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POTENTIAL CONTRIBUTION OF SHARIA MICRO FINANCING ON POVERTY REDUCTION IN SLUM COMMUNITIES IN MAKASSAR

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Abstract

Poverty is a problem faced by many countries. A country that has a high number of poor people, will always face various cases as a result of poverty, namely low education, high unemployment, health problems, criminal cases and prone to security problems. That is because the poor people not only lack money, but also do not have access to health services, food and education, so they are vulnerable to illness, malnutrition, and unable to get a good education. Considering its impact on people's lives, it is deemed necessary to take actions that can reduce poverty. Governments in many countries and international institutions have also sought to help the poor throughout the world, through microfinance programs. This effort has succeeded in reducing poverty at the global level. On the other hand, poverty is still quite high. The dependence of the poor on poverty alleviation programs from the government often leads to community dependence on the government. They are just waiting for help to stay alive, so they cannot get out of the cycle of poverty. Therefore, in efforts to alleviate poverty, the important thing to do by the government and institutions involved in poverty reduction is to encourage the independence of the poor so that they can get out of the poverty circle by their own efforts. One effort to encourage the independence of the poor is to provide capital so that they can build their own business activities. In some circumstances, microfinance can be a strategy to provide a way out for the poor to escape poverty. This study aims to identify the potential contribution of Islamic microfinance to reduce poverty in slums in Makassar. The method used in this study is qualitative, in which data are collected through in-depth interviews with slum communities who have not been touched by access to financial institutions. Other interviews were conducted with the management of Islamic microfinance institutions. Interviews found that urban communities living in slums wanted to access financial institutions, but did not have the opportunity. While from the LKMS, it was *stated that there are many financing programs provided for the poor. This shows that the opportunity to reduce poverty is very good with the large potential contribution of LKMS in encouraging the independence of the poor through business activities.*

***Keywords**: Sharia Microfinance Institutions, Poverty, Slum Communities*

INTRODUCTION

The development process of a country often faces obstacles related to poverty experienced by some of its people. The state becomes difficult to build because of the condition of the people who are underdeveloped. Poverty is a result of high unemployment, low levels of education and limited employment that can be accessed by people in working age who have limited education. Unemployment causes people have not source of income, so they do not have access to basic needs for their life such as education, health, clean water and adequate shelter. In some countries, poverty is indicated by hunger, lack of food, not have a house, unable to attend school, and no access to clean water and electricity. In a political context, Friedmann (1992) defines poverty as an inequality of opportunity in social life. While Ellis and Freeman (2004) stated that poverty has many dimensions, namely regarding economic, political and socio-psychological aspects.

One of the causes of poverty, is uneven economic growth between regions, especially between urban and rural areas. The limited facilities and infrastructure in rural areas cause investment to be limited, so that the natural resources in rural areas cannot be explored appropriately to accelerate regional development.

The Ministry of Social Affairs of the Republic of Indonesia and the Central Bureau of Statistics (BPS) say that poverty is the inability of individuals to meet the minimum basic needs to achieve a better life (BPS, 2014; Ministry of Social Affairs, 2002). While Lipton and Ravallion (1995) state, poverty occurs when one or more people live at a low stage of economic prosperity, compared to the standard of living of society in general.

Indonesian Dictionary defines poverty as the condition of a person who is only able to meet his minimum basic needs. A person is said to be poor if he is only able to meet the needs of that day and is unable to meet his other needs such as secondary needs and tertiary needs (Nindyaningtyas and Hapsari, 2016: 506). While BPS limits poverty with the standard poverty line (poverty line) on the inability to meet food and non-food needs. The food poverty line is the value of spending on basic food consumption needs equivalent to 2100 calories per capita per day. Non-food poverty line is the amount of rupiah to meet the minimum non-food needs such as housing, health, education, transportation, clothing and other goods / services. This poverty line has similarities with the poverty line according to the World Bank, which is measured according to one's income. While in Islam, poverty is interpreted as a condition where a person cannot meet his primary needs, in the form of food, clothing and shelter (Yuli, 2013: 104).

There are obstacles in the formation of capital for the poor, ultimately forming a vicious cycle of poverty that is passed down from generation to generation. Limited capital causes limited community productivity which results in low income levels. Limited income makes it difficult for people to get additional capital, so that limited conditions that continue to make it difficult for them to improve the level of economic life for the better (Rubiyanah, Minarsih and Hasiolan, 2016).

In an Islamic perspective, poverty arises due to structural causes, namely: (1) Human crime against nature; (2) Ignorance of the rich; (3) Some people are wrongdoers and oppress others; (4) Concentration of political, bureaucratic and economic power on the one hand; (5) External turmoil such as natural disasters or warfare that caused a country that was originally rich to be poor (Yuli, 2013: 105-107).

In Indonesia, efforts to reduce poverty have been carried out by the government through various programs. However, these efforts are still slow. Based on data from the Central Statistics Agency (2016), the percentage of poor people in urban areas as of September 2015 was 8.22% down to 7.79% as of March 2016 from the total national poor population. While the percentage of rural poor population rose from 14.09% as of September 2015, rising to 14.11% as of March 2016. During the period September 2015 to March According to statistical data as of March 2016, the percentage of the number of poor people in Indonesia reached 10 86%. Nationally, the poverty rate in Indonesia decreased by 0.27% compared to September 2015.

While in South Sulawesi, BPS data (2018) states that in March 2018 the poverty rate was 792.63 thousand people or 9.06%, a decrease from the previous 813.07 thousand people or 9.38% thousand people when compared to conditions March 2017. In absolute terms, during the period March 2017 - March 2018, the poor population in urban areas in South Sulawesi experienced an increase of 14.37 thousand inhabitants, while in rural areas it declined to only 34.81 thousand. The percentage of poor people in urban areas rose by 0.13% and in rural areas decreased by 0.35%.

Despite the decline, in terms of numbers, poverty in South Sulawesi is still quite high, so efforts are needed in order to reduce poverty in the community.

To reduce poverty, a good enough potential is to encourage community independence through the development of Micro, Small and Medium Enterprises (MSMEs). However, MSMEs have a large contribution to employment and Gross Domestic Product (GDP). Data from the Ministry of Cooperatives and SMEs (2018), the contribution of MSMEs to the national GDP increased to 60.3% from 57.84% in the last five years. The ability of MSMEs to sustain the economy has been proven since the 1997-1998 economic crisis. At that time, only the MSME sector was still growing and the number continued to increase, even being able to absorb 85 million to 107 million workers until 2012. Labor absorption by the MSME sector increased from 96.99% to 97.22%.

There have been many efforts undertaken by the Indonesian government to encourage the independence of the poor, including the provision of People's Business Credit (KUR) and infrastructure improvements through PNPM Mandiri.

But the question is, why is the number of poor people in Indonesia still high? Because in addition to poverty alleviation programs implemented by the Government of Indonesia, there is a lot of assistance from developed countries and donor agencies throughout the world involved in poverty reduction programs in poor and developing countries, including Indonesia. Nalagon (2003) in his research, suspected that there had been a misunderstanding in the poverty eradication program implemented by international donor agencies.

Programs carried out by donor agencies to reduce poverty are generally based on a limited understanding of the poverty actually experienced by the community. As a result, poverty eradication programs are based on the government's development agenda. This has caused economic growth to fail, not only to help poor countries achieve economic growth but also to reduce poverty.

Some donors then use development strategies that touch people at the poorest levels. One popular strategy is the micro credit strategy. This strategy is to provide direct access to the poor to financial resources to get venture capital. With micro credit capital, the poor are

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encouraged to process natural resources and increase activities that are more productive through MSME activities, so they can have their own income (Hasan, 2017).

Poverty is a condition where people experience powerlessness in meeting the necessities of life because of the existence of multidimensional injustices, both on the political, economic, social, cultural and technological sides. Therefore, economic, social and cultural empowerment programs need to be carried out thoroughly to overcome the problem of poverty. That effort can be realized by encouraging the creation of business opportunities that can be done independently by people trapped in the problem of poverty. However, the poor face the problem of limited business opportunities, which causes them to always be in a circle of poverty (Sukidjo, Sihono & Mustofa, 2014: 3-4).

Three main causes of poverty in terms of the economy according to Prasetyo and Maisaroh (2009: 105), among others: (1) Micro, the pattern of ownership of resources is not the same, causing inequality in income distribution; (2) Difference in the quality of human resources (HR), because low quality HR causes low productivity and income. The quality of human resources is due to low levels of education, disadvantaged fortune, discrimination or heredity; and (3) Differences in access to capital ownership.

Yunus (2007) mentions that the microfinance program is a way out for poor families to improve household welfare. The program starts by giving small loans to poor families that can be used to start productive activities so that they can create their own source of income (Yunus, 2007). Therefore, access to microfinance is the starting point for poor families to get venture capital (Sharma and Zeller, 2000; Yunus, 2007). Sharma and Zeller (2000) also emphasize that by having access to microfinance institutions, poor families can take part in breaking the poverty chain for their families, by providing better education opportunities for their children, adequate health services for families, and have future savings.

Although microfinance has been used extensively to help improve the lives of the poor, Makina and Malobala (2004) emphasized the negative impact of a conventional micro-credit program for borrowers.

Based on the results of research that has been carried out, Makina and Malobala (2004) classify the impact of microcredit in three typologies. First, that is to provide socio-economic benefits to income growth and stability, reduction of income inequality, reduction of powerlessness, opportunities for improving food and health, better education, and strengthening social networks. Second, the negative impact through the exploitation of women that often occurs is that the level of poverty does not change, leads to inequality of income, increased workloads, raises the burden of debt repayments and high loan interest, thus causing dependence on financial institutions. Third, the positive impact is that the poor are no longer very poor.

Meanwhile, Kellet (2009) found that poor people who get money through microcredit programs usually use loans to develop business activities, which still require government intervention such as providing industrial support, access to markets and encouraging greater employment. Aladuwaka (2003) said that loans from financial institutions are also considered not to provide a way out for the poor to escape from the problem of poverty. Loans can be a new burden for poor families, because they have debt obligations to pay. While the business activities carried out could not be a permanent source to cover debt payments and loan interest (Aladuwaka, 2003; Alemu, 2008).

In the conventional microfinance institution strategy, loans given to the poor are given at low interest costs. The borrowing community is required to have business activities as collateral for the loan, so that they can return the loan and the interest charged. Meanwhile, Islamic microfinance institutions, prefer the profit sharing system between the financial institutions as the owners of capital and the borrowers as capital managers.

Islamic financial institutions, are financial institutions that use sharia principles. Ahmad Jaelani (2015) said, the principle of sharia is an agreement based on Islamic law between the bank's financial institutions and other parties to manage funds. Fund management, whether in the form of fund deposits, financing of business activities, or other activities declared to be in accordance with sharia, with profit sharing principle, financing based on the principle of capital investment, the principle of buying and selling profit, or financing of capital goods based on the principle of pure rent without choice, or there is an option to transfer ownership of goods leased from a bank by another party (ijarah wa iqtina).

In an Islamic perspective poverty alleviation strategies can be carried out by: (1) Encouraging economic growth; (2) Encouraging the creation of a state budget; (3) Encouraging infrastructure development; (4) Encouraging the provision of basic public services; and (5) Encouraging income distribution and distribution policy (Yuli, 2013: 110-111).

Islam offers a system and principle in alleviating balanced poverty, by instructing the poor to adopt frugal lifestyles and work hard and oblige the rich to pay tribute and forbid to waste their wealth. Between them there is the role of the government as a mediator in the distribution of zakat from the rich to the poor (Bahtiyar, Basri and Hidayat, 2015: 134).

Putri, Supardi, and Lokajaya (2015: 143), said that poverty alleviation by developing micro, small and medium enterprises (MSMEs) has considerable potential. The MSME sector has a major contribution to employment, which absorbs more than 97.22% of the workforce and contributes to GDP by 60.3%.

According to Law Number 1 of 2013, the Micro Finance Institution (LKM) is a financial institution established for the purpose of encouraging the development of community business activities, either through loans or financing in micro-scale businesses, savings management, or providing business development consulting services.

For the poor who do not have access to formal financial institutions, MFIs are an alternative institution to get access to sources of capital.

There are two ways to run an MFI's business; firstly using an interest system for conventional MFIs, secondly using a profit sharing system or using the syirkah (profit sharing) concept for sharia-based MFIs (Sriyana and Raya, 2013: 32).

MFIs in Indonesia by type are divided into three, namely: (1) formal institutions, namely the formal financial sector which are regulated by the banking law and overseen by BI, for example BRI and BPR; (2) semi-formal institutions, namely the semi-formal financial sector which are not subject to banking laws but are still regulated and supervised by governments other than BI, for example the Village Credit Board (BKD), Village Unit Cooperatives (KUD), Baitul Maal wat Tamwil (BMT); and (3) informal institutions, such as moneylenders, mobile banks, financial agreements relating to land, labor and exchange of goods (Anggraeni, Puspitasari, Ayubbi, and Wiliasih, 2013: 58).

Bank Indonesia divides microfinance institutions (MFIs) into two categories, namely MFIs in the form of banks and non-banks. MFIs in the form of banks are the Village Unit BRI, Rural Credit Bank (BPR) and Village Credit Bank (BKD). Whereas the non-bank nature are Savings and Loans Cooperatives (KSP), Savings and Loans Units (USP), Rural Credit Fund

Institutions (LDKP), Baitul Mal wat Tamwil (BMT), and Non-Governmental Organizations (NGOs) (Sarwoko, 2009: 173) .

Islamic microfinance institutions are institutions that introduce themselves as choices for low-income people to get financing in order to improve living standards and get out of poverty (Gina and Effendi, 2014: 35). Sharia Microfinance Institutions are bodies or institutions that carry out activities in the financial sector by raising funds from the public and channeling these funds back to the community with the principles of sharia values. Sharia Microfinance Institutions can be in the form of Baitul Maal wat Tamwil (BMT), Sharia Rural Banks (BPRS) and Sharia Cooperatives (Hidayatulloh and Hapsari, 2015: 800).

Sharia Microfinance Institutions (LKMS) are defined as financial institutions whose activities collect and channel public funds that are profit or can be called informal non-financial Islamic financial institutions. Called informal because it was founded by the community.

Astuty (2007: 172-173), states that there are several important notes in poverty alleviation, including: (1) Poverty alleviation is free; (2) Incorporating the principles of management and competition as a basis for development; (3) Income generating policy is placed in the market mechanism; (4) Subsidies are only given in the context of education, health, public transportation and energy; (5) Large-scale infrastructure programs included in infrastructure development posts; and (6) The relevant parties are expected to consistently follow the direction of the national poverty reduction formulated by the Poverty Reduction Committee (KPK).

Sharia micro financing applies the basic principles, namely: 1) Justice, where mutual benefit financing between the user of the fund and the party providing the funds; 2) Trust, namely information disclosure and implementation in determining the profit and loss that can be borne by both parties, and 3) Agreement, where an agreement exists between the user of the fund and the provider of funds based on Islamic law (Sukron, 2011; Muhammad Gufron, 2011). While Wirdyahningsih (2005) states that the principles of Islamic microfinance institutions are to distance themselves from the possibility of usury, and implement a system of profit sharing and buying and selling. Susilo (2016) states that Islamic microfinance institutions have safer characteristics, because they use the principles of sharia contracts. The alignments of Islamic microfinance institutions to small business activities are shown through: 1) innovation

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financing strategies; 2) Linkage Program; 3) Pilot project; 4) Utilization of social funds; and 5) technical assistance cooperation.

According to Anggraeni, Puspita sari, Ayubbi and Wiliasih (2013: 59), there are several products offered by Islamic Financial Institutions, both banks and non-banks, among others: savings products (al-wadi'ah); profit sharing products (syirkah) consisting of musharaka and mudaraba; sale and purchase products consisting of murabahah, salam and istishna and rental products (ijarah).

According to Gina and Effendi (2015: 36), microfinance contributes to reducing poverty by supporting the capitalization of micro business activities run by the poor, so they can start to generate income. Islamic micro finance is an alternative for micro entrepreneurs to get capital in developing their business. With the addition of capital with light requirements, micro businesses can increase the productivity of the business activities carried out.

The potential of LKMS in alleviating poverty is huge. The empowerment process emphasizes providing support to the community to be empowered and motivate to have abilities. This empowering business orientation can be focused on the business sector, by providing support and business opportunities as well as providing education and skills or training to start a business.

One of the constraints of micro entrepreneurs in developing their business activities is the lack of financial capital, which is one of the main capital in forming a business. These constraints can be overcome by involving LKMS by distributing capital funds provided to micro businesses in developing their businesses (Khasanah, 2019).

The development of Micro Finance Institution (LKM) is currently receiving considerable attention from various parties, both government, private and international institutions. This is motivated by the large potential of MFIs as a motor to support the movement of the economy, through the provision of funds for micro and small businesses, especially in rural areas. Within the MFI structure, it is clear that there are 54,444 MFI units of various types operating in parts of Indonesia (Bambang Ismawan, 2005).

Based on research findings by Chotim, E.E. and Handayani, A.D (2003), microfinance, especially in the informal sector, grew roots with the development of the community. Starting before independence, microfinance became an alternative for low-income groups to meet their funding needs. At that time, microfinance grew and developed in various variations according to the needs of the community. MFIs are expected to be an economic support institution for micro and small groups.

A similar sentiment was conveyed by Gunawan Sumodiningrat (2003) suggesting that the empowerment of MFIs is an absolute prerequisite that must be met in order to develop micro businesses directed at poverty reduction. The presence of MFIs as a provider of microfinance services is expected to be able to cover two sides related to poverty reduction, namely being able to serve the needs of its customers and on the other hand being able to develop itself into a bona fide MFI. This is based on the fact that the MFI itself contains 3 key elements - the version of the Asian Development Bank and the World Bank: First, it provides various types of financial services that are relevant to the real needs of the people served. Second, it serves low-income groups. Third, use contextual and flexible procedures and mechanisms to make it more accessible to the poor who need services.

The strategic value inherent in the function of the MFI is of course demanded to always maintain its activities well, which is shown by good performance as well. According to Patrik. L. Romano (1989), followed by Deden (2004), performance measurement is one of the processes in the management control system by comparing and evaluating between plans made and results achieved, analyzing deviations that occur and making improvements. Internal problems in MFIs can result in low effectiveness of services in microbusinesses. In addition, the number of MFI units and lending procedures also influences service effectiveness.

In the case of microfinance institutions, there are two things that need to be understood. Namely, first, the relationship of MFIs with poverty. Financial institutions have the function as intermediaries in the activities of an economy. If this function runs well, then the financial institution can produce added value. Economic activity here is not distinguished between the businesses carried out large or small, because the difference is only the amount of added value based on the scale of the business. This means that even small businesses, if they utilize financial institutions will also increase value added, so one of the efforts to increase people's income can be done productively by utilizing financial institution intermediary services, including productive businesses carried out by the poor.

Poverty alleviation can be implemented through many facilities and programs, both direct and indirect.

This business can be in the form of transfer payments from the government, for example, food, health, housing, education, family planning, and productive businesses, for example through loans in the form of micro credit. Hypothetically, the link between empowering microcredit and poverty alleviation efforts is an easy entry point for people who will become novice entrepreneurs. If the beginner entrepreneurs grow and develop, they will be alleviated because they become entrepreneurs or because of the trickledown effect of the increasing number of micro entrepreneurs (Krisna Wijaya, 2005).

According to Marguiret Robinson (2000), loans in the form of microcredit are one of the effective efforts in dealing with poverty. This is based on the fact that there are differences in classification among the poor, including: (1) the extreme poor, ie those who are not earning and have no productive activities; (2) people who are categorized as poor but have economic activities (economically active working poor); and (3) lower-income people, those who have an income, although not much.

The approaches used in the context of poverty alleviation certainly differ for the three community groups so that the poverty alleviation targets are achieved. For the first group it would be more appropriate to use a direct approach in the form of a food program, subsidies or job creation. Whereas the second and third groups are more effective, if an indirect approach is used, for example the creation of a climate that is conducive to the development of microenterprises and the development of various types of microcredit.

But so far all MFI activities and revolving funds have been uniformly designed by the government and consultants at the central level. And, there are no microfinance activities and revolving funds that are designed according to the conditions and real needs of the local community. As a result, local communities have not been able to develop microfinance activities on their own according to the real needs of the local community.

However, the poor in general do not have adequate access to financial resources, including LKMS. For people who live in slums and suburbs, to be able to access financial institutions, they must meet various conditions that are not owned, namely the network to LKMS, fixed income requirements, collateral requirements in the form of fixed assets, and adequate business activities to get assistance capital.

Based on this background, so it is important to form the contribution of Sharia Micro Loans in poverty alleviation efforts and how the impact of the contribution of Sharia Micro Loans in poverty alleviation efforts.

METHOD

This research is a descriptive study that uses a qualitative approach. Qualitative methods are used to obtain information by digging deeply from a number of sources of information (Creswell, 2014). This study collects information about the existence of Islamic micro loans in the middle of the people who live in slums in Makassar and how to use them.

Interview is an activity carried out to obtain information directly by asking questions to informants as the main data source (Esterberg, 2002). Djaelani (2013: 88) states that the success of an interview depends very much on the skills possessed by a researcher, namely on how to ask questions, sequence of questions, how to listen, respond, express, patience and attention in following answers and conditions a comfortable situation.

The importance of information about the existence of micro loans and their utilization among slum communities, aims to understand the access of poor communities in slums to their microfinance sources and their ability to regulate the use of these loans, and how they contribute to increasing their daily income. The slum community is a group of poor people that are found in various areas in the city of Makassar.

In this study, interviews were conducted with the poor who live in slums in urban areas. The slum area in question is an area that is unfit for habitation due to an unhealthy environment condition, disaster-prone and does not have a source of clean water, such as a central waste disposal area and river banks.

Data was collected through in-depth interviews with people living in slums who run micro businesses in the form of commerce in their neighbourhoods. The informants in this study were divided into two groups, namely the poor population living in slums, and the LKMS management group.

RESULT AND DISCUSSION

Slum Community Capital Needs

People who live in slums in Makassar generally earn a living as scavengers, unskilled manual labourers, pedicab drivers, and traders of grocery items. Some housewives help the head of the family to earn extra money by selling cakes or food. But most of them work as used goods or plastic seekers.
In meeting their daily needs, people collect used plastic from various places. Most of it collects plastic waste from the garbage disposal center. Several other residents went around the city of

Makassar to collect plastic waste. This plastic waste is sold to collectors at a price of between Rp 2000 - Rp 3000 per kg. One scavenger can get sales of Rp 10,000 to 20,000 per day. The income could be more if in one family involving children and wife to collect plastic waste. The work is carried out every day, for years.

These scavengers also want improved income. However, because they do not have good education or adequate expertise, so they have no other choice to find work. While making their own business, some informants in this study said they wanted to open a business, but did not have the capital. Lack of capital so they don't know what business to make. Because for their daily lives, they are already having financial difficulties.

However, capital is the main condition that must be prepared when starting a business. For the poor, it is very difficult to get capital for business. They argue that to start a business, requires capital, not only capital money, but also assets, skills, and good physical abilities.

Because they do not have a fixed source of income and in sufficient numbers, the poor very rarely try to access financial resources, both in formal financial institutions, as well as informal financial institutions such as cooperatives and Baitul maal wa Tamwil (BMT). Conditions set by financial institutions for people who want to get financing are difficult to fulfil by the poor in general, such as fixed income every month, assets that can become collateral, parties that can become guarantors, or business activities that have been running. Meanwhile, to be able to develop business activities, capital costs are needed that can be managed by the community. The absence of assets that can become collateral caused poor people are not trusted by financial institutions to manage money through business activities.

The people who were informants in this study said that they did not know much about financial institutions that could be accessed to obtain loans. However, there are several parties who can be a place to borrow, namely moneylenders, relatives and neighbours. Moneylenders are usually neighbours themselves who provide loans with a predetermined interest. Some informants said that they had or were borrowing from loan sharks, others borrowed from family or neighbours. When this research was conducted, all informants acknowledged that they currently had debts from moneylenders

For the poor, interest-bearing loans from loan sharks are often considered to be a helper when they need money, both to pay for their daily living, children's education, or medical expenses and other unforeseen circumstances. However, loans from moneylenders are not used as capital for business activities. The informants in this study realized that to start their own business, they needed a sizeable business capital. Because of limited capital, so many poor people who discourage opening a business. While they don't know where to get access to loans for business capital in an easy, fast and not too burdensome way.

Although they are easy to get loans from moneylenders, high loan interest, a tight repayment system and a high risk of business failure, causes poor people to refuse to borrow business capital from moneylenders. However, for daily needs and other urgent needs, the informants stated that they had no choice but to borrow from moneylenders, so they were forced to accept all the conditions set.

Informants who have run micro business activities, such as selling grocery items, said that their source of capital comes from savings and loans from families. The family loan is paid in instalments without interest, and also returns that are not strictly determined. However, loans from families are very limited, so that business activities that can be run also become limited.

Knowledge of the Poor about Islamic Finance

The poor who live in the slums of Makassar, have limited knowledge about formal financial institutions, both conventional financial institutions such as commercial banks and Islamic financial institutions. The informant in this study never even visited a bank, either a conventional bank or an Islamic bank. Financial institutions that are well known to the poor are only cooperatives. In the slum environment of the Antang Final Waste Disposal Area (TPA), there is a cooperative that provides loans to members of the community. However, the majority of Antang TPA residents are not members, so they cannot take loans.

The reason for the poor not to join cooperatives is because there are conditions for savings that must be met by prospective members, because they are short of money. For them, the money is better used to fulfil their daily needs than to be saved in a cooperative. The source of loans most often accessed by the poor is moneylenders. All informants in this study had loans from loan sharks.

In the practice of borrowing and borrowing money, moneylenders set a high enough loan interest. The informants in this study generally did not know what percentage of the loan interest was from loan sharks. But for

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them, the value of returning the loan, including the interest, is quite large. As an illustration, for a loan of Rp 1,000,000, the borrower must pay instalments in an additional Rp 25,000 every week, until the loan is paid off.

The poor who live in slums have very limited knowledge about usury and interest money. The informants explained, they knew that usury was lending money. They also know that loan sharks are people who always lend money. The informants also know that usury is prohibited in Islam. But they did not understand the meaning of the prohibition, or the danger of usury for the culprit.

Potential Contributions of LKMS to Slum Communities

The Shariah Micro Finance Institute (LKMS) can contribute to poverty reduction by encouraging community business activities through financing products. In addition to helping the community to be more productive, LKMS can keep poor people away from ribawi practices. This means that LKMS can free the poor from moneylenders.

To be able to help poverty alleviation programs, Islamic Microfinance Institutions (LKMS) have a very important role. As a non-formal financial institution, LKMS has services that are easily accessible to the poor with a mutually reinforcing partnership to achieve mutual prosperity, in accordance with Islamic regulations.

Efforts made by LKMS to help poverty alleviation programs are by providing financial products that can be used by community groups living in slums for various purposes, especially in developing their business activities.

Through its products, LKMS can help the poor according to their needs. Savings products that LKMS can offer include: a. Deposit Mudharabah Al Muthalaqoh; and b. Voluntary Deposits. With these two types of savings products, LKMS can encourage the poor to have a culture of saving. LKMS attracts people to be customers / members by providing savings accounts so that they can make deposits regularly, even in small amounts, for example, at Rp 10,000 per day. To encourage community savings in routine, LKMS can help with the ball pick-up system.

Savings products that can be offered by LKMS to the poor include: Idul Fitri Deposits, Idul Qurban Deposits, Education Deposits, Hajj Deposits, and Married Deposits.

In addition to savings, the potential contribution of LKMS to the poor is to encourage investment with profit sharing systems. LKMS provides easy access for the poor to get venture capital with easy financing conditions. Funding received can be used to purchase raw materials for production, purchase finished goods for resale or purchase business equipment.

Financing products that can be provided by LKMS include investment financing with a profit sharing system in the form of mudharabah financing, and musyarakah financing. In addition, LKMS can help the poor in buying assets through Murabahah products and Ijarah financing.

In providing financial resources for the poor who live in slums, LKMS also experiences various obstacles, namely: (1) Limited capital in the distribution of venture capital for qordh financing; (2) human resources managers; and (3) LKMS 'reputation is still weak because people are more familiar with conventional systems.

Barriers experienced by LKMS in encouraging efforts to improve the welfare of the poor, due to the low public knowledge about access to Islamic financial institutions. The mindset of the community towards the economic system in general still refers to the conventional economic system. In general, the poor do not yet understand the difference between interest rates and profit sharing.

People's awareness to save is also very low, especially if they have to save at an official financial institution. Even though they can access LKMS like Islamic cooperatives, the community in general feels hesitant to save funds to cooperatives. The level of public confidence is still very low in microfinance institutions such as cooperatives and BMT.

CONCLUSION

Islamic Microfinance Institutions (LKMS) have the potential to make large contributions to poverty alleviation programs through productive financing in the form of venture capital. Efforts to reduce poverty can be done in the form of financing that aims to build business activities, increase assets, increase public knowledge so they can read opportunities, hone skills, build networks, increase capital for businesses to develop and obtain information aimed at business development.

1. The potential contribution of LKMS in poverty reduction efforts is through financial products offered such as savings and loans, financing with profit sharing, rent, and sale and purchase products.
2. Through financing, the poor can be encouraged to start or develop their own businesses so they can have better sources of income.

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