

## **The Role of Islamic Banking During the Covid-19 Pandemic in Indonesia**

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### **ABSTRACT**

This study aims to determine the effectiveness of social funds in Islamic banks against MSMEs due to the Covid-19 pandemic. The approach used in this research is descriptive qualitative. The techniques used are content analysis and library research. The results of this study indicate that Micro, Small and Medium Enterprises (MSMEs) receive assistance from zakat, infaq, and shadaqah. Apart from leading business capital assistance for the business sector or Micro, Small and Medium Enterprises (MSMEs) from the government that already has a business permit from the village, as well as through the qardhul hasan scheme and loans for businesses that exist in Islamic banks. So far, the social funds in Islamic banks for Micro, Small and Medium Enterprises (MSMEs) have not been effective because people use more funds to fulfil basic needs.

**Keywords:** Islamic banking, Covid-19 Pandemic, Role

### **INTRODUCTION**

According to WHO, coronavirus is an infectious disease caused by a new version of the coronavirus (Hasan, 2020c). Most individuals infected with the coronavirus will experience mild respiratory illness, some are moderate, and some even recover without needing special care. The Ministry of Health explained that the percentage of elderly individuals and individuals with a history of medical problems such

as heart problems, respiratory diseases, diabetes, and cancer tends to spread faster and can cause coronavirus infection to become a very serious disease. Several types of coronavirus cause respiratory tract infections in humans ranging from coughs and colds to more serious ones such as Middle East Respiratory Syndrome (MERS) and Severe Acute Respiratory Syndrome (SARS) (Regus, 2021).

Responding to the increasing number of Suspect Covid-19 in Indonesia and China, several large regional governments, such as Jakarta, have also implemented restrictions with social distancing policies or commonly referred to as PSBB (Large-scale social restrictions), which urge people to stay at home. Not being in crowds and not travelling long distances is supported by the inoperability of several transportation facilities. With the PSBB, offices and industries are prohibited from operating for a relatively long period, causing economic losses (Ghifari, 2020). The losses caused by this epidemic are national, sectoral losses, and personal and corporate losses. Of course, those who feel the most impact are workers who have been laid off and the middle and lower economic community and MSME actors (Ferdinand, 2016).

The Indonesian government has made various efforts to reduce the economic difficulties experienced by the people affected by the outbreak through the distribution of aid through the state revenue and expenditure budget (APBN). As for other efforts made by the wider community, they are sharing risks due to the impact of Covid, namely through the empowerment of Islamic social fund instruments in the form of zakat, infaq, alms, and cash waqf (ZISWAF) (Hamidah et al., 2021). Islamic social funds have an important position in overcoming the socio-economic problems of the community and helping the government to overcome these problems as a country with the largest Muslim majority. Indonesia has the potential for Islamic social funds that Islamic and non-bank institutions can manage, such as the Amil Zakat, Infaq and Alms Institution (LAZIS), waqf management institutions (LPW) and microfinance institutions or Baitul Mal wat Tamwil (BMT) (Hasan, 2022).

Data from the Ministry of Trade showed that in 2013, the largest number of MSMEs was in the agricultural sector. MSMEs in the agricultural sector accounts for almost 50% of MSMEs in Indonesia, while MSMEs in the trade sector are around 29%. At the same time, data from the Ministry of Trade, in 2018, MSME entrepreneurs in Indonesia touched 58.97 million people. MSMEs that are the focus of the author's attention are micro businesses or can be categorized as super micro businesses, namely the types of businesses that usually run their business when there are events. For example, at car-free day events, car-free nights, Ramadhan markets, Musabaqah Tilawatil Quran, exhibitions, and various events held at the village, sub-district, district, city and provincial levels. His businesses are various, mostly food and beverage businesses (Mangani et al., 2019). There are also other businesses such as crafts, clothing, and other micro-enterprises. Based on the observations made by the author, these business actors can still run their businesses when the coronavirus first spreads (Sunariani et al., 2017).

Data from Bank Indonesia in 2016 states that the type of business from MSMEs that absorbs the most labour is micro-enterprises. MSMEs that are "collapsed" because of the corona, especially micro-enterprises, have implications for the explosion of unemployment. The social safety net that has not been maximized earlier cannot secure new unemployment. Even what happens in the field, people who are directly affected sometimes do not receive any social assistance from the government (Nastiti & Kasri, 2019).

Micro or super micro enterprises are expected to be a solution for poverty alleviation. Poverty is divided into three categories, the first is absolute poverty, the second is relative poverty, and the third is cultural poverty. Absolute poverty is a person who is declared poor if his income cannot meet the basic needs of his life. Relative poverty is caused by unequal development policies resulting in disparate income distribution. Cultural poverty is poverty because an area's traditional and cultural factors play a role in causing poverty. The community feels the image of micro-enterprises as a solution to poverty (Sunariani et al., 2017).

Micro-enterprises can slowly support tens or even hundreds of families, originally only to support one family. Such as the system used by micro-entrepreneurs who operate at various events. Very often, the first owner of a micro business opens a branch for his partner after a few years. The old partners will be projected to open their businesses with capital from the first owner (Sunariani et al., 2017). Then the first owner will look for new partners who do not have jobs to prepare to become new micro-entrepreneurs again. What are the advantages of the first owner? Usually, the first owner becomes the supplier of raw materials for the micro business product. So, partners who are already independent continue to shop for raw materials from the first owner. If this system is sustainable and well monitored, how powerful is micro-enterprises influence in alleviating poverty? In Islam, poverty is very disturbing to the integrity of one's maqashid sharia joints (Amir Sahidin, 2021).

## **LITERATURE REVIEW**

Islamic banking is an institution that moves funds from the public and then channels them back to people in need. The function of this institution is as an intermediary that uses the concept of financing based on sharia law (Sudarwati & Yani, 2021).

Sharia principles in legal regulations, regulated in Law Number 21 of 2008 concerning the principles of Islamic banks, are banks that carry out their business activities. Meanwhile, according to its type, it consists of Islamic Commercial Banks and Islamic People's Financing Banks (Aristoni, 2018).

According to Edy Wibowo in Satyawidya (2013), Islamic banks have broader goals than conventional banks. Islamic banks have the following objectives (Hasan et al., 2021):

- a. Establishing financial institutions, particularly banking, to improve the social and economic welfare of the community. The collection of community capital and its application to the community is expected to reduce social inequality and encourage national development. With the profit-sharing method, people with

limited capital can join Islamic banks and develop their businesses. This profit-sharing model will encourage new and existing businesses to expand and develop.

b. Increase public participation in economic development because some people are hesitant to interact with banks because of their anti-interest attitude, to which Islamic banks have now responded. Efficient and just banking methods will assist people's economic efforts.

c. Teaching people how to think economically and act in business to improve their quality of life. d. Strive for profit-sharing methods in Islamic banks so that they can operate, grow, and develop through banks that use other methods. (Satyawidya, 2013).

MSMEs are the most common type of business in Indonesia and can employ many people (Sunariani et al., 2017). This MSME development process requires substantial funding so that many MSMEs obtain financing through bank loans, both private and state-owned. MSMEs play an important role in economic growth and equal distribution of employment, as well as in the distribution of national income (Anjum, 2022).

The principles of Micro, Small and Medium Enterprises (Law No. 20/2008) are as follows (Sunariani et al., 2017);

- a. Growing independence, togetherness, and entrepreneurship for Micro, Small and Medium Enterprises to work on their initiative.
- b. Increasing independence, togetherness, and entrepreneurship by implementing transparent, accountable and fair public policies by Micro, Small and Medium Enterprises on their initiative.
- c. Regional potential-based and market-oriented business development is in line with the competencies of Micro, Small and Medium Enterprises.
- d. Improving the competitiveness of Micro, Small and Medium Enterprises.
- e. Put implementation plans into action and ensure integrated controls

(Suharto, 2018) Operational risks of Islamic banks also occur during the Covid-19

pandemic. Operational risks are grouped into two: risk to customers and risk to the bank. The risk to customers is the closure or limitation of service offices, so services are centralised in Main Branch Offices that are less accessible to customers who usually transact at Sub-Branch Offices or Cash Offices. At the same time, the risks to the bank are increased operational costs because they have to provide hand sanitiser, masks, multivitamins, and disinfectants, which are provided in large quantities to maintain the health of the office environment. Especially for us employees, decreased branch profits are caused by limited human resources and prospect areas that are also limited so that marketing cannot optimise its performance.

Summary explained that the challenge for sharia economics and business is to develop a strategy to overcome the impact of the Covid-19 pandemic. The position of sharia businesses is an inseparable part of the Indonesian people struggling to overcome the Covid-19 outbreak. Sharia economic and business actors must also show empathy and solidarity to stakeholders. The state of Covid-19 cannot be predicted when it will end. The next step is that Islamic business actors must remain prepared for the worst possibility, whether to stay or leave, to develop a more profitable business strategy (Hasan, 2020b), (Akkas & Al Samman, 2021). The government through a stimulus program to handle the Covid-19 pandemic. Sharia business actors take the benefits and develop strategies to raise MSMEs. Islamic banks and other financial institutions must start revising their growth targets. Applying digital transaction technology in one application makes it easier for customers to transact and new financing opportunities in sectors directly related to the impact of the Covid-19 pandemic, especially related to MSMEs (Pratiwi, 2020).

## **RESEARCH METHODOLOGY**

This research uses a descriptive qualitative analysis method. Descriptive analysis in this research is needed where the researcher uses a qualitative approach (Hasan, 2020a). The type of data used in this study is the type of secondary data. The collection of secondary data types is researched by looking for references from

books, journals and others.

## **RESULT AND DISCUSSION**

Banks function as intermediary institutions, namely intermediaries who have excess funds and lack funds. The function of Islamic banks is the same as conventional banks, but in terms of running a sharia bank business, the corridors of Islamic sharia are guarded. In short, in people's minds, Islamic banks are still the same as conventional banks.<sup>15</sup> Islamic banks are one of the hopes of micro business actors to obtain financing. It is hopeful because there are many contract options that Islamic banks can do to touch the real sector, such as micro-enterprises. However, Islamic and conventional commercial banks are generally not familiar with micro-entrepreneurs. Banks are still too good for micro-entrepreneurs because there is still a distance between banks and micro-entrepreneurs. Micro entrepreneurs are more familiar with cooperatives, BMT (Baitul Mall was Tamil) and savings and loan institutions that are not too big. When compared between conventional banks and Islamic banks, micro-entrepreneurs prefer conventional banks. Conventional bank expansion is much more massive than Islamic banks. Conventional banks are present even in remote, deepest, and outermost locations.

Moreover, when compared to yields, conventional banks are cheaper than Islamic banks. Islamic banks must compete with conventional banks while the market share is down in this corona period. December 2019 was 6.13%, and the corona attack in March 2020 fell to 5.94%.

Socially, Islamic banks function to collect social funds, namely zakat, infaq, sadaqah, and waqf. That reflects the concern of Islamic financial institutions towards those entitled to receive it. In addition to third-party funds, Islamic banks also collect zakat, infaq, and shadaqah (ZIS) funds. Based on sharia principles and Islamic economic philosophy, assets must be distributed as effectively and efficiently as possible. In Islam, doing ikhtikar (hoarding goods/wealth) is forbidden. Thus in Islam, zakat is one of the pillars of Islam that must be carried out if the wealth has been reached by lineage and haul.



The current development of Islamic banks shows a better condition. Even during the Covid-19 pandemic, Islamic banks can still maintain their existence. Meanwhile, based on data from the OJK, the number of Islamic banks in Indonesia is 198 consisting of 14 Sharia Commercial Banks (BUS), 20 Sharia Business Units (UUS), and 164 Sharia People's Financing Banks (BPRS).

The commercial function attached to the bank in carrying out the intermediation function needs to be accompanied by the principle of *ta'awun* (please help), which Islamic banks must apply, the principle of helping can be applied in the form of *zakat*, *infaq*, and *sadaqah* (ZIS). *Zakat*, according to Islamic law, the legal rules are mandatory, while *infaq* and *sadaqah* are *sunnah*. As a sharia-based financial institution, Islamic banking is subject to the obligation to pay *zakat*. In addition, Islamic banking is subject to other positive legal instruments, including the obligation to pay *zakat* and distribute corporate social responsibility (CSR) funds.

This difficult situation made the writer think of several ideas that might be one of the steps to restore the situation of micro or super micro-entrepreneurs. First, in this state of the Covid-19 pandemic, the community needs simple language; people want to be able to eat, which is more than enough. Second, the banking restructuring program for ongoing financing for MSMEs impacts the COVID-19 pandemic. They are third, restructuring of new financing. In the current transition period, many micro-entrepreneurs have started their business again. However, it is no secret that micro-entrepreneurs. You are having problems with funding. This time the author is more focused on Islamic banks. For this transition period, Islamic banks must have the courage to issue products that many people have very, very awaited. Islamic banks are currently more famous for their *Murabaha* products because of the small risk they must be able to get out of the box first to contribute to restoring the situation. This situation is also an opportunity for Islamic banks to show the difference from conventional banks better. Of course, with careful conceptual and technical preparation. Fourth, technology-based micro or super micro business training. Many micro-entrepreneurs switched to running their technology-based businesses when the corona pandemic occurred.



Fifth is the formation of a micro-entrepreneur community. This community is very necessary to open access to micro-entrepreneurs themselves.

The government must be more sensitive to the corona situation or similar conditions. Government preparedness is a very important and critical initial capital when an event like this occurs. The government can issue more targeted policies so that the negative impact of the coronavirus does not worsen for the Indonesian economy. Banks are also, in this case, Islamic banks. The author hopes to immediately issue products based on advancing the people's economy. As a business institution, if Islamic banks can advance the economy of the people, the Islamic banks will automatically advance. If you always dwell on more secure products for your own institution, Islamic banks will likely just like that. The market share of Islamic banks will also move at 5%-6% and can even decline later with the technological expansion that conventional banks have insanely intensified.

The latest policy from the government to develop Islamic banks at this time is to merge BRI Syariah, BNI Syariah, and Bank Syariah Mandiri. Mergers can be a blessing for improving Islamic banks but can also be a disaster for Islamic banks that are small in assets. Theories regarding Islamic banking products continue to be developed. There are more and more contract modifications, but the substance only revolves around the products that are present. The product just changed its name, and the substance remains the same as the old one. This Corona implies that all economic sectors in Indonesia and even the world work hand in hand to rise. If the government has not had the opportunity to provide social assistance to micro-entrepreneurs who are affected and are completely bankrupt, let us reach out together to raise the spirit of these micro-entrepreneurs. If you are unable materially, raise your hand to always pray for micro-entrepreneurs who are in shambles to be given strength by Allah SWT and soon be restored to normal and better than before.

## **CONCLUSION**

Based on the research results, the conclusion is that Micro, Small and Medium

Enterprises (MSMEs) receive assistance from zakat, infaq, and shadaqah. Apart from leading business capital assistance for the business sector or Micro, Small and Medium Enterprises (MSMEs) from the government for Micro, Small and Medium Enterprises (MSMEs) that already have a business permit from the village, as well as through the qardhul hasan scheme and loans for businesses that exist in Islamic banks. . So far, the social funds available in Islamic banks for Micro, Small and Medium Enterprises (MSMEs) have not been effective because people have used more funds to fulfill basic needs. Community alms, as for other than that through leading business capital assistance for the business sector or Micro, Small and Medium Enterprises (MSMEs) from the government for MSME actors who have business permits from the village, as well as through the qardhul hasan scheme and loans for businesses that exist in Islamic banks. So far, the social funds in Islamic banks for MSMEs have not been effective because they are mostly used to help the community's basic needs. A special policy is needed from the government so that MSMEs are increasingly stretched, which has implications for the increasing need for funds needed by MSMEs, one of which is through Islamic banks. In addition, if Islamic banks want to touch the real sector more, then Mudharabah and Musyarakah contracts are used as superior products and beat contracts with Murabaha products.

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