

## The Role of Islamic Economics and Social Finance during the Covid-19 Pandemic

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### Abstract

*This research was conducted with the aim of describing several solutions and the role of Islamic social economic and financial policies that can be offered in dealing with the Covid-19 pandemic in Indonesia. This study uses a descriptive qualitative approach with content analysis techniques (content analysis) and library research. The results of the study indicate that among the solutions that can be offered within the framework of the concept and system of Islamic Economics and Social Finance are: (1) by distributing direct cash assistance from zakat, infaq, and alms; (2) by strengthening waqf in the form of cash waqf, productive waqf, sukuk linked waqf and waqf for infrastructure; (3) through leading business capital assistance for the business sector or Micro, Small and Medium Enterprises (MSMEs); (4) through the qardhul hasan scheme; (5) improvement of Islamic economic and financial literacy; (6) through the development of Islamic financial technology.*

### Keywords

islamic economic; social finance; covid-19



### I. Introduction

Since January 2020, almost the whole world, including Indonesia, has been rocked by the coronavirus outbreak, the virus first appeared in the city of Wuhan, China. The impact of the coronavirus is multidimensional (social, economic, educational, health, and political) (Hafizd, 2020). Various policies were put in place to prevent the spread, including social distancing and physical distancing. So that this policy has an impact on all activities including business. As a result of a decrease in activity, small traders stop trading so they have no income.

Based on available data, the impact of Covid-19 on the Chinese economy resulted in a slowdown in economic growth from 6.1% last year to only around 3.8% this year, provided the pandemic did not get worse. If things get worse the growth can be only 0.1% or even minus (Daga, 2021).

As the country with the second-largest economy in the world, the decline in China's economy of course has an impact on the global economy. The negative impact of this pandemic is rapidly spreading throughout the world, not only because of the nature of the virus that is contagious but also because of the mobility of the world's population and the global value chain, which has a very high level of connectivity. Several credible research institutions in the world predict the bad impact of the spread of this epidemic on the global economy (Zahrattunnisa, 2020).

According to the World Bank, the economic impact of Covid-19 will stop the businesses of nearly 24 million people in East Asia and the Pacific. Under the worst-case scenario, the World Bank also estimates that nearly 35 million people will remain in poverty. In fact, through a number of scenarios taking into account various poverty lines,

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the World Bank estimates that the number of people living in extreme poverty will increase to 922 million worldwide (Iskandar, Possumah, & Aqbar, 2020). A fantastic number.

Among the forms of efforts that are called for and carried out by the world in order to reduce the spread of this epidemic is social or physical distancing. But unfortunately, this movement has an effect on the decline in overall economic activity.

According to Surico and Galeotti, at the beginning of its emergence, with physical distancing or tightening and restrictions on other community activities, this pandemic created a shock to the supply side of the economy which resulted in a decline in production. Then with the silence at home, consumers will only buy basic goods with a note that it can be done immediately so that it has an impact on the demand side, where Aggregate Demand (AD) shifts and production falls due to uncertainty about the continuity of the outbreak, economic policies that will be taken to reduce the impact of the outbreak, most of the workers will lose their income, especially in the industrial sector, and others (Pratiwi, 2020). Companies or business actors, especially those that rely heavily on cash flows, experience limited liquidity to meet their obligations to third parties. Based on the law of supply and demand, a decrease in demand due to the stay-at-home program will in turn trigger a decrease in the amount of production. And so on there is a reaction to the decline in demand and production decreases again (Andi Cahyono dkk, 2021).

Furthermore, this chain process of economic decline shows that the disaster caused by the Covid-19 virus on the economy not only caused a (big) downward shock to real economic fundamentals but also damaged the smooth functioning of the market mechanism and formed a kind of 'barrier wall' between supply and demand. Furthermore, it creates a chain reaction towards a downturn in the real economy. A contraction in supply, which leads to a contraction in demand, eventually eliminates the economic surplus (Amirudin & Sabiq, 2021).

Given those vital aspects of the economy, namely supply, demand, and supply chain have been disrupted, the impact of the crisis will be felt evenly across all levels or levels of society. Since the resilience of each layer or level is different, the lower-middle-class economic community, especially the micro and informal groups with daily incomes, are certainly the most vulnerable group to be affected (Wicaksono & Maunah, 2021). The impact on the real sector will then spread to the financial sector, which is under stress because a large number of investees will have difficulty paying their investors (Sumarni, 2020).

Indonesia as a country with the largest Muslim population in the world, Muslims can give their best role through various forms or models of philanthropy in Islamic Economics and Finance. Islam as a religion that teaches humans to love each other, love and support each other, have a configuration of generosity or philanthropy from its teachings (Prasetio & Khotijah, 2021). Among them are in the form of orders to give infaq, charity, tithe, and waqf, which can have implications in addition to increasing faith in Allah, growing a high sense of humanity, eliminating stingy, greedy, and materialistic nature, growing peace of life, cleaning and developing one's property, as well as can overcome various problems in social, economic, educational, environmental and other aspects of life. This role is expected to be able to overcome the economic shocks that occur and the entire community, especially Muslims, can participate and contribute in recovering these shocks (Miftakhuddin, Lestari, Aniroh, & Adinugraha, 2021).

Based on this, this research was conducted with the aim of explaining some of the solutions and roles of Islamic economic and social finance policies that can be offered in dealing with the Covid-19 pandemic in Indonesia.

## II. Research Method

This study uses a descriptive qualitative approach as an effort to understand the various concepts found in the research process, using content analysis techniques and library research. The content analysis technique is a research method used to find out the conclusions of a text. Or in other words, content analysis is a research method that seeks to reveal the author's manifested and latent ideas. While library research in this study uses the types and sources of secondary data obtained from research results, articles, and reference books that discuss topics related to the research theme (Yaniawati, 2020). This research produces information in the form of notes and descriptive data contained in the text under study (Mantra, 2008) (Raco, 2018).

As a library research, there are two kinds of data sources that will be explained, namely:

1. Primary Sources

Primary sources are the main data sources that are directly collected by researchers from the object of research, namely books, articles, which are the objects in this study.

2. Secondary Source

Is an additional data source that according to the researcher supports the main data, namely books or articles that act as supporters of the primary book or article to strengthen the concepts in the primary book or article.

The method used to collect research data in library research is to select, search, present, and analyze library data. This research institute is looking for library materials whose substance requires philosophical and theoretical processing. The literature search here is a literature study without empirical verification (Muhadjir, 1998). The data presented is data in the form of words that need to be processed to be concise and systematic.

This study using data analysis techniques in the form of content analysis (content analysis). The analysis is a scientific analysis of the message content of a data (Muhadjir, 1998). According to Zed (2004), analysis is a simple attempt at how research data are developed and processed for a simple framework. The data that has been collected is then analyzed to obtain information, but first, the data is selected on the basis of its reliability (Mantra, 2008). The purpose of this data analysis is to find the truth of the data that has been obtained so that conclusions can be drawn from the results of the research that has been done. In this study, researchers used 3 stages, namely: data reduction, data display, data verification, and conclusion drawing.

## III. Results and Discussion

Among the solutions that can be offered within the framework of the concept and system of Islamic Economics and Social Finance are: First, the distribution of direct cash assistance from zakat, infaq, and alms, both from zakat collection units and from the community. Facing the current situation, it is not only the government that moves, the community is also expected to contribute according to their respective abilities and conditions. In this context, the sacrifices of the rich and the patience of the poor affected by the epidemic are required, on the basis of love that is manifested in the form of solidarity among human beings, where people who are more fortunate help those who are less fortunate (Iswandi, 2021). One of the forms, in the midst of the Covid-19 pandemic, is to pay zakat, infaq, and alms. Especially for the zakat that is paid, the distribution can be focused on the poor who are directly affected by Covid-19, as one of the people who are

entitled to receive it (mustahik). This is an Islamic Economic philanthropy scheme that has great potential for the community's economy.

Second, the strengthening of cash waqf, whether with cash waqf schemes, productive waqf, or waqf linked sukuk, needs to be improved. The Indonesian Waqf Agency (BWI) needs to work together with Islamic financial institutions to promote this waqf scheme, which can ultimately be used for the construction of various waqf-based infrastructures such as the Waqf Hospital (RSW) specifically for Covid-19 victims, Personal Protective Equipment (PPE) waqf, waqf masks, waqf polyclinic, Waqf Isolation House (RIW), provision of waqf ventilators, waqf universities and others. Waqf management must be carried out professionally, so that waqf can be used productively and sustainably, given the reality that there are many waqf assets that exist but are lacking and even unproductive, so that they are not of maximum benefit (Anggraini & Putri, 2020). In fact, with current developments, waqf can be in the form of any object that has economic value, including patents as productive waqf. When the time comes for a vaccine for Covid-19 to be found, it is hoped that the patent can be donated, so that it can be used for the entire world community. Therefore, it is important to campaign for the importance of waqf during the Covid-19 pandemic to the public, including scientists and inventors (vaccine researchers).

As is known, waqf has a very large role in infrastructure development in various kinds of public facilities and economic empowerment of the people, whereas cash waqf is an alternative that is expected to overcome the problem of poverty in the community (especially for those affected by Covid-19). There is active participation from non-government parties (society), especially the rich, and has the ability to help alleviate the suffering of the poor. One example in Bangladesh, non-governmental efforts to address the problem of poverty have been tried to be answered through the existence of an institution called the Social Investment Bank Limited (SIBL) (Al-Faqih, 2020). This institution operates by raising public funds (the rich), especially through cash waqf funds, to then be managed and the results of the management are distributed to the poor. In the case of Indonesia, efforts such as those carried out by SIBL are an attractive alternative and should be accommodated. With the majority Muslim population, efforts to raise and manage waqf funds (cash) as is the case in Bangladesh, are expected to be more appreciated by the community (Muslims), at least culturally, especially in times of a pandemic like this.

Third, the leading business capital assistance during the crisis. In the midst of a crisis, not a few business sectors or Micro, Small, and Medium Enterprises (MSMEs) are struggling to survive. This business is often difficult to survive because of limited capital. The existence of MSMEs as a non-muzakki group is a group that is very vulnerable to falling into poverty and bankruptcy due to shocks or economic shocks. So the number of mustahik can increase very sharply, while the number of muzakki can continue to decrease significantly (Harisah & Romaji, 2021).

The existence of micro, small and medium entrepreneurs, especially traders in traditional markets, is a manifestation of the economic life of most Indonesians. This position has placed traditional market traders as the main thing that must receive attention, especially in terms of capital. The process of developing traditional market traders is a manifestation of economic development which has become very important. Efforts to develop and strengthen the potential of traditional market traders as a strategic economic group must be oriented towards empowerment, so that independent and strong local economic actors are formed through Microfinance Institutions (LKM), especially Sharia Microfinance Institutions (LKMS). Therefore, the provision of capital to businesses is used as a means to reduce the impact of the crisis. This capital provision can be done with several alternative policies, such as providing additional stimulation for relaxation of sharia

banking and restructuring or suspension of payment of sharia credit/financing for the next few months. To be stronger, the provision of capital from Islamic banking/financial institutions needs to be supported and strengthened with assistance so that it can be accounted for (Harisah, 2020).

Fourth, the above business capital can also be followed by a qardhul hasan loan. In the terminology of Islamic economics/finance, qardhul hasan is a loan that does not take any benefits (profits) but is still emphasized to be repaid. This product/scheme is one of the products/schemas of the Islamic financial system which is very important in supporting the recovery or sustaining the economy (Nurhidayat, 2020).

Fifth, apart from the sharia banking sector and qardhul hasan, some of the funds collected by zakat collection units or organizations, especially those in the regions, can be used to strengthen MSME businesses. Saving MSME groups that are in crisis or are threatened with bankruptcy due to the economic impact of the Covid-19 outbreak, can be categorized as the asnaf (zakat recipients), namely the poor, struggling in the way of Allah (fii sabilillah), or people who are in debt (gharimin) (Daru, Fasa, & Suharto, 2021).

Sixth, the Islamic Economic and Financial System as a system that is full of values as well as a guide from the Creator is believed to be able to realize productive economic activities within the framework of justice. For this reason, the public needs to be given the correct understanding of Islamic economics and finance in the context of increasing Islamic economic and financial literacy, including through the provision of Islamic economic education assistance for students affected by Covid-19; granting permits and facilities for State and Private Universities to run the Distance Program (PJJ) program which offers a Sharia Economics program with one emphasis on moral development; and the expansion of internet connection infrastructure supporting PJJ that is evenly distributed throughout Indonesia for free (Mahargiyantie, 2021).

In addition, the existence of the Islamic Economic Community Organization as a forum that aims to be a reference and followed as an example for efforts to accelerate the development and implementation of an economic system and Islamic business ethics in Indonesia can be involved in this effort. Islamic Financial Literacy in Indonesia is still in the low category, only occupying the ninth position in the share of the Islamic finance market in the world. Because the level of knowledge and technology of the Indonesian people is also still lacking, so many people are not aware of the existence of Islamic financial products that are very useful for life (Alwi, M.A., 2020).

Seventh, the development of sharia financial technology to facilitate the liquidity of online market players in a sharia manner, while at the same time efforts to increase focus on social finance (zakat, infaq, alms, and waqf) in addition to commercial finance. This includes the development of a marketplace to collect traditional markets and MSMEs, which currently number nearly 60 million, with the aim of bringing together demand and supply both domestically and abroad, especially during the lockdown period due to the pandemic. Moreover, existing research states that problems of finance, human resources, and technology are classic problems faced by Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. The development of technology in the financial sector has developed in recent years and has an impact on changes in people's behavior in financial transactions. This can be a solution to the financial problems faced by MSMEs.

## IV. Conclusion

As a country with the largest Muslim population in the world, Muslims can give their best role through various forms or models of philanthropy in Islamic Economics and Finance, especially during the Covid-19 pandemic. This role is expected to be able to overcome the economic shocks that occur and the entire community, especially Muslims, can participate and contribute in recovering these shocks. Among the solutions that can be offered within the framework of the concept and system of Islamic Economics and Social Finance are: (1) by distributing direct cash assistance from zakat, infaq, and alms; (2) by strengthening waqf in the form of cash waqf, productive waqf, sukuk linked waqf, and waqf for infrastructure; (3) through leading business capital assistance for the business sector or Micro, Small and Medium Enterprises (MSMEs); (4) through the qardhul hasan scheme; (5) improvement of Islamic economic and financial literacy; (6) through the development of Islamic financial technology. If the above programs, especially direct cash assistance, zakat, infaq, waqf, or CSR, can really be promoted, it is hoped that they will help the economic surplus to re-establish so that the acceleration of economic recovery can be realized.

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