

A Qualitative Assessment of Islamic Social Finance and Village Funds on the Poverty Level during the Covid-19 Pandemic

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Abstract

This study aims to examine the role of Islamic social finance funds i.e. Zakat, Infaq, Shadaqah, Waqf, and village funds on the poor's financial viability during the Covid-19 pandemic. The study employs a qualitative method. Data collection in this study was obtained from field observations and in-depth interviews with informants. The informants were classified into three categories: government representatives, Islamic social finance experts, and the recipients of funds in Bogor Regency. This research uses Miles & Huberman's qualitative data analysis technique. This study shows that Islamic social funds and village funds impact the poverty level of the poor impartially. However, Islamic social finance and village funds could assist the poor's financial viability and provide capital for business during the pandemic. To have an impactful program, the experts suggested an integrated scheme of institutional collaboration and community consolidation.

Keywords: Islamic Social Finance, Village Fund, Poverty, and financial viability

Introduction

Covid-19 is an acronym for Coronavirus Disease of 2019 as formally announced by the World Health Organization (WHO) on February 11, 2020 (Bhandari, 2020). Covid-19 appeared in Wuhan, China, and quickly spread everywhere around the world, affecting millions of people, and causing thousands of deaths (Demir, 2020). In March 2020, the WHO declared Covid-19 as a pandemic (Blake, 2020). It reached more than 200 countries and consequently affected global economic growth that had never been experienced in about a century (Jackson, 2020). The Covid-19 pandemic has not only caused a health crisis but has also caused an economic crisis in affected countries. The initial response endorsed by the WHO when Covid-19 spreads to a country is a lockdown (Al-Haritsi, 2015).

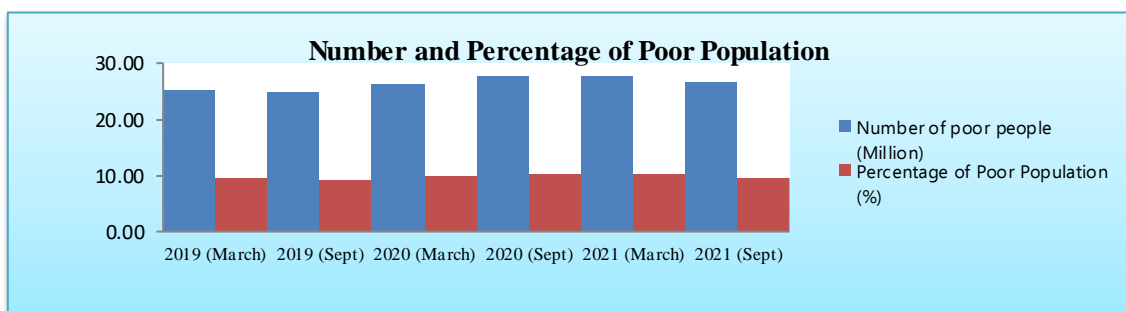
Since the first announcement of Covid-19 cases in March 2020, the Indonesian government reported various cases have continued to fluctuate and decline to reach 4.343.185 people from 2020 to 2022 (Covid-19, 2022). From the current conditions, it can be seen clearly that the living conditions of the Indonesian people have not fully recovered as they were before the pandemic. The Indonesian economy has recorded a crisis since the second quarter of 2020 (Indonesia K. K., 2021). Two things are the main reasons behind this crisis. First, more and more populations are infected with Covid-19 (including the productive population). This situation reduces the ability of households to meet their daily needs, especially for households directly affected by the Covid-19 pandemic. Second, the social restrictions imposed by the government have prevented the economy from operating at 100% of its optimal capacity because some businesses had to be closed and some workers had to be laid off (Indonesia K. K., 2021).



Source: Central Statistics Agency (BPS); Data Processed
 Figure 1. Economy Growth 2019-2021

The current trend of Covid-19 cases is showing a decline, and this has had a positive impact on Indonesia's economic growth. Based on the Central Statistics Agency (BPS) report, the Indonesian economy grew positively in the third quarter of 2021 by 3.51 percent (YoY) as shown in the chart below. The economic recovery was driven by improvements in supply and demand. The increase in household and government consumption and investment was able to encourage economic growth at a positive level when compared to the economic growth in the third quarter of 2020 which was -3.49 percent. This momentum is part of the government's success in controlling the spread of Covid-19 and preventing the increase in poverty rates (BPS B., 2021).

Poverty is a low standard of living with a deficiency at the material level compared to the generally accepted standard of living in a society. In measuring poverty, the Central Statistics Agency (BPS) uses the concept of a person's ability to meet basic needs (Suliswanto, 2010). According to data obtained from the Central Statistics Agency, poverty in Indonesia has an upward and downward trend, starting from 2011-2021.



Source: Processed from National Socio-Economic Survey Data
 Figure 2. Number and Percentage of Poor Population

In general, in the period March 2011–September 2021, the poverty rate in Indonesia decreased, both in terms of numbers and percentages, except in September 2013, March 2015, March 2020, and September 2020. The increase in the number and percentage of poor people in the September 2013 period and March 2015 was triggered by the increase in the

price of basic goods because of the increase in the price of fuel oil. Meanwhile, the increase in the number and percentage of poor people in the period March 2020 and September 2020 was due to the Covid-19 pandemic that hit Indonesia (BPS, 2022).

Poverty in Indonesia occurs in urban and regional areas, but the percentage and number of poor people in rural areas is relatively higher than in urban areas (izzati, 2021). The percentage and number of poor people in rural areas is relatively higher than in urban areas. According to data from a national economic survey that put below. The data was collected from September 2020 to September 2021. National socio-economic survey data shows that the percentage of poverty in rural areas is higher.

Table 1. Number and Percentage of Poor Population by Region

Year/Period	Urban (%)	Rural (%)	Total
Poverty Depth Index (P1)			
September 2020	1,26	2,39	1,75
March 2021	1,29	2,27	1,71
September 2021	1,23	2,25	1,67
Poverty Severity Index (P2)			
September 2020	0,31	0,68	0,47
March 2021	0,31	0,57	0,42
September 2021	0,29	0,59	0,42

Source: Compiled from data from the National Socio-Economic Survey September 2020, and March 2021, September 2021

The high level of poverty in the area makes the development of the area quite slow down the flow of the economy in the area. This is also worsened by the pandemic so rural communities lack supplies from urban areas, the economy in urban areas is an important factor for economic growth in the regions (Bogor P. R., 2021).

The impact of the economic crisis that occurred during this pandemic needs to be resolved and a settlement is needed which is expected to provide a solution so that the poverty rate can be reduced. In Islam, there is an instrument that can help overcome the problem of poverty, namely zakat (Murobbi & Usman, 2021). Islam makes zakat an instrument to ensure the balance of income in society. This means, that not everyone can brawl in the economic arena because some of them are not capable, both indigent and poor. Expenditures from zakat are minimal expenditures to make income distribution more even. With zakat, the needy and poor can play a role in their lives, carrying out their obligations to Allah. With zakat, people who do not have also feel that they are part of society. Poor people also feel appreciated because there is empathy from people who have more wealth.

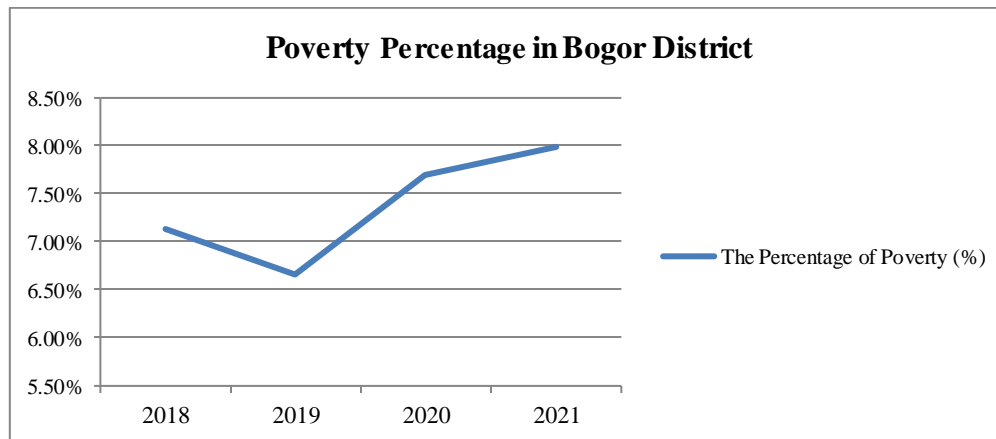
While most economies and finance struggle in times of Covid-19 health and economic crisis, Islamic social finance (ISF), especially *zakat*, *infaq*, and *waqf*, has increasingly contributed to helping affected parties. For example, Indonesia's zakat collection was predicted to increase by 32% during the Covid-19 pandemic in 2021 (BAZNAS, 2021). The National Amil Zakat Agency (BAZNAS) reported that in 2019 zakat before the Covid-19 pandemic was IDR 248,342,677,327 and in 2020 BAZNAS reported the collection of zakat funds of IDR 305,347,256,942. The National Amil Zakat Agency reported that in 2019 *infaq* and *shadaqah* before the pandemic there were IDR 41,548,746,869 and in 2020 BAZNAS reported the collection of zakat funds of IDR 76,346,790,474.

The government's efforts to continue to reduce poverty are inseparable from various policies related to both macro and microeconomics (Indonesia K. S., 2020). At the macroeconomic level, the government continues to encourage economic growth, maintain price stabilization, and maintain job opportunities. The government also continues to develop regional infrastructure with village funds so that activities in the area can be more advanced. Concerning microeconomics, the government provides direct assistance in terms of food, cash subsidies, and health insurance contributions for the poor (Sigit & Kosasih, 2020).

Village funds are funds allocated in the APBN that are intended for villages, transferred through the Regency/City Regional Revenue and Expenditure Budget. Village funds are used to finance government administration, development implementation, community development, and community empowerment. The Ministry of Finance stated that the distribution of village funds had 5 objectives, namely, first, to improve public services in villages; second, alleviate poverty; third, advance the village economy; fourth, overcome the development gap between villages and fifth, strengthening rural communities as development subjects. Thus, one of the objectives of distributing village funds is to reduce poverty levels (Sigit & Kosasih, 2020).

In the economic field, Islamic social finance i.e. *zakat*, *infaq*, *shadaqah*, and *waqf* can play a substantial role in preventing the accumulation of wealth in only a few people and obliging the rich to distribute their wealth to a group of the poor and needy. Thus, Islamic social finance also acts as a potential source of funds to overcome poverty. Islamic Social finance can also function as working capital for the poor to be able to create jobs, so that they can earn and fulfill their daily needs (Murobbi & Usman, 2021). Meanwhile, the Village Fund also has the aim of increasing economic activity and the quality of life of rural communities. The provision of village funds gives authority to the village government to carry out government activities and operations that are oriented towards these goals. The provision of village funds is required by the village government to prioritize community empowerment and development. Village funds might improve the quality of life of the community and be able to alleviate poverty. The village funds can be used for various community empowerment activity programs such as training and fostering small businesses, developing community agriculture and animal husbandry, or forming village owned enterprises as an improvement in community business units. Islamic social finance funds and village funds both have the aim of empowering the community and building the community's economy. In other words, the correlation between Islamic social finance funds and village funds is the social aspect.

With the large level of poverty in Indonesia and the ongoing Covid-19 pandemic, the researcher wants to analyze the level at a regional scale so that this research can be more focused and more in-depth. So, the area that the author chooses is the Bogor district. Bogor Regency is one of the regencies in West Java, this area is quite close to urban areas but also has many rural areas. By looking at data from the Bogor Regency Central Statistics Agency, Bogor Regency is an area that has experienced an increase in poverty during the time span of this pandemic. As seen in the chart below, the poverty rate before the pandemic decreased from 7.14% to 6.66%. Then in the early year of the Covid-19 outbreak, poverty in the Bogor district again rose from 6.66% to 7.69% in 2020 and this increase continued in 2021 to reach 7.99% (BPS B. P., 2021).



Source: Processed from Central Statistics Agency (BPS)

Figure 3. Poverty Percentage in Bogor District

Based on the previous discussion, it is interesting to delve into a deep investigation of the impact of Islamic social finance and village funds on the poverty level. This study focuses on Bogor district as it was one of the most vulnerable areas in West Java. According to the Central Statistical Agency, Bogor was the second place in the highest poverty level in west java.

Literature Review

Islamic Social Finance was introduced by the Islamic Research and Training Institute. it was initiated by the 2008 global economic crisis. After the 2008 global economic crisis, the World Bank set up the financial sector assessment program known as FSAP. FSAP is a framework to assess, and evaluate the stability of the financial system, build an early warning system, and anticipate future crises. The Islamic Research and Training Institute as part of the Islamic Development Bank Group was developing the financial sector assessment program or step for Islamic finance. Several criteria were developed to analyze the health level of the Islamic financial system and various indicators were made as part of the assessment. If the Islamic research and training institute wants to develop an economic system or financial system that is free from the usury system, then zakat and waqf must not be ignored, it must be within the system. Allah almighty has mentioned clearly in Qur'an surah al-Baqarah verse 276 that the anti of *riba* is *shadaqah, infaq, zakat*. After the expert discussion in Jeddah which was held in December 2012, the idea was accepted and it was called Islamic Social Finance (Beik, 2020).

The Islamic social finance sector includes Islamic institutions based on philanthropy such as *zakat, sadaqah, infaq*, and cooperation like *qard/loan* and Islamic insurance/*takaful* (Relief, 2018). It also includes social investments through sukuk (bonds), and non-profit Islamic microfinance organisations that aim to reduce poverty by giving out *qardh hasan* (benevolent loan) (Relief, 2018).

Village funds are budgets originating from the APBN which are specifically intended for villages to carry out development and community empowerment through City/Regency APBD funds. According to Government Regulation Number 60 of 2014 Village Funds are funds sourced from the State Revenue and Expenditure Budget designated for Villages which are transferred through the Regency/City Regional Revenue and Expenditure Budget and are used to finance government administration, implementation of development, community development, and Public empowerment (djpb.kemenkeu, 2020).

Poverty is a condition of economic inability to meet the standard of living of the average community in an area. This condition of disability is characterized by the low ability of income to meet basic needs in the form of food, clothing, and housing. This low-income ability will also have an impact on reducing the ability to meet the average standard of living such as public health standards and education standards. The condition of the people who are called poor can be known based on the ability of income to meet living standards (Todaro, 1997). In principle, the standard of living in a society is not only the fulfillment of the need for food but also the fulfillment of the need for health and education. A decent place to live or settle is one of the standards of living or the standard of community welfare in an area.

Research Method

This research uses qualitative research methods. Qualitative research is research that produces descriptive data in the form of written or spoken words from people and observable behavior (Moleong, 2018). Qualitative data are data in the form of words. Examples of qualitative data are interview notes, transcripts of focus groups, answers to open-ended questions, transcriptions of video recordings, accounts of experiences with a product on the Internet, news articles, etc (Sekaran & Bougie, 2016). The data analysis technique used by the author is a qualitative data analysis technique introduced by Miles & Huberman. This analysis technique consists of three parts, namely: data reduction, data presentation, conclusion /verification (Miles & Huberman, 1994).

The informant of this study was classified into three categories: a) government representatives from which BAZNAS and BWI were selected, b) Islamic social finance expert consisting of Societies empowerment expert and village funds manager, and c) the recipient of Islamic social funds, and the recipients of village funds. Overall the informants involved in the study were six persons.

Result and Discussion

Islamic social finance funds are social assistance that comes from Islamic social institutions and social funds for the Muslim community. This Islamic social assistance fund is used to help the community, especially Muslims, and in general to all communities to meet their needs. In the process, Islamic social funds such as *zakat*, *infaq*, *shadaqah*, and *waqf* are collected at Islamic social fund collection institutions such as BAZNAS and the Indonesian Waqf Board.

During the COVID-19 pandemic that occurred in Indonesia, Islamic social funds became one of the community assistance funds and community empowerment. In its development during the pandemic, it experienced a decline, and this became an obstacle to helping the wider community. Experts from government representatives believe that Islamic social finance funds such as *zakat*, *infaq*, *sadaqah* and *waqf* would assist the poor on the side of financial aid and viability to survive during Covid-19 pandemic. They showed that the recipients of those funds seemed to be grateful when they received those funds. The assistance was not stopped only for necessities, but also to provide capital to endure their business during the tight period of Covid-19.

Recipients of Islamic social fund assistance also stated that they used the assistance as business capital as well as for their daily needs. This is in line with what IMH said that this assistance only affects the necessities of life, not to the point of increasing their economy and

eliminating poverty. With the needs of the community that can be met even if it is only limited to helping their needs, they can survive during this Covid-19 pandemic. The influence given by Islamic social funds at this time is not so great, but from Islamic social funds, the community can meet their daily needs. This could answer the formulation of the first problem, namely whether the influence of Islamic social funds on poverty levels during the Covid-19 pandemic, Islamic social finance funds partially affect to the community.

Village assistance funds are government assistance funds that are budgeted from the APBN with the fortune as disaster mitigation. In its development, village fund assistance in the form of direct cash assistance was allocated at the beginning of the Covid-19 pandemic. Village assistance funds target rural communities which are classified for recipients. In 2022, Presidential Regulation No. 104 states that the limit on the allocation of village funds for Covid assistance is 40%.

In the village fund there is a poverty alleviation program as stated by ZN "This BLT is part of disaster mitigation, especially poverty". but at this time the assistance program from village funds became disaster assistance which not only focused on assistance in cash or better known as direct cash assistance (BLT) but could also take the form of health assistance programs such as vaccinations, etc.

Recipients of village fund assistance stated that they received the assistance from village officials' recommendations. They use this village fund assistance to meet their basic needs, and if there is more, they use it for other purposes. With the needs being met and helping the community, it can be concluded that village assistance funds influence the community, so this village fund is not only intended for disaster mitigation but can also be used as community empowerment assistance. This answers the second problem formulation that village funds partially affect poverty levels, although not too significantly because the portion of community empowerment from village funds is also allocated for community assistance during the Covid-19 pandemic.

Recommendations from AIA informants that the community needs to be assisted with integrated programs and other social institutions are interconnected. but by looking at the observation data and the data in the field, it is found that there are so many programs that are related, but not optimal. As stated by an informant of Islamic social finance funds some of their program focuses are social education and information. This has helped each other in providing maximum service to the community, but with the various problems that exist, it has not had such a maximum impact. The integrated program must also look at the previous programs that were already placed in the system. Consequently, the new program does not repeat the same mistakes. We should also maximize existing programs or develop them so that there is no need for new programs, but we can fix existing program problems and provide development.

Apart from external factors that have made social programs less than optimal, public financial literacy has also experienced a decline. People who do not understand financial literacy, especially in the social aspect, will be less likely to contribute to strengthening these social programs. The experience of the community in social finance and its problems will provide a different view on the development of social assistance. Another thing that can affect this social assistance is workers from social institutions that regulate social assistance and finance. With the rise of cases of mismanagement in social institutions and social institutions,

the program becomes less attractive and can also be misused. As a result, we need to know about financial literacy and others.

Considering the data that has been obtained from informants as well as field data, recommendations or innovations that can be done are to develop existing programs and make programs that are better and integrated with other programs. Communication between social institutions is also expected to be better and can achieve its targets. In addition, community programs and officers must be given sufficient knowledge to be able to understand and carry out their roles.

Conclusion

Based on the results of the research that has been done, several conclusions were obtained as follows:

1. Islamic social finance funds partially affect the level of poverty, although it is not significant because the empowerment of Islamic social finance funds can help the community meet their basic needs and financial viability.
2. Village funds affect the poverty level, although not significantly because the empowerment of new village funds can help the community meet their basic needs, for poverty it is not too significant. This village fund assistance is given to communities classified by the village government.
3. Recommendations from the experts were to develop existing programs and establish a new program that integrated institutional collaboration and community engagement. Communication between social institutions is also expected to be better and can achieve its targets. In addition, community programs and officers must be given sufficient knowledge to be able to understand and carry out their roles.

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