

# The role of Islamic social finance during Covid-19 pandemic in Indonesia's economic recovery

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## Abstract

**Purpose** – This study aims to propose Islamic solutions to the Covid-19 health and economic crises, specifically using Islamic social finance (ISF) instruments, including zakat, infaq and *waqf*.

**Design/methodology/approach** – This study applies the qualitative content analysis method, guided by a model of composite approaches of poverty alleviation in Islam, integrated Islamic commercial and social finance (IICSF) and crisis management of Umar bin Khattab, to construct various programs and/or policy actions toward economic recovery in Indonesia.

**Findings** – The results show that ISF with its instruments, especially zakat, infaq and *waqf* could help the government and the economy to recover from the crisis. The proposed solutions include: save lives, including medical assistance using zakat-infaq and health-care *waqf* using *waqf*; save households, by creating a social safety net and graduation program using zakat-infaq; save businesses, especially micro-small enterprises (MSEs), through financial and business assistance (especially digital marketing) leveraging zakat-infaq-*waqf* and save financial institutions, especially micro-small financial institutions, by the development of cash *waqf* and the adoption of fintech and IICSF, especially in Islamic financial institutions targeting MSEs.

**Research limitations/implications** – This study is exploratory in nature, which needs further investigations using more sophisticated qualitative and/or quantitative methods.

**Practical implications** – If the above programs using ISF instruments are implemented, the economic surplus would be re-established and the acceleration of economic recovery can be realized.

**Social implications** – The successful adoption of ISF could at the same time reduce poverty, accelerate MSEs development and improve equitable well-being.

**Originality/value** – The Covid-19 pandemic has caused health, economic and social problems, which must be solved holistically, including ISF within IICSF.

**Keywords** Islamic social finance, Covid-19, Economic recovery, Zakat, Infaq, *Waqf*

**Paper type** Research paper

## Introduction

The Covid-19 outbreak started in Wuhan, the capital of Hubei province in China, in December 2019, which has been spreading all over the world affecting 213 countries, including Indonesia, causing the World Health Organization (WHO) to finally announce Covid-19 as a global pandemic on March 11, 2020 (WHO, 2020).

The Covid-19 pandemic has not only caused a health crisis but has also caused an economic crisis in affected countries. The first response recommended by the WHO when Covid-19 spreads to a country is a lockdown, which is in line with the quarantine policy taken by Umar bin Khattab during the “Ramadan crisis” which also was a case of plague outbreak (Al-Haritsi, 2015). The consequence of lockdown would create a supply shock in material and goods supply chains as well as labor supply, causing a drop in aggregate



supply (AS) (Surico and Galeotti, 2020). Subsequently, due to lockdown, demand shock happened to cause a drop in aggregate demand (AD) and eventually destroy the economic surplus.

Every country affected by Covid-19 has taken fiscal and monetary policies to deal with the health and economic crises in four sectors, namely: health; households; business; and financial (IMF, 2020), including liquidity and solvency policies (Table 1).

However, the limited budget, decrease of supply and demand, increase of unemployment and the prolonged pandemic have made some countries, predominantly emerging markets, turning to debt, which was already prevalent among Organization of Islamic Cooperation (OIC) countries pre-COVID crisis (Hidayat *et al.*, 2020) such as, Iran, Pakistan, Nigeria and Indonesia.

While most economy and finance struggle in time of Covid-19 health and economic crisis, Islamic social finance (ISF), especially zakat, infaq and *waqf*, has been increasingly contributed in helping affected parties. For example, Indonesia's zakat collection was predicted to increase 30% during Covid-19 pandemic in 2020 (PUSKAS, 2020). ISF is an integrated part of Islamic economics and finance (IEF), which includes mainly zakat, infaq, *waqf* and social Islamic microfinance, as well as other types of sadaqah or Islamic voluntary donations. Nik Azman *et al.* (2021) proved, using the partial least squares-structural equation modeling (PLS-SEM) method, that ISF has played an essential role in stabilising income among micro-entrepreneurs during the COVID-19 pandemic. Moreover, AbdulKareem *et al.* (2021) documented that ISF, especially zakat and *waqf*, decreased the negative impact of a pandemic on the people and the entire global economy.

There are plenty of studies in conventional/mainstream economics about how to deal with and solve the economic problems of Covid-19 such as Atkeson (2020), Surico and Galeotti (2020) and Zhang *et al.* (2020). There are also a handful of studies in IEF in this context. There is an edited book by Hidayat *et al.* (2020) describing the impact of Covid-19 on Islamic finance in various OIC countries, including Indonesia. Hassan *et al.* (2021) discussed Islamic finance as an alternative financial system in providing relief to the Covid-19 affected people and entrepreneurs. Alam (2020) discussed the benefits of zakat as a short-term emergency support system during the Covid-19 crisis, as well as a tool for building resilience. Meanwhile, Haji-Othman *et al.* (2020) discussed the role of ISF, especially zakat, *waqf* and

No	Sector	Liquidity	Solvency
1	Health	Provide more health equipment; incentive for doctors, nurses and medics	Grants, tax import relaxation, incentives for the manufacturer and cash transfer
2	Household	Suspension of mortgage payment; tax and social security contribution	Cash transfer; unemployment insurance and meal voucher
3	Business	Extension of loans; credit guarantees and purchase of commercial papers; tax and social security contribution	Equity injection and subsidies to maintain employment
4	Financial	Provision to financial intermediate and preserve market liquidity	Equity injection and government guarantee

Source: IMF (2020)

**Table 1.**  
Covid-19 general  
policies

sukuk combined with crowdfunding (fintech) to help the economy to revive during and after the Covid-19 crisis. All of these need to be integrated to deal with the Covid-19 health and economic crises, especially the role of ISF as it is, including *zakat*, *waqf* and *infaq* or as an integrated part of IEF.

Therefore, this study aims to lay out the IEF approach to deal with the Covid-19 health and economic crises in Indonesia, as well as to propose some policies and/or programs to solve the problems by leveraging ISF.

This study contributes to the body of knowledge by providing more detailed and elaborated descriptions of how each part of ISF could help and solve various negative impacts of Covid-19 health and economic crises, including health, household, business and financial sectors toward economic recovery. Even though this study takes the case of Indonesia, the general framework could be applied to other countries adopting at least a partial IEF system.

The rest of the paper will be organized as follows. Part two will discuss the literature review including three Islamic approaches to solve the health and economic problems, followed by part three discussing the method used and its conceptual framework. Part four will discuss the results of the study and analysis of the results, followed by part five, conclusion and recommendation for the main stakeholders.

## Literature review

### *Crisis management policies of umar bin khattab*

Umar bin Khattab, the second Caliph in Islamic history, has faced plague 'Amwas as well as severe famine and drought, which known as the year of Ar-Ramadah in 17–18 H (Al-Haritsi, 2015), which could be used as a case study for today's Covid-19 pandemic causing similar health and economic crises.

In the event of plague 'Amwas, there was a hadith narrated by Bukhari and Muslim from Usamah bin Zaid: Prophet Muhammad SAW said "If you hear about it (an outbreak of plague) in a land, do not go to it; but if the plague breaks out in a country where you are staying, do not run away from it." Another related hadith narrated by Ahmad (also in Bukhari, Muslim): Prophet Muhammad SAW said "Any servant who resides in a land afflicted by plague, remaining patient and hoping for a reward from Allah, knowing that nothing will befall him but what Allah has decreed, he will be given the reward of a martyr," suggesting quarantine for those affected by the plague. The plague in Syam caused many people to die (estimated 20,000 deaths), halting trade activity through the land of Sham at the time.

The severe famine and drought caused a food shortage, death of livestock, no harvest, property damage and death of much of the population. Moreover, wild animals came to towns and the people flocked from the farthest deserts to Madinah to stay in the city or nearby, seeking a solution with the caliph Umar bin Khattab.

Umar bin Khattab as a caliph did not position himself as a leader who must be served but as a leader who serves. He famously said, "How could I care for the people properly if I do not feel what they feel?" (Al-Haritsi, 2015). There were several policies adopted by Umar bin Khattab to deal with various problems of these crises, including:

- Delayed the collection of *zakat* for livestock, as many of them died, while the farmers could use their remaining livestock for foods;
- Used up Baitul Maal wealth to help affected people with food, as well as encouraged rich companions and governors from other provinces to donate and help the people in Madinah and the surrounding areas;

- Encouraged infaq such as camels to be slaughtered for food as Arab people did not slaughter their camels for food, more so in times of crisis;
- Relaxed the punishment for criminals who steal for food, as they were not able to get food to feed their families; and
- Reactivated (re-excavation) the old Roman Nile River canal to the red sea connecting Egypt and Hijaz, shortening the trade and aid route from 800 miles to 105 miles only, which was done by the Egyptian governor Amr bin Ash (Ibnu Atsir, 1995).

### *Poverty alleviation in Islamic perspective*

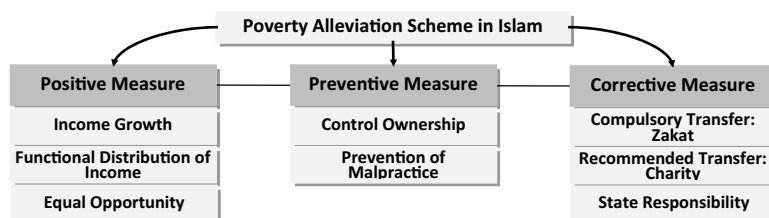
Poverty alleviation and inequality reduction have been embedded in Islam and Islamic economics through many different means. Sadeq (1997) described the “Poverty Eradication Scheme of Islam.” He stated that the Islamic approach to poverty alleviation comprising three sets of measures, namely:

- (1) positive measures, including income growth, functional distribution of income and equal opportunity;
- (2) preventive measures, including control ownership and prevention of malpractice; and
- (3) corrective measures, including compulsory transfer through *zakat*, recommended transfer through charity and state responsibility (Figure 1).

*Positive measures.* Islam engages different positive measures in alleviating poverty: income growth, functional distribution of income and equal opportunity (Hassan, 2006, p. 13).

Income growth. Islam emphasizes moderate consumption behavior at the individual level which generates the necessary savings for both the individual and the overall economy and also stresses the need for halal earning. The Quran teaches us that: “A person gets what he or she strives for.” (53:39), “Earning a halal living is farz (obligatory) after obligatory rituals.” (Al Baihaqui, Tabarani) and “Do not make your hand-tied to your neck, nor stretch it forth to its utmost reach, so that you become blameworthy and destitute.” (17:29) (Sadeq, 1997).

Functional distribution of income. Functional distribution of income refers to equitable distribution of income among all the factors of production in absence of which high income growth alone may not be able to alleviate. Islamic norms ensure that the principle for factor pricing is based on justice and fairness. The Quran teaches us that: “Allah commands justice and benevolence.” (16:90) and “Woe to those that deal in fraud; those when they receive from



**Source:** Sadeq (1997), modified by the author

**Figure 1.**  
Poverty alleviation  
scheme in Islam

man take full measure, but when they give by measure or weight to others give less than due.” (83:1–3).

Equal opportunity. Islamic approach recommends measures for an equitable distribution of income among factors of production such as profit sharing. Islam prohibits Riba and emphasizes the distribution of profits on the basic definition of ratio, rather than a nominal fixed interest among the stakeholders (Sadeq, 1997).

*Preventive measures.* Islamic economy also ensures preventive measures be taken so that wealth is not concentrated in a specific section of a population; such as control over ownership and prevention of malpractices (Hassan, 2006).

Control of ownership. In Islam, ownership of everything belongs to Allah Almighty. Man has the secondary ownership, as a trustee, for using resources per the terms and conditions of the trust. In an Islamic economy, resources identified for public use such as natural resources, cannot be privately owned. The state should own such resources so that they are accessible to all sections of the population when necessary. However, Islam allows private ownership in business and industry as long as they are performed based on Islamic ethics and norms.

Prevention of malpractice. Islam identifies and prohibits malpractices that lead to economic disparity such as gambling, hoarding, cheating, bribery and interest or Riba. The Quran teaches us: “O ye believe! Squander not your wealth among yourselves wrongfully, except it be a trade by mutual consent.” (4:29). In modern times, such malpractices take different forms. If all such malpractices including corporate frauds and other white-collar crimes are prevented, inequality in income distribution could be avoided (Sadeq, 1997).

*Corrective measures.* The third set of anti-poverty measures: the “corrective measures” fosters wealth transfers so that wealth is not concentrated among the wealthy through; compulsory transfers (zakat), recommended transfers (charity), state responsibility (enforcement and basic needs).

Compulsory transfer (*zakat*). Islam establishes *Zakat* as compulsory for all well-off Muslims. *Zakat* is a unique instrument for poverty alleviation as wealth is transferred from well-off people to worse-off people. Islam identifies *Zakat* as one of the five pillars. Anybody denying the obligation of *Zakat* ceases to be a Muslim. According to the Quran: “The *Zakat* is meant only for the poor and needy, those who collect the tax, those whose hearts are to be won over, for the freeing of human beings from bondage, for the relief of those overwhelmed by debts, for the cause of God and for the wayfarer: [this is] an ordinance from God- and God is All-Knowing Wise.” (9:60). Therefore, zakat could be used as social security instrument (Kahf and Al Yafai, 2015).

Recommended transfers (charity). Islam encourages charity and acts of benevolence rather than mandatory transfers such as *Zakat* and Sadaqat al-Fitr. The Quran teaches us: “And in your wealth, are obligations beyond *Zakat*.” “In their wealth, there is a known right for those who ask for it and for the deprived.” (70:24–25). Thus, charity and other acts of benevolence are highly recommended. In the case of strong economic disparity or poverty, such transfers would become obligatory (Sadeq, 1997).

State responsibility. In the Islamic system, the state should be held responsible for maintaining a favorable environment for legal business and economic activities. The state should also protect its citizens from malpractice of any form. Finally, the state should enhance the institution of *Zakat* and provide equal opportunities for all (Hassan, 2006, p. 14).

In Islam, two charities, compulsory (such as *Zakat*) and optional (Sadaqa) engage in initiatives of poverty alleviation through the redistributive approach. On the other hand, the third type of charity, Perpetual (Awqaf), is used to improve non-income aspects of the poor such as health and education as well as increasing their access to physical facilities,

resources and employment (Sadeq, 1997). Moreover, zakat, infaq and *waqf* could be used as instruments of poverty reduction (Shirazi, 2014). Moreover, zakat (including infaq and *waqf*) could have a force multiplier effect on economic growth (Putriani *et al.*, 2020).

### *Integrated Islamic commercial and social finance*

Essentially, Islamic finance comprises of Islamic commercial finance (ICF) and ISF which are combined and integrated to form an integrated Islamic commercial and social finance (IICSF). The revival of Islamic finance in this modern era, is essentially the revival of ICF, while ISF has still been operating in benign mode. The idea to return to IICSF has been applied in Bangladesh by Prof. A. Mannan with Social Islami Bank Limited or Social Islami Bank Limited (Mannan, 2018), while IICSF has also been applied in Indonesia by Islamic microfinance institution (IMFI) generically called as Baitul Maal wat Tamwil or Baitul Maal wat Tamwil (BMT) (Ascarya, 2017), registered as an Islamic cooperative, combining ISF in its Baitul Maal division and ICF in its Baitut Tamwil division. The BMT has been studied by many researchers such as Obaidullah (2008) and Ascarya (2014). Even though the BMT model has proved to be sustainable (Ascarya, 2014), BMT has many challenges to compete with other conventional MFIs.

The IICSF is beneficial not only to recipients of zakat, charities and the final recipients of *waqf* benefits (mawquf ‘alayh) but also beneficial to intermediate mawquf ‘alayh, namely, the BMTs with stronger financial standing, due to the placement of cash *waqf* in their liabilities. As a result, these BMTs would be able to provide member customers with cheaper financing and would be more resilient to financial crises. This IICSF could be implemented not only at the micro-level as discussed above but it could also be implemented at the community level by Islamic rural banks, in Indonesia, as the Indonesian Islamic Bank Act No. 21 of 2008 allows Islamic banks to manage Islamic social funds (including zakat, *infaq*, *sadaqah* and other Islamic social funds) by establishing Baitul Maal.

## Methodology

### *Method*

This study uses qualitative content analysis. The term content analysis has been written in Webster’s Dictionary of the English Language since 1961, defined as “analysis of the manifest and latent content of a body of communicated material (as a book or film) through classification, tabulation and evaluation of its key symbols and themes to ascertain its meaning and probable effect” (Krippendorff, 2004), as content analysis has been used in research since the eighteenth century in Scandinavia (Rosengren, 1981). Krippendorff (2012) defined content analysis, combining qualitative and quantitative content analysis, as a research technique for making replicable and valid inferences from data to their context. He described that the content analysis procedures consist of six steps, including design, unitizing, sampling, coding, drawing inferences and validation, as depicted in Figure 2. The first step, design, is a very important step where the researcher designs a conceptual framework combining context, data and analytical construct. Second step, unitizing, will identify the units of analysis of available data from various scientific literature, official data, authoritative news, etc. third step, sampling, will be drawn from the previous step to choose representative samples. The fourth step, coding, will describe the recording or classifying units in terms of categories of the chosen analytical construct. The fifth step, drawing inferences, is considered the most important step applying the stable knowledge about how the variable accounts of coded data are related to the phenomena to generate results. The final step, validation, is essential for every research, although it will be limited to content analysis.



The next section will describe the design of the conceptual framework of this study, while the next chapter, results and discussion will describe the results and the validation.

*Conceptual framework*

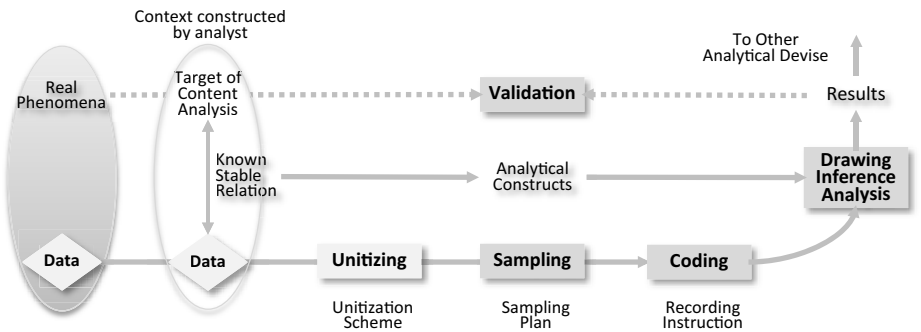
Covid-19 crisis desperately needs serious attention to deal with various health, economic and financial problems at the micro and macro levels. In the case of Indonesia, 74.8% of people are heavily affected financially by the crises (LSI, 2020), which makes sense, as 93.9% of employment is in micro-small enterprises (MSEs) greatly affected by the crises, causing the hike in unemployment and poverty. Meanwhile, Covid-19 would cause 51% job loss in the tourism sector in Middle Eastern countries (Hassan, et al., 2021).

Solution to these crises from an Islamic perspective could follow the example of crisis management by Umar bin Khattab (Al-Haritsi, 2015). The solution should include poverty alleviation and inequality reduction such as the one described before by Sadeq (1997). Moreover, Islamic finance would provide an important role in these crises, as Islamic finance comprises of IICSF stated by Ascarya (2017), where in times of crises, ISF would be very important in resolving various problems using ISF instruments, especially zakat, infaq and *waqf*.

All of the above-mentioned approaches will be adopted to construct a conceptual framework as contents to be analyzed to propose solutions to the Covid-19 pandemic through an Islamic perspective (Figure 3).

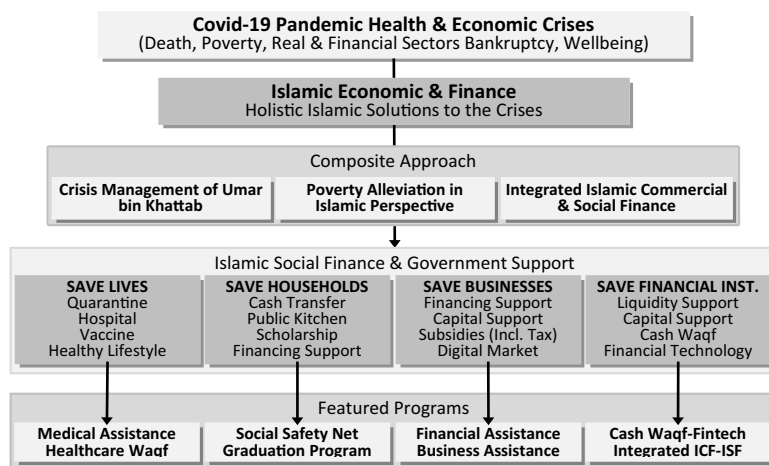
The recovery efforts can be divided into four sectors as contents to be analyzed, in line with conventional crisis management (IMF, 2020), namely:

- (1) save lives (health), including quarantine, hospitals, vaccines and healthy lifestyle;
- (2) save households, especially those who fall into poverty and out of job, including cash transfer, public kitchens, scholarships and financing support (mortgage extension, etc.);
- (3) save businesses (especially micro, small and medium enterprise (MSMEs)), including financing support (extension, restructuring, etc.), capital support, subsidies (including tax breaks) and setting up a digital market to accommodate the meeting between demand and supply; and
- (4) save financial institutions, especially IMFIs needed by MSEs, including liquidity support, capital support, development cash *waqf* and adoption of financial technology.



**Figure 2.**  
Procedures of content  
analysis

**Source:** Krippendorff (1989), redrawn by author



**Source:** Drawn by the author based on Sadeq (1997); Ascarya (2017); Al-Haritsi (2015)

**Figure 3.**  
The role of Islamic  
social finance in  
solving Covid-19  
pandemic problems

Moreover, the featured programs in the four groups are:

- (1) save lives, includes medical assistance and health-care *waqf*;
- (2) save households, include social safety net and graduation program;
- (3) save businesses, including financial assistance and digital market; and
- (4) save financial institutions, including cash waqf-fintech and IICSF.

Other contents to be analyzed include Al Qur'an and Al-Hadith; zakat (Zakat Act no. 23 the year 2011; BPS, 2020; BAZNAS, 2018; PUSKAS, 2020; Asfarina *et al.*, 2019; *waqf* (Waqf Act no. 41 the year 2004; Ascarya *et al.*, 2020); Islamic social microfinance (Ministry of Cooperative and SME, 2018; Hashemi and Rosenberg, 2006; Aderemi and Ishak, 2020; Ascarya, 2014) and others (Surico and Galeotti, 2020; IMF, 2020).

## Results and discussion

### *Holistic Islamic solutions to the health and economic crises*

In times of the Covid-19 pandemic, a health crisis has impacted the economy and finance in almost all levels of the society, especially the poor vulnerable group, poor informal group and micro and small businesses group (Surico and Galeotti, 2020), as well as financial institutions, especially microfinance institutions. Dealing with economic and financial crises from an Islamic perspective must be addressed holistically including ICF, ISF and government policy, including macro and micro policies. Unfortunately, during this crisis, commercial finance, including ICF have been affected. Therefore, in this time of crisis, ISF and the government will take a leading role in solving the problems (Sadeq, 1997). Following the model development framework discussed before, the details of some proposed solutions will be described in detail as follows.

*Save lives.* As has been guided by Al Qur'an in Surah Al Maidah [5:32]: "whoever kills a soul unless for a soul or for corruption [done] in the land – it is as if he had slain mankind entirely. Then, whoever saves one life it is as if he had saved mankind entirely." Therefore,



save lives must be the top priority in this pandemic. Quarantine must be done, as has been done by Umar bin Khattab, where in today's terms it is called lockdown, while in Indonesia it is called "pembatasan sosial berskala besar" or large-scale social restriction, which has also been mentioned in a hadith "If you hear of an outbreak of plague in a land, do not enter it; if the plague breaks out in a place while you are in it, do not leave that place," Bukhari (5739) – Muslim (2219). Moreover, to stop the Covid-19 pandemic, the vaccine must be discovered by conducting intensive research. Two featured programs which will be discussed further include medical assistance and health-care *waqf*.

Medical assistance. The busiest sector in this pandemic time is health-care service providers to provide promotive, preventive and curative programs to the community. With the surge in Covid-19 patients, all necessary programs, equipment and medications are required to promote a healthy lifestyle, prevent transmission of the virus and to cure the infected patients, as well as to provide incentives for medical personell such as doctors, nurses and medics. All of these needs could be provided by the government with its health-care program, as well as be provided voluntarily by social organizations or society by raising infaq.

For example, the most basic need for everybody everywhere to prevent the transmission such as face masks, hand sanitizers, hand washing facilities, must be provided which could be organized by the government. This preventive program could also be organized voluntarily by social institutions or society by raising infaq. Free rapid tests and polymerase chain reaction Swab tests should also be provided by the government through its health-care programs, as well as by social institutions or society by raising infaq. For the poor or mustahiq (zakat recipients) all of these medical needs and services could be provided free financed by zakat.

Health-care *waqf*. With the surge in Covid-19 patients, the capacity of hospitals and hospital beds must be increased immediately, especially, as the ratio of hospital beds to the population in Indonesia is still far under the WHO standard of 5 beds per 1,000 population, which currently sits at 2.1 beds per 1,000 population. To meet the needs of new hospitals and/or hospital expansion, emergency hospitals could be built in a very short time by the government through its health-care programs. Moreover, emergency hospitals could also be built by social institutions, especially by *waqf* institutions by raising *waqf*. Two types of health-care *waqf* are possible to be built by *waqf* institutions, namely, social health-care *waqf* and integrated social-productive health-care *waqf* (Ascarya *et al.*, 2020), while productive *waqf* could be built-in normal economic conditions. Moreover, emergency hospitals could be built-in currently unproductive strategic *waqf* lands in every city in Indonesia, as have been done by various zakat and *waqf* institution such as Dompot Dhuafa who built Kartika Pulomas Hospital Dompot Dhuafa in Jakarta.

*Save households*. Covid-19 pandemic has caused many people to lose their job, especially in the informal sector, MSEs and tourism sector, including Islamic tourism such as hajj and umroh travel agencies. With 99.9% MSEs using 93.9% employment in Indonesia, the covid-19 pandemic has made unemployment sharply increase mostly from the said sectors, therefore increasing the number of poor people or mustahik (zakat beneficiaries) significantly from 24.79 million in 2019 (BPS, 2020) to 14.35% of total population or 37.9 million people in 2020. Meanwhile, the near-poor population has reached 53.3 million people in 2019 (BPS, 2020). Therefore, total poor and near-poor have reached 78.1 million to 90.1 million people who need basic needs support as mustahik, as all of them are considered poor based on had kifayah (BAZNAS, 2018). Government support is needed to cover these basic needs support, which could also be provided by zakat institutions.

Social safety net. Basic needs support could fall under the social safety net program of the government and zakat program of zakat institutions as the zakat system in Indonesia is

not integrated with the fiscal system. The social safety net or zakat program for the poor (mustahiq) should cover Dharuriyat Asasiyat needs (food, clothing, shelter and worship) and Hajjiyat Asasiyat needs (education, health and transportation), to meet the basic needs security (BAZNAS, 2018). Cash transfer needed following had kifayah would be Rp 772,008 per-person or Rp 3,011,142 per-household with 4 members (BAZNAS, 2018). Therefore, the cash transfer needed to support the basic needs of the poor can be seen in Table 2.

The zakat potential in Indonesia has been predicted optimistically to reach 1.75% gross domestic product (GDP) or Rp 277.08tn in 2019 (Asfarina *et al.*, 2019), although the realized zakat collection has only reached Rp 10.1tn. Therefore, government support is urgently required to cover the cash transfer needed. In the meantime, the government budget for the Covid-19 social safety net has been increased from Rp 110tn to Rp 203.9tn in June 2020, which could only cover the needs for approximately 3 months for both the poor and near-poor. Therefore, the government is encouraged to increase the budget for the social safety net, again. Moreover, voluntary support from the zakat institutions and the society to collect zakat and infaq should be encouraged to help the poor and near-poor that are unrecorded and untouched by the government.

Graduation program. Other than fulfilling the basic needs through the social safety net or consumptive programs of zakat institutions, the poor need to be empowered to be able to get out of poverty through productive programs of zakat institutions. In this program, the poor would be gathered every week and provided with training to become micro-entrepreneurs, qardh financing in several stages to start and expand their micro-businesses, technical assistance to ensure that their businesses would be running well to generate profits so that finally they can fulfill their basic needs and at the same time also accumulate savings to create assets for their micro enterprises (MEs), as have also been mentioned by Hashemi and Rosenberg (2006) (Figure 4).

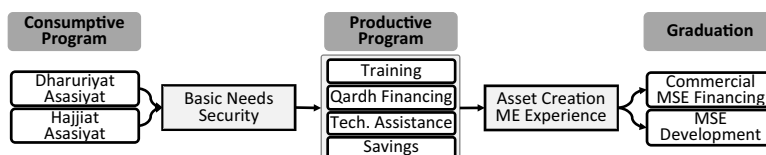
If they successfully complete all of these stages, they have graduated from poverty to enter commercial micro-financing from IMFI such as BMT (Ascarya, 2017). However, this is not easy and takes time. These kinds of initiatives typically have a low success rate, which could be improved and supported by cash *waqf*.

*Save businesses.* The Covid-19 pandemic has affected all businesses, including MSEs, which dominate businesses in Indonesia, including traders in traditional markets that are

Impacted group	Zakat/month (Rp)	Zakat/6-month (Rp)	Zakat/year (Rp)
Poor (37.9 m)	29.26 Tr	175.56 Tr	321.86 Tr
Near poor (53.3 m)	41.15 Tr	246.90 Tr	493.80 Tr
Total	70.41 Tr	422.46 Tr	815.66 Tr

Source: Author

**Table 2.**  
Predicted social  
safety net



Source: Authors, modified from Hashemi and Rosenberg (2006)

**Figure 4.**  
Proposed graduation  
program

prevailing in every village. The data from the Ministry of Cooperative and SME (2018) shows that MSEs comprising 99.9% (98.7% MEs) of enterprises in Indonesia, amounted to 64.1 million enterprises (63.4 million for MEs), which absorb 113.2 million (107.4 million for MEs) or 92.8% of employment and provide 47.3% share of GDP (Table 3).

ME has 1–4 employees, while SE has 5–19 employees. Most of them are affected by the crisis and become poor and/or unemployed. Most MSEs could not sell their goods/services due to lockdown and cannot meet their customers physically.

Financial assistance. Most MSEs receive loans/financing from conventional/IMFIs such as conventional/Islamic cooperatives, conventional/Islamic rural banks and in this time of the pandemic, they struggle to repay their debt/financing and many faces possible bankruptcy and entanglement in debt/financing.

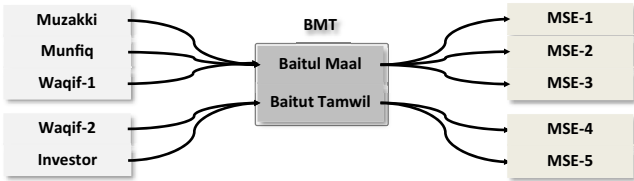
For those MSEs entangled in debt, some financial assistance could be provided to help. First, the MSEs could have loan/financing extension/relaxation or restructuring and/or given qardh hassan financing (Aderemi and Ishak, 2020). Second, the MSEs considered as gharimin could be categorized as *mustahik* and could be eligible to be assisted with zakat to pay off their debt. See MSE-1 in Figure 5, who receives the zakat collected by Baitul Maal of a BMT from muzakki (zakat payer).

In times of the Covid-19 pandemic, most MSEs also experience a depletion of their liquidity and even their capital, as limited income from their declining businesses has forced them to sometimes use their liquidity and capital to fulfill their basic needs. These MSEs are in dire need of help to restart/crank up their businesses, which could be assisted using various ISF instruments, including zakat, infaq and direct cash *waqf*, as well as using ICF instruments such as indirect cash *waqf* and investment. For those MSEs who fell into poverty, they could receive zakat through the productive program in terms of qardh financing from the Baitul Maal of BMT (see MSE-1 in Figure 5). For those MSEs who did not fall into poverty, but need financial assistance, they could receive infaq through productive programs in terms of qardh financing (see MSE-2 in Figure 5). Meanwhile, for those MSEs still in good businesses, but need financial assistance to expand their businesses, the Baitul Maal as nazir of *waqf* could invest in those businesses by raising direct cash *waqf* (see MSE-

**Table 3.**  
Classification of  
enterprises and their  
share in employment

Business	No.		GDP	Labor		Export(%)
Micro	63,350,222	98.68%	37.77%	107,376,540	89.04%	1.22
Small	83,132	1.22%	9.60%	5,831,256	4.84%	2.30
Medium	60,702	0.09%	13.70%	3,770,835	3.13%	10.85
Large	5,550	0.01%	38.93%	3,619,507	3.00%	85.63
MSME	64,194,057	99.99%	61.07%	116,978,631	97.00%	14.37

Source: Ministry of Cooperative and SME



**Figure 5.**  
Various financial  
assistance for MSEs

Source: Author

3 in Figure 5). Moreover, for those MSEs still in good business, they could also receive commercial micro-financing from the Baitut Tamwil of BMT, either using indirect cash *waqf* (see MSE-4 in Figure 5) or regular micro-financing (see MSE-5 in Figure 5).

Business assistance. As has been stated by Surico and Galeotti (2020), the lockdown has made the demand from the households and the supply of goods and services from the MSEs could not meet and has destructed economic surplus, where in the case of Indonesia has affected MSEs, including traders in traditional markets everywhere (Figure 6).

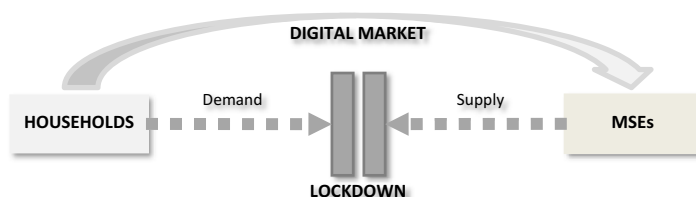
One effective solution to circumvent lockdown is setting up digital markets, including in every traditional market, to break the wall between demand and supply, so that the demand of households could meet the supply of MSEs, while delivery could be done by traditional online delivery or fintech online delivery. The digital market could range from the simplest form of phone number lists to a sophisticated digital e-commerce platform, where *waqf* could be used to develop them.

*Save financial institutions.* Financial institutions, conventional and Islamic, have been severely hit by the Covid-19 pandemic from both the assets and liabilities sides. Again, the lockdown has introduced a wall between demand and supply causing contraction in demand and supply of goods/services Surico and Galeotti (2020), which subsequently causes businesses to be unable to pay their debt/financing, including MSEs who took loan/financing from conventional/Islamic financial institutions, especially conventional/Islamic rural banks and conventional chain reaction (CMFI)/IMFI, including BMT. The wave of non-performing loan/financing has affected the assets side of conventional/Islamic financial institutions (CFI/IFI), especially CMFI/IMFI who extended loan/financing to MSEs. Moreover, due to a sharp decline in sales, MSEs would use their savings in CMFI/IMFI to fulfill their daily basic needs, which drained the liabilities of CMFI/IMFI.

All financial institutions were in a dire need of financial assistance. The CFI/IFI could get help from the lender of last resort, i.e. the central bank, while CMFI/IMFI does not have the lender of last resort and can not get help from the central bank, causing CMFI/IMFI to fall on the brink of collapse. Therefore, government or financial authority of CMFI/IMFI has to act as their lender of last resort with financial assistance to save them from massive bankruptcy.

For IMFIs, including BMTs, structural reformation is needed to resolve their structural problems such as low funding that make IMFIs dependent on external sources, liquidity problems in times of Ramadhan/Ied al-Fitr/Ied al-Adha and new school year, mismatch, as well as to increase IMFIs resilience and sustainability in times of financial crisis. In the short term, *qardh hassan* from *infaq* and cash *waqf* could help keep the business operational. Some proposed reforms include the development of cash *waqf*, the adoption of financial technology and the adoption of IICSF.

Cash *waqf*. The development of cash *waqf* in IMFI means that the IMFI registered as nazir of cash *waqf* collects indirect cash *waqf* intensively, which could be placed in the liabilities as investment *waqf* deposits or as *waqf* equity. There are plenty of benefits with



Source: Author

Figure 6.  
Digital market to  
circumvent lockdown

the introduction of cash *waqf* in the liabilities side of IMFI's balance sheets. First, the nature of *waqf* where the principal should be maintained and should not be decreased would gradually solve the problem of dependency on external funding such as the dependency from Islamic banks for funding. Second, the perpetual nature of cash *waqf* would eliminate the problem of mismatch, as the terms of financing on the assets side would always be shorter than the perpetual terms of cash *waqf* on the liabilities side. Third, the nature of cash *waqf* is that it belongs to God Almighty and. would never be withdrawn, hence eliminating the problem of liquidity as well as decreasing the cost of funds. Fourth, the placement of cash *waqf* as *waqf* equity would improve the ability of IMFIs to expand, also decreasing the cost of funds and financing.

The balance sheets of the IMFIs or BMTs before they intensively collect/manage cash *waqf* could be illustrated as in [Table 4](#), where they still depend on Islamic bank financing, as channeling or executing, with minimum capital, still being prone to liquidity and mismatch problems. Meanwhile, [Table 5](#) shows the IMFIs or BMTs balance sheets after they intensively collect/manage cash *waqf*, where long-term *waqf* investment would replace Islamic Bank financing and *waqf* capital would be added to the equity.

Fintech. The emergence of financial technology (fintech) has disrupted financial services posing simultaneously as a threat and opportunity for financial institutions, including IFI, IMFI and ISF. Fintech could potentially help IMFIs, including BMTs attract external investors to invest directly, while fintech could also be adopted in ISF using crowdfunding peer-to-peer (P2P) social to collect zakat, infaq and *waqf* ([Rachman and Salam, 2018](#); in the case of zakat, as well as [Aminu et al., 2018](#); in the case of *waqf*). The adoption of fintech by IMFI/BMTs would further strengthen the liabilities and further decrease the problem of liquidity and mismatch.

Fintech could be adopted by IMFIs or BMTs (micro-fintech) in many different ways ([Figure 7](#)). Fintech companies, APEX and associations of BMTs could become a provider of

**Table 4.**  
The balance sheets of  
IMFI/BMT before  
managing cash *waqf*

Assets	Liabilities
Cash	<i>Wadiah/Mudharabah</i> savings deposit
Bank deposits	<i>Mudharabah</i> investment deposit
Receivables ( <i>Murabahah, Qardh</i> , etc.)	Islamic bank financing
Financing ( <i>Mudharabah, Musharakah</i> , etc.)	
Fixed assets	Capital

Source: Author

**Table 5.**  
The balance sheets of  
IMFI/BMT after  
managing cash *waqf*

Assets	Liabilities
Cash	<i>Wadiah/Mudharabah</i> savings deposit
Bank deposits	<i>Mudharabah</i> investment deposit
Receivables ( <i>Murabahah, Qardh</i> , etc.)	Long-term <i>waqf</i> investment
Financing ( <i>Mudharabah, Musharakah</i> , etc.)	
Long-term investment	<i>Waqf</i> capital
Fixed assets	Capital

Source: Author

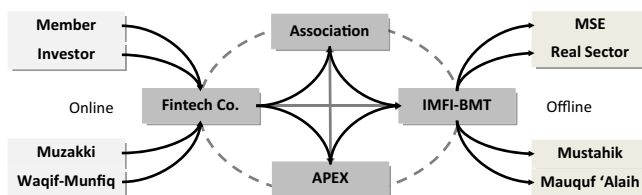
fintech services such as digital banking, payment, P2P financing, P2P social, as well as e-commerce. Some possibilities include:

- Micro-fintech could be developed by BMT itself, fully or partially;
- Micro-fintech could be developed by the APEX or association of BMTs for their members, fully or partially;
- Micro-fintech could be developed jointly by the members of APEX or association of BMTs for themselves, fully or partially;
- Micro-fintech could be developed by fintech companies, while BMT or APEX could collaborate with fintech companies; and
- Combinations of those previous models.

All of these models adopt offline to online approach where funding for investment, zakat, infaq and *waqf* would be done online, while financing, investment to the real sector, zakat-infaq-waqf disbursement would be done offline as the social bonding between MFI/BMTs with their member-customer is a valuable social capital that should be maintained.

By adopting micro-fintech, the balance sheets of the IMFI/BMTs would look like [Table 6](#) with even stronger liabilities adding fintech investment using mudharabah muqayyadah contract and better cash *waqf* collection.

Integrated Islamic commercial and social finance. IFI should not only deal with ICF but should also deal with ISF to form IICSF as mentioned by [Ascarya \(2017\)](#), including Islamic banks, Islamic rural banks and IMFI/BMTs. The IICSF would make IFIs and IMFI/BMTs adopt holistic Islamic finance integrating ICF and ISF in one institution enabling them to provide financial services to a wider range of customers, including the poor, near-poor, MSEs and medium and large enterprises (MLEs), to provide Islamic social services to the poor, near-poor and MSEs, to develop social *waqf*, productive *waqf* and integrated social-productive *waqf*, to improve the well-being of the society. The IICSF would also be able to



Source: Author

**Figure 7.**  
Adoption of fintech  
by the Islamic  
microfinance  
institution

Assets	Liabilities
Cash	<i>Wadiah/Mudharabah</i> savings deposit
Bank deposits	<i>Mudharabah</i> investment deposit
Receivables ( <i>Murabahah</i> , <i>Qardh</i> , etc.)	Fintech investment
Financing ( <i>Mudharabah</i> , <i>Musharakah</i> , etc.)	Long-term <i>waqf</i> investment
Long-term investment	<i>Waqf</i> capital
Fixed assets	Capital

Source: Author

**Table 6.**  
The balance sheets of  
IMFI/BMT after  
adopting micro-  
fintech



participate in the achievement of sustainable development goals, comprising of economic, social and environmental goals, which could not be done by commercial financial institutions.

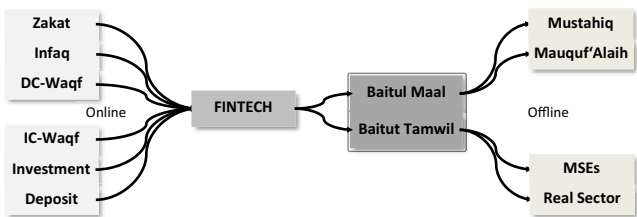
The adoption of IICSF and micro-fintech by IMFI/BMT, which consists of ISF and P2P social in Baitul Maal as well as ICF and P2P financing in Baitut Tamwil, is illustrated in Figure 8. This model would be able to participate in poverty alleviation, MSEs development, improving wellbeing, as well as increase holistic financial inclusion, combining social inclusion and financial inclusion (Ascarya, 2017).

Discussion

Crisis management from conventional and IEF perspectives, both address health, household, business and financial sectors, but with a different approach. Conventional approach mostly depends on government support (IMF, 2020) and debt, if needed (Hidayat et al., 2020), which potentially leads to another problem of the debt crisis for emerging countries which was already prevalent among OIC countries in the pre-COVID crisis.

Meanwhile, the Islamic approach combines ISF (especially zakat, infaq and waqf collected from the Muslims) and government support, if needed (Sadeq, 1997; Ascarya, 2017; Al-Haritsi, 2015). Giving to help fellow Muslims is obligatory (in case of zakat) and encouraged (in case of infaq and waqf), while government must always maintain a surplus in case of difficult times (Al-Qur'an Surah Yusuf [12: 41–60]). Priority of assistance should first be given to the poor and needy, as well as MSMEs as ISF is primarily designed to help them. These roles of ISF in Covid-19 health and economic recovery have been confirmed by, among others, AbdulKareem et al. (2021), Nik Azman et al. (2021) and Haji-Othman et al. (2020).

When the Covid-19 outbreak spreads in a certain area, lockdown is the recommended policy. According to Surico and Galeotti (2020), at the beginning of its emergence, with the rule of physical distancing or tightening and restriction of other community activities, this pandemic gave a shock to the supply side of the economy, so AS shifted from AS<sub>0</sub> to AS<sub>1</sub> that caused the decrease in production Q. Then with the stay-at-home atmosphere, consumers will only make purchases of basic needs or necessary items as long as it is done immediately so it has an impact on the demand side, where AD shifts from AD<sub>0</sub> to AD<sub>1</sub> and production decreases from Q<sub>0</sub> to Q<sub>1</sub> (see Figure 9, left). Due to the uncertainty of the continuation of the pandemic, economic policies will be taken to reduce the impact of the

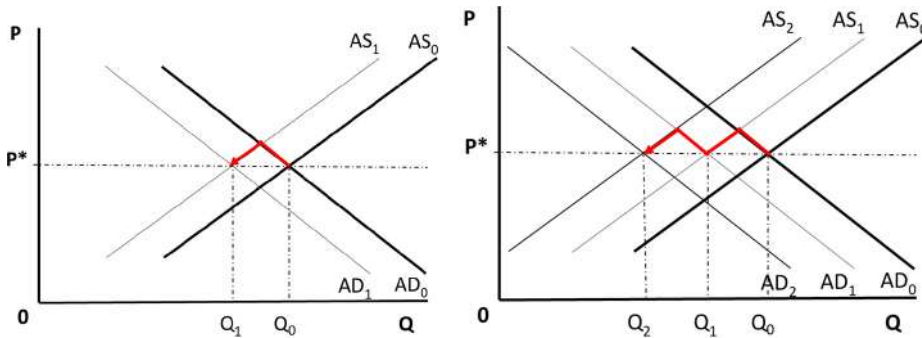


**Figure 8.**  
Adoption of IICSF  
and micro-fintech by  
the Islamic  
microfinance  
institution

**Notes:** DC-Waqf = direct cash waqf, where the cash waqf would be directly used to finance social waqf, productive waqf or integrated social-productive waqf; IC-waqf = indirect cash waqf, where the cash waqf should be invested in productive waqf, while the profits could be used to finance social programs

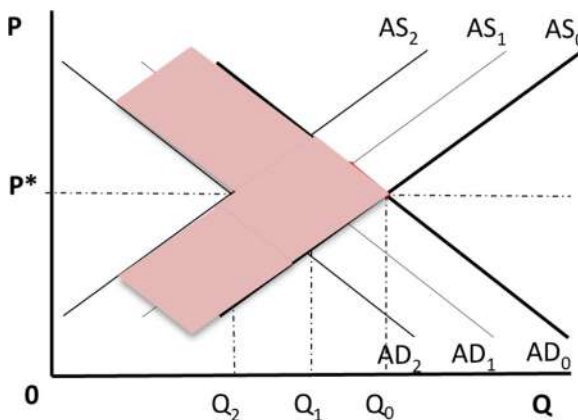
pandemic, most workers will lose income especially in the informal sectors, tourism sectors, industrial sectors and others. Companies or entrepreneurs, especially those who depend heavily on cash flow, experience liquidity limitations to fulfill their obligations to third parties. Under the law of supply and demand, a decrease in demand due to the stay-at-home program will, in turn, trigger a decrease in the amount of production further by shifting  $AS_1$  to  $AS_2$ . And so on, the reaction occurs in the decrease of demand, so the  $AD_1$  curve shifts to  $AD_2$  and production decreases further from  $Q_1$  to  $Q_2$  (see Figure 9, right).

Furthermore, this chain of economic decline shows that the disaster caused by the Covid-19 virus to the economy not only caused a (large) downturn to real economic fundamentals but also undermined the smoothness of market mechanisms and formed a kind of “barrier wall” between demand and supply. Furthermore, it caused a chain reaction toward the decline in the real economy. A contraction in supply, which led to a contraction in demand, ultimately eliminates the economic surplus (the red-shaded area in the chart on the lower side) (Figure 10).



Source: Surico and Galeotti (2020), modified by authors

**Figure 9.**  
Curve of *supply* and  
*demand* shift due to  
Covid-19



Source: Surico and Galeotti (2020), modified by authors

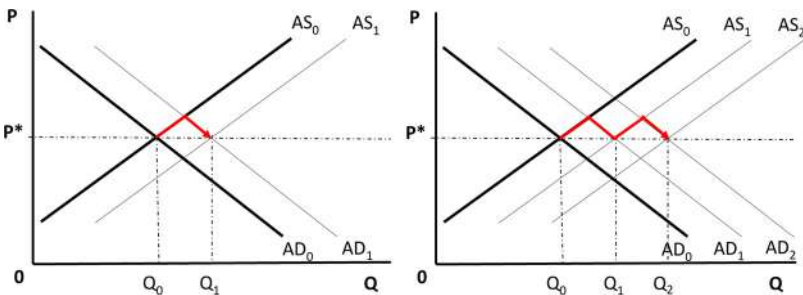
**Figure 10.**  
Curve of further  
economic impact due  
to Covid-19

Meanwhile, the policy needed for economic recovery is the one that could reverse the economic surplus destruction. When mustahiq who receive zakat already has the ability to spend wealth to meet their basic needs, then this condition would cause the demand curve to shift to the right from  $AD_0$  to  $AD_1$ . On the other hand, the increase in demand would be matched by an increase in supply and muzakki who have a surplus of assets would be motivated to invest those assets in the real sector to meet the increased demand, hence the supply of goods and services will increase and the supply curve would move to the right, from  $AS_0$  to  $AS_1$ .

Then, the continuous payment of zakat and disbursement would make the demand curve continue to shift to the right from  $AD_1$  to  $AD_2$ . This would take place continuously. Similarly, the supply side would also move to the right to meet the increased demand, from  $AS_1$  to  $AS_2$ , (Figure 11) and continue to shift to the right. In the end, a continuous movement of the demand and supply sides to the right would gradually increase GDP or per capita GDP which would lead to improved welfare and prosperity of the society and decrease the inequality gap.

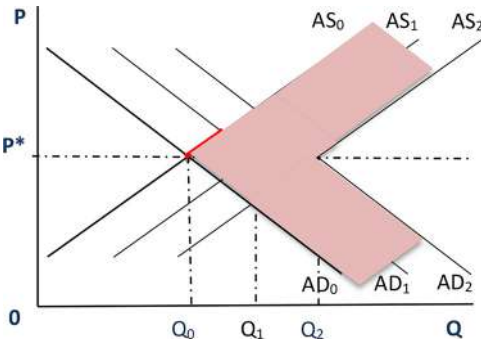
Furthermore, MSEs would be restarted, cranked up and continuously expand to meet the demand spike, as the wall between demand and supply has been circumvented by digital markets (see Figure 11, right). The increasing demand and supply of goods and services would gradually accumulate an economic surplus, previously diminished by the crisis, accelerating economic recovery (Figure 12). Figure 12 is the exact opposite of Figure 10, as

**Figure 11.**  
ZISWAF intervention  
in demand and  
supply curve



Source: Authors

**Figure 12.**  
Final condition of the  
economy with Islamic  
social finance  
intervention



Source: Authors

the socio-economic development process by ISF instruments depicted in Figures 11 and 12 would reverse the economic destruction process depicted in Figures 9 and 10. Moreover, poverty would be reduced, unemployment would decrease, welfare would increase and the equitable distribution of income and wealth would be improved.

## Conclusion and recommendation

### Conclusion

The IEF approach to deal with the Covid-19 health and economic crises combines ISF (representing the Muslim society's involvement) and government support, prioritizing the poor and needy as well as MSMEs, covering health, household, business and financial sectors. The main approach combines Ummar bin Khattab crisis management, poverty alleviation and inequality reduction, as well as IICSF.

The proposed specific programs could include:

- save lives, including medical assistance and health-care *waqf*;
- save households, including social safety net and graduation program;
- save businesses, including financial assistance and business assistance; and
- save financial institutions, including financial assistance and IICSF.

All of these programs should be specifically targeted to the poor, needy and near poor that are increasing in numbers, MSEs that comprise 99.9% enterprises and 93.9% employment in Indonesia, as well as CMFI/IMFI, especially BMT that adopt IICSF.

### Recommendation

The collection and management of zakat, infaq and *waqf* must be enhanced to be able to realize the high potentials of zakat, infaq and *waqf*, to be able to optimally use these ISF instruments to help solve various problems impacted by the pandemic by saving lives, saving households, saving MSEs and saving financial institutions, especially IMFI, including BMTs. Zakat should become compulsory for rich Muslims (*muzakki*) to pay, which could be integrated with the tax system so that the high potential of zakat can be realized. The authority of zakat and *waqf*, badan amil zakat national and badan wakaf Indonesia, should be empowered and centralized (similar to financial services authority) to be able to effectively enforce the law and regulation on zakat and *waqf*.

On a practical level, the mosques should be empowered to establish Baitul Maal managing zakat, infaq and *waqf* professionally to be able to help their surrounding communities, especially the poor, near-poor and MSEs in times of difficulties such as this pandemic crisis. The mosque Baitul Maal could become the partner of zakat/*waqf* institutions to be gradually able to manage zakat, infaq and *waqf* professionally.

IFI, especially IMFI and BMT must gradually reform their business models to manage cash *waqf*, to gradually adopt fintech and to gradually adopt IICSF to be empowered to help their surrounding communities improving their wellbeing sustainably.

Moreover, further research should be conducted using various quasi qualitative methods such as SEM, analytic network process and strategic assumption surfacing and testing, to sharpen the current study. In addition, further studies using quantitative methods are also needed to investigate empirically the effectiveness of ISF instruments in resolving the problems in the community.

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### Further reading

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