the interviews.

Data Availability Statement

The data presented in this study are available on request from the corresponding author.

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Conflicts of Interest

The authors declare no conflicts of interest.

Declaration of Generative AI and AI-Assisted Technologies in the Writing Process

During the preparation of this work, the authors used ChatGPT, DeepL, Grammarly, and PaperPal to translate from Bahasa Indonesia into American English and improve the clarity of the language and readability of the article. After using these tools, the authors reviewed and edited the content as needed and took full responsibility for the content of the published article.

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