

## Surviving amidst pandemic: Indonesian Islamic microfinance experience



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### ABSTRACT

The purpose of this study is to investigate the Indonesian Islamic microfinance institutions' (IMFIs) condition, and their strategies to survive and to explore their contribution during the pandemic by combining and synthesizing the result of all previous studies. To achieve that goal, this research uses a systematic literature review method by mining all data available which in addition makes this paper different from other previous works. This enables us to provide a deeper, broader, and more comprehensive understanding of the topic. Google Scholar is set as the database for three reasons. This research found that Indonesian IMFIs are affected by the pandemic and classified into three categories based on the severity of the impact: Severely hit, affected yet stable, and IMFIs that grow during the pandemic. Indonesian IMFIs had in total 6 types of strategies to survive during the pandemic: Active and passive approaches, common and innovative schemes, as well as persuasive and administrative activities. The study also found the contributions of Indonesian IMFIs during the pandemic and classified them into two categories financial and non-financial contributions. This research is unique by delivering comprehensive non-segregated data and well-synthesized condition of IMFIs in entire Indonesia during the pandemic. The results of this study give policymakers a fundamental ground to develop proper policy in fostering IMFIs after the pandemic. IMFI practitioners should also take benefit from the results by mirroring, modifying, or improving the strategies to face future economic turbulences.

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### 1. Introduction

Since December 2019, the world has been hit by an outbreak of the Corona disease (COVID-19) which is spreading rapidly and has been declared an international emergency by WHO (AbdelMaksoud et al., 2021). The impact of the COVID-19 pandemic has been clearly felt and not only has an impact on public health but also affects economic conditions (Fajri et al., 2022; Zakiy et al., 2022; Januri et al., 2022).

The BPS (Central Bureau of Statistics) survey in 2020 found that Indonesia's economic growth in the fourth quarter of 2020 experienced a contraction of -2.07%. This data explains that the country's economy as a whole is declining. The current economic recession is mainly caused by the

Movement Restriction policy in order to maintain public health conditions, which also has implications for the stability of financial institutions. Many financial institutions operate sub-optimally, become sluggish, and are full of worries about providing financing (Nalini, 2021).

Based on Central Bank and Financial Service Authority's data, the number of non-performing financing (NPF) rose exponentially from 2.7% in early 2020 to 3.2% in early 2021, where previously the NPF was only stagnant at 2.5%. The government responded by introducing new regulation number 11/POJK.03/2020 by providing relief in the form of financing restructuring.

The increasing NPF has impacts on all financial institutions, including microfinance institutions. Indonesia does have a different landscape from other countries where the upper middle segment is served by banks while the lower middle segment is served by microfinance institutions (Hasan, 2009). Microfinance Institutions in Indonesia are run by Cooperatives and Rural Banks whereas Islamic Microfinance Institutions (IMFIs) are run by Islamic Cooperatives and also Baitul Mal wa Tamwil (BMT).

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Banks have different characteristics from IMFIs. In theory, the presence of LKMS is to embrace the non-bankable parties in order to continue to have access to financial sources. Non-bankable parties, of course, consist of small communities that need quick liquidity as well as MSMEs that need business capital but do not meet bank requirements. On the other hand, banks serve large corporations and retailers that are still in the bankable category (Nasution and Kamal, 2021).

With the distinctive characteristics of IMFIs, the problems faced during the pandemic are many times bigger than those of banks. First, in terms of customers, during the pandemic, many of them withdraw their savings, leaving IMFIs struggling to meet their liquidity needs. Second, in terms of recipients of financing facilities, they are small communities or MSMEs who are affected by COVID-19 so they automatically experience difficulties in meeting the installment or any type of payments to IMFIs. While on one side there is an outflow of money, we also find on the other side that there is no inflow of money. This situation will automatically force IMFIs into a despairing situation of liquidity and even fulfilling their daily operational expenses.

IMFIs' problem has been in the spotlight of academics during the pandemic. Many studies have been produced. For example, Sartika et al. (2021) and Hidayanti et al. (2021) examined liquidity risk management, financial health, how to handle non-performing financing, and capital management in BMT during the pandemic. Other international research includes one conducted by Maikabara et al. (2021), Hassan et al. (2021), Umar et al. (2021), and Muthoifin (2021). The whole researches mentioned are either theoretical or partial because it uses a case study approach where it takes one or no more than five IMFIs as the subject of research. So far can't find research that covers the entire of Indonesia. The previous studies all are limited to a specific geographical area that hinders readers or even regulators to reap benefits from the research results. Of course, to see a complete picture of Indonesian IMFIs during the pandemic, a more comprehensive approach is needed.

This research tries to bring a complete picture of Indonesian IMFIs' condition during the pandemic. This includes how severe the effect of the pandemic is on Indonesian IMFIs and the strategies applied by all those IMFIs to handle the NPF while maintaining their stability during the pandemic. To complete the research, this study also tries to discover whether IMFIs are still able to steadily contribute towards economic recovery by doing their financing activities during the pandemic. The research is conducted with the goal to give a comprehensive situation of Indonesian IMFIs. Therefore, this research uses all previous pieces of literature as its source of data using a systematic literature review model. By presenting a complete description of Indonesian IMFIs, academicians will be able to consider better future research while those practitioners can conclude how other IMFIs are suffering or even

surviving. Lastly, regulators can take appropriate measures for any unexpected similar event in the future. The next part of this research will elaborate on previous literature reviews and the proceeded by theories related to the topics. Details of the methodology will be discussed afterward. Subsequently, the result of the research will be delivered and then followed by a discussion and conclusion in the paper.

## 2. Literature review

### 2.1. Islamic microfinance institutions

Microfinance Institution is the microform of a bank. While a bank itself is defined as an entity in the financial sector in charge of withdrawing money and distributing it to the public, the Law of Banking 10/1998 and Minister of Finance Decree no. 792/1990 stated similar thing where the financial institution is defined as business entities that carry out activities in the financial sector by collecting money from the public and channeling the money back to the community. Under that definition, it can be concluded that in general Microfinance Institutions which has the exact function of a bank acting as a financial intermediary or intermediary institution. This institution links surplus units and deficit units. Surplus units are parties who put their money in financial institutions. It is said to be a surplus unit because it follows the economic theory which states that those who make savings are those who have idle funds that are not used after all their consumption needs have been met. The deficit unit is the party that borrows or receives financing facilities from the bank. It is said to be a deficit because the money it has is not sufficient to cover all its needs, both consumptive and productive needs (Gurley and Shaw, 1955).

It is true that several main books related to financial institutions in Indonesia only list one type of IMFI which is Baitul Mal wa Tamwil (BMT). The other main books do not explicitly mention the existence of LKMS, but only mention the outline of Islamic banks and cooperatives. However, if we look at Indonesia's financial infrastructure, we can find various types of Islamic Microfinance Institutions including BMTs and Islamic Cooperatives Institutions (KSPPS which was formerly known as KJKS). BMT is a financial institution that carries out social and commercial functions with a market segmentation focused on small businesses and lower-class people who cannot get access to banks. Islamic Cooperative Institutions are financial institutions that operate with the typical cooperative principle which is a form of a joint effort for all its members to raise the cooperation into a better stage. In addition to that, Islamic Cooperative Institutions uses sharia rules in their philosophy and operations that it is different from their conventional counterpart. In general, both BMT and Islamic Cooperatives have the same things in common the philosophy and operations must follow sharia

guidance. In addition, both also have social and commercial business cores. However, all cooperatives and the majority of BMTs are under the supervision of the Ministry of Cooperatives and SMEs while only a small portion of BMTs is under the supervision of the Financial Services Authority (OJK) or even only a business form of a social group.

## 2.2. IMFIs liquidity based on financing resources

Liquidity is the condition of a company related to its ability to meet various short-term and long-term obligations. Specifically in the context of financial institutions, [Le and Gregoriou \(2020\)](#) said that liquidity is the ability to fulfill all forms of withdrawals made by customers and fulfill all maturing financial obligations. Included in financial obligations are all types of debt, regular operating expenses of the company, financial commitments, and various things that require the company to spend a certain amount of money to fulfill these obligations. Good liquidity management is needed to measure the ongoing financial condition of financial institutions as well as to examine funding requirements in different scenarios from best to worst.

Liquidity management involves estimating sources of funds and providing cash continuously for long- and short-term needs, for seasonal or regular needs. Broadly speaking, Indonesian IMFIs in the form of cooperatives have sources of funds that include own capital, member deposits (Third Party Funds), loan capital, and equity participation. Most of the IMFIs funds are obtained from its members (customers) which have characteristics such as ordinary savings or time deposits so that they have the risk of withdrawal by members (customers). Another source of funds comes from the margin on any sale contract or installments from any contract or product offered as a financing facility.

The liquidity related to the source and allocation of funds can be divided into three types of management: Fundraising management, fund usage management, and liquidity gaps ([Cornett et al., 2011](#)). Liquidity in terms of raising funds is seen from the floating rate level which consists of short-term fund-raising products. In terms of fund usage, liquidity is seen from the maturity of the contract model used, the majority of which are medium to long-term. The liquidity gap is seen from the difference between assets and liabilities, whether it is a positive gap where assets are greater than liabilities or vice versa.

## 2.3. IMFIs resilience in the pandemic period

Overall liquidity management is difficult for IMFIs to carry out under normal conditions. For example, to overcome liquidity in terms of raising funds, it is advisable to make an ATM for cash deposits or transfers between banks by digital book entry. Of course, this is not possible for IMFIs due to their nature and regulatory restriction. IMFIs, unlike a

bank, are prohibited to conduct any financial services pertaining to money movement such as using any debit or credit card product. Another example is for a negative liquidity gap, it is recommended that financial institutions seek loan funds from other institutions. IMFIs certainly cannot do this considering that there is no money market, either sharia or conventional, as a medium.

In the situation of economic recession or pandemic, banks experience real adverse effects, including withdrawals of money by customers if their money is not guaranteed by the lender of last resort ([Boyle et al., 2015](#)). The risk of withdrawing funds is also high when there is no good communication from the financial institution where customer funds are deposited. In addition, the amount of national expenditure that is part of the economic cycle has decreased dramatically ([Andersen et al., 2020](#)). The decrease in national growth means a small increase or even a decrease in the income of business revenue. It is important to note that more than 90% of business players in Indonesia are SMEs and thus are characterized by many types of constraints to accessing the financial pool ([Athief, 2019](#)). Thus, SMEs who suffered a lot during the pandemic will find their selves hard to generate revenue or get financial access in order to survive and pay their obligations. The fact that many SME players rely upon the use IMFIs services exacerbates the condition of IMFIs since it creates bad financing when the SMEs as IMFIs customers cannot fulfill their obligation. Therefore, maintaining liquidity is a hard task for IMFIs during the pandemic and any other financial recession.

## 3. Methodology

To get a broader idea regarding the condition of Islamic Microfinance Institutions in the midst of a pandemic, this study uses systematic literature review (SLR) method. [Snyder \(2019\)](#) defined SLR as a research methodology as well as a process for collecting a number of research works, identifying, analyzing data from the research that has been collected, and even conducting a critical study of the research data collected. SLR is considered an efficient way to summarize various pieces of literature in answering research questions posed by researchers ([Hassan, 2021](#)).

The selection of SLR as an analytical tool for this research is due to several factors. First, SLR is widely used in the field of economics in general ([Sang, 2022](#); [Avşar and Serin, 2021](#)) and also in various Islamic economic studies that specifically take a picture of conditions during the pandemic ([Rusydiana and As-Salafiyah, 2021](#)). There are also established researches using SLR that discuss the condition of Islamic Microfinance Institutions in general regardless of geographic boundaries or a certain time span ([Srisusilawati et al., 2021](#)). Second, SLR has been considered by researchers as a method that is more precise, transparent, and quite explicit in terms of its structure and systematics. Therefore, by

using this method, researchers can get more systematic results and find the right synthesis among numerous written research papers (Korber and McNaughton, 2017). Third, there are many studies using the literature review model yet due to the methodological approach, it only uses a limited number of pieces of literature that are most familiar to the researchers their selves. In other words, the data used for research is limited to only papers that are known in advance by the conductor of research. In the SLR methodology, researchers must carry out a sequential protocol that must state the inclusion and exclusion criteria so as to increase the depth of the discussion and on the other hand increase the breadth of the data by forcing researchers to examine studies outside the literature that is familiar to the researcher. The depth and breadth of this inclusion and exclusion protocol reduce the bias of the study results (Mallett et al., 2012).

To achieve precise SLR results, this study uses the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) protocol introduced by Liberati et al. (2009). In addition, this research sequentially also follows the methodology of Delle Foglie and Panetta (2020) who conducted research using the PRISMA model in 2 sequential stages. Following Delle Foglie and Panetta (2020), the stages carried out in this criterion are planning and execution.

In the planning step, the authors first define the topic which is the effect of the pandemic on

Indonesian IMFIs, strategies to handle bad financing, and IMFIs' contribution during the pandemic. Next, the authors define the database used which is Google Scholar for three reasons. First, a lot of research works in the form of a thesis are only registered in the campus repository. Such a repository is only indexed by Google and therefore can only be tracked systematically through Google Scholar. Second, studies with the aforementioned research questions are published more in Indonesian journals instead of in International journals. With the massive supervision by the Ministry of Higher Education, almost all Indonesian journals are indexed by Google Scholar. Third, using Google Scholar doesn't necessarily mean neglecting any other credible indexing machine. Instead, a lot of highly reputable journals are also indexed by Google Scholar. As for the keywords, the research uses two main keywords combined. The first is to reflect IMFIs, namely: "BMT," "KSPPS," "KJKS," and "Islamic Microfinance" and the second reflects COVID, namely: "COVID," "COVID-19," "pandemic," "pandemic" so in total there are approximately 16 keywords used.

In the execution step, this research conducts inclusion based on the aforementioned criteria and exclude any duplicates, irrelevant title and abstract, inaccessible articles, and irrelevant content. The data the processed through content analysis. The complete methodology process of the paper can be summarized in Fig. 1.

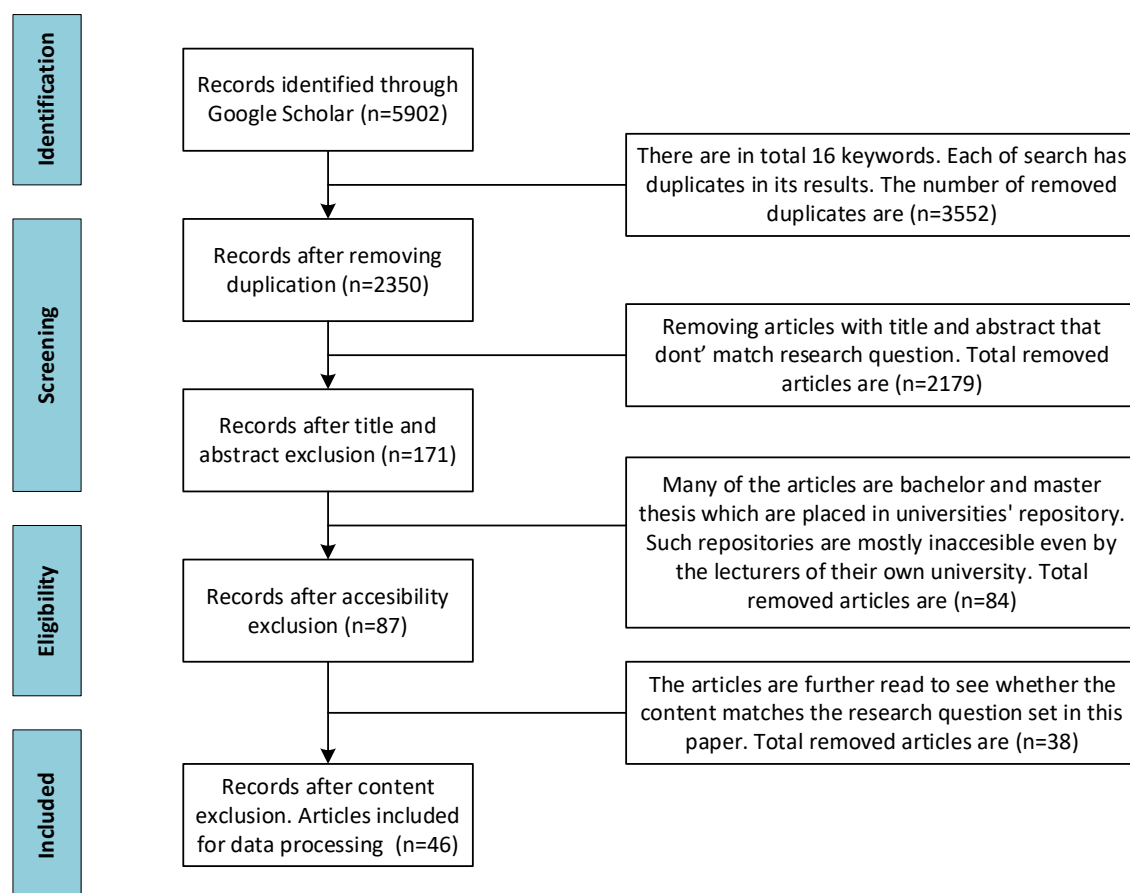


Fig. 1: Methodology process of the study



## 4. Results and discussion

The use of PRISMA to serve as the systematic literature review in this study brought us 48 pieces of literature as the main data to observe in the study. Table 1 gives the detail of the data.

### 4.1. Impact of the COVID-19 pandemic on Indonesian IMFI

The pandemic crisis has hit the financial sector severely. The crisis affects all elements of the financial industry from banks to microfinance institutions. However, the perceived impact of the pandemic crisis differs from one another. The literature has pointed there are at least three operational areas of Islamic finance institutions affected by the presence of the pandemic crisis namely, financing outreach, declining asset quality, and tightening profit margin. In general, there are

three types of pandemic effects on Indonesian IMFI (Safitri et al., 2021).

#### 4.1.1. Declining performance

IMFI are among the financial sectors that suffered the pain of the pandemic crisis. Indonesian IMFI have found a number of issues during the crisis such as the rising of NPF and the decline of profit in BMT Masalah Pasuruan (Aisyah et al., 2021). Similarly, BMT Makmur Sejahtera, BMT Amanah Indonesia, and BMT Adam have recorded a decreasing profit throughout the pandemic time followed by a weakening of other their financial performances (Herlangga, 2021; Masrul and Huda, 2021). Taking another form of difficulty during the COVID-19, BMT Bina Usaha has lost a few of its customers during the pandemic crisis caused by the instability of their financial conditions.

**Table 1:** Data processing

	Early identification	Duplicate	Abstract and title	Accessibility	Content
Included	5902				
Excluded		3552			
Remaining		2350			
Excluded			2179		
Remaining			171		
Excluded				87	
Remaining				84	
Excluded					38
Final Document					46

#### 4.1.2. Steady performance

The agility of a number of Indonesian IMFI leads them to a steady financial performance during the pandemic crisis. A number of pieces of literature stated that there are five among seven IMFI in Tangerang City have performed passably during the COVID-19 period assessed by their non-performing financing ratio, liquidity ratio, and profitability ratio (Aisyah et al., 2021). Other than those IMFI, several Indonesian IMFI have been performing steadily in other regions such as BMT Cahya Mentari, BMT Tumang, and BMT Kaliwungu. One of the key factors supporting the performance during the pandemic is their innovation and the variety of the products they offer (Billah, 2021).

#### 4.1.3. Increasing performance

Interestingly, there are some IMFI that performed better during the pandemic time with the decreasing number of their NPF and satisfactory financial performance. Among them are BMT Mekar Dakwah, BMT Al-Fath, BMT Syirkah and BMT Mandiri Jaya. These solid financial performances are derived from their robust regulation and team which take them to good adaptation during the crisis (Aisyah et al., 2021).

Looking at the current situation of Indonesian IMFI, it is suggested that IMFI need to have enough reserve funds to sustain their performances during the bearish period. Preventive steps in managing

risk also have a pivotal role in leading the sustainability of the industry. Other than the mentioned aspects, it can be inferred that a good strategy will bring IMFI to remain sustainable and pass through the crisis time safely (Safitri et al., 2021). The above results are based on the literature depicted in Table 2.

**Table 2:** Research works on IMFI performance during COVID-19

Reference	Number of IMFI
(Herlangga, 2021)	1-3
(Aisyah et al., 2021)	1-3
(Safitri et al., 2021)	4-10
(Billah, 2021)	1-3
(Masrul and Huda, 2021)	1-3

## 4.2. Survival strategies of IMFI

### 4.2.1. Active approach

Several IMFI make their best effort to make sure that their position of liquidity is safe. Thus, they do an attractive and active approach to communicating with customers. For example, some IMFI actively engage with customers, continuously making contact with them and even coming to the customers' business premises or houses to ask them about their condition during the pandemic (Debata et al., 2020). In addition, several other IMFI also actively send words of wisdom to the customer to encourage them to survive during the downturn of economics. On some occasions, those words of wisdom are usually

followed by information on their outstanding bill. The other IMFI while coming to customers' houses also did mapping regarding their newest financial condition, business prosperity during the pandemic, their level of collectability, and other data. This mapping will be used as a new database for IMFI in case they need to make financing relaxation or other policies (Suhartono and Tjahjono, 2021).

BMT's customers who are entrepreneurs get new markets for their products so that the number of sales remains stable in the midst of the pandemic. When the sale is stable, the repayment of financing to BMT will also be stable. Another BMT in Central Java even gives its customers the opportunity to open a new business by providing a complete business cart with a working capital of IDR 500k. The carts are rented out to customers under the IMBT scheme where customers pay IDR 100k per week 52 times. The IMBT process is provided without any complicated registration and didn't involve any collateral or any down payment (Alam et al., 2022).

#### 4.2.2. Passive approach

While some IMFI carry out active activities to help customers and ensure that IMFI get liquidity from smooth financing payments, most other IMFI only take a passive approach. There are no special efforts to re-engage with their customers or help relieve their customers during the pandemic. Most of the IMFI only follow standard operating procedures related to the 5C to ensure customers' creditworthiness: Character, Capacity, Capital, Collateral, and Conditions (Isnaini, 2021).

Apart from passively following the 5C standard operational procedure, many IMFI also passively follow the financing relaxation standard within the 3R framework: Rescheduling, Reconditioning, and Restructuring. The process of sending letters as an administrative part is certainly carried out, but it is not accompanied by an active effort to try to at least encourage members to be able to continue to survive. Included in the passive approach is the policy of IMFI that allow a delay of financing payment up to 6 months. However, this policy is not followed by any possible active approach that can be made to engage with customers.

#### 4.2.3. Common strategy

Just as there are IMFI that took a passive approach, those IMFI usually only exercise basic standard operational procedures by carrying out 5C and 3R. 5C is used as a creditworthiness measurement tool so it must be conducted by all IMFI, while 3R are relaxation models that are also commonly used by financial institutions (Kartika and Oktafia, 2021; Afifah et al., 2021). The interesting thing is that although the 5Cs and 3Rs should have become standard operational procedures, it turns out that there are still IMFI that neglected them. Isnaini (2021) found in the research that a BMT in

Bengkulu never ask for collateral as recourse in their financing contract. Apart from standard 5Cs and 3Rs, some IMFI also add another aspect to it as a form of sharia compliance, thus modifying it into 5C+1S. Letter S there stands for Sharia which means that before financing is given, it must be clear that the object of financing meets sharia requirements. However, adding 1S doesn't make it an extraordinary effort and idea ask risk mitigation during the pandemic.

Another form of strategy that has also been commonly used in conditions of the economic recession is the provision of payment delay. Some researchers found that IMFI provided additional time of 3 to 6 months as a form of relaxation for customers affected by the pandemic (Alam et al., 2022). Another form of strategy that can be found in many IMFI is the provision of additional capital as a top-up from ongoing financing. Top-up capital is given to potential debtors who have been selected very strictly by the IMFI. This is because the majority of businesses cannot expand even though they were given additional capital or top-up by financial institutions. Included in the form of a common strategy is to write off debts. The sources of write-offs can vary from one institution to another. However, normally the main source of money to write off debts comes from remaining operating expenses or retained dividends from last year (Aisyah et al., 2021). The position of IMFI during the pandemic that lacks liquidity has also forced several IMFI to tighten financing as their strategy to survive. The research found that there was a BMT that had an NPF of 5% during the pandemic. In order to ensure good liquidity, the BMT suppresses the number of new financing (Hidayanti et al., 2021). Thus, to ensure safe liquidity, the emphasis was on providing financing. In addition, research that involved all microfinance institutions in Yogyakarta concluded that many of them decided not to provide new financing. If it still provides financing, then the conditions offered are very strict to ensure the smooth liquidity of financial institutions (Suhartono and Tjahjono, 2021).

#### 4.2.4. Innovative strategy

Among the IMFI, there are those who tried to implement a strategy of survival beyond the regular Standard Operational Procedure. One of the strategies includes that already mentioned above regarding BMT-provided trading carts under the IMBT scheme along with 500k capital (Alam et al., 2022). Other IMFI have also added liquid guarantees as an additional form of caution related to the uncertainty of the duration of the pandemic (Suhartono and Tjahjono, 2021). Along with the context of prudence, there was also BMT that apply personal guarantees for financing applications. This personal guarantee is carried out in addition to the 5C procedure to minimize the risk of default. Applicants of financing are surveyed first by the account officer. When the applicant comes to the

office to get financing, the applicant must bring a personal guarantee or recommendation from a trustworthy and creditworthy person.

Another interesting idea is the practice of BMT in East Java as part of findings from [Anggraini \(2021\)](#). The BMT created a savings product and opened an account for all its recipients of financing. Then, the recipients of the financing are encouraged and invited to save IDR 5k to IDR 20k daily. This means that if this saving or deposit remains normal, then the customer can have IDR 150k - 600k every month. As long as the savings are not taken or used, the value of the savings will continue to increase. The existence of these savings is very useful in times of economic downturn. Almost all customers interviewed in the study chose to use savings for payments during this pandemic.

When other IMFI's suffering from liquidity, BMT Airlangga Bakti Persada made an outflow of money by donating basic necessities not only to customers but also to people who have the potential to become customers. While it served as a social activity, BMT itself also stated that with the donation, it is possible to build trust which has two impacts: Increasing loyalty for existing customers and increasing the number of customers who previously did not know about the BMT's work. With this donation, members who are late in paying installments also become reluctant so that the installments that enter the BMT remain smooth. In addition, because BMT is part of Universitas Airlangga, BMT also invites university alumni to join as members of BMT. In this way, the inflow of money will increase. Moreover, a lot of Airlangga alumni have idle money that can be cashed into BMT as a deposit. In addition, as part of anticipating a rush that could happen, this BMT builds an image to customers and the public that BMT's condition is still good.

#### 4.2.5. Persuasive activity

The majority of IMFI's do use persuasive methods in their various activities, including when there is a customer default. Among the models of approach and persuasive communication carried out by IMFI's are to continue to establish good relations with customers, always maintain a friendship, and continue to prioritize deliberation. On many occasions, IMFI's also ask their employees to come to customers while actively building communication with them ([Hidayanti et al., 2021](#); [Afifah et al., 2021](#)). There are also IMFI's who often send words of wisdom to their customers to encourage them. In addition, in terms of collateral execution, persuasive communication to customers is also prioritized as well as. It includes offers for customers to sell the collateral themselves in order to get a more reasonable price.

#### 4.2.6. Administrative activity

As already mentioned, IMFI's should follow the process of financial institutions in general.

Therefore, one of the processes is the administrative stage when the customer fails to pay. IMFI's sent 3 warning letters to customers as a formal reminder regarding the customer's debt position. Likewise, the execution of guarantees or auctions of collateral must go through predetermined administrative procedures. In a write-off condition, IMFI's must also provide notification letters to customers regarding policies that will be implemented ([Afifah et al., 2021](#); [Anggraini, 2021](#); [Parchatin, 2021](#)). The results on survival strategies of IMFI's are according to the data generated from the literature in [Table 3](#).

**Table 3:** Research works on IMFI's strategies during COVID-19

Reference	Number of IMFI's
( <a href="#">Afifah et al., 2021</a> )	1-3
( <a href="#">Suhartono and Tjahjono, 2021</a> )	>10
( <a href="#">Hidayanti et al., 2021</a> )	1-3
( <a href="#">Alam et al., 2022</a> )	1-3
( <a href="#">Kartika and Oktafia, 2021</a> )	1-3
( <a href="#">Isnaini, 2021</a> )	1-3
( <a href="#">Anggraini, 2021</a> )	1-3
( <a href="#">Aisyah et al., 2021</a> )	1-3

### 4.3. IMFI's contribution during the COVID-19 pandemic

#### 4.3.1. IMFI's financial contribution

The presence of IMFI's strengthens SMEs' capital through financing provided to them since the COVID-19 pandemic hit Indonesia. In supporting community financing needs, IMFI's still continuously provide solutions to support them and provide convenience to people who need business capital and assistance which ultimately gave a positive impact on the Indonesian economy amid the COVID-19 pandemic ([Oktavia, 2021](#); [Trimulato, 2021](#)). Some of the products offered remained the same, while some products are newly developed.

The saving products included all general products such as time deposits and demand deposits and additional savings for the community (Arisan). The savings for educational purpose is still offered by IMFI's as well as savings for Moslem Festive (Lebaran).

Some IMFI's even create a hereafter savings where the dividend of the savings is given for charity purposes. As for the financing product, there are some IMFI's that provided non-collateral financing while it was also found IMFI's provide financing for business capital purposes. The Islamic contract used for financing during this pandemic included Murabahah, Mudharabah, Musyarakah, Bai Bitsaman Ajil, Ijarah Muntahiya Bit Tamlik and Qardhul Hasan ([Masi, 2021](#); [Alam and Aisyah, 2021](#)).

#### 4.3.2. IMFI's non-financial contribution

Apart from financial contributions, IMFI's made several contributions to the society amidst pandemic. This is in line with the spirit of any cooperative institution in Indonesia where they

always try to bring benefit to its members. First, providing consultancy service. This service is provided with the purpose to discover and determine the type of business that suits best its customers. During this pandemic, many IMFIs gave advice to customers regarding business that will help them to survive. Second, providing encouragement. Apart from delivering the business idea, IMFIs also encourage their customers to start their business since it is believed to help reduce the number of poverties through the creation of job opportunities (Jayengsari and Husaeni, 2021; Bistiana and Indrarini, 2021). Third, improvement of human resource quality. Some IMFIs conducted agendas to develop their human resources and shape them better. This was done during the pandemic as part of human capacity building to survive the pandemic (Dianto and Amsari, 2021). Fourth, the financial inclusion agenda. Under the bad circumstance, IMFIs remained one of the tools in the financial inclusion agenda. The contribution made by IMFIs already made the agenda successful even during the pandemic (Fitri and Murniati, 2021). Fifth, direct assistance to society. Some IMFIs made direct assistants to its members affected by COVID-19. IMFIs registered those affected to Government Programme called BLT UMKM, a program created specifically for SMEs to help them survive. Once approved in the program, the customer will receive money from the government and thus helping them to pay the outstanding financing and also as additional capital (Alam and Aisyah, 2021). The details of the data can be seen in Table 4.

**Table 4:** Research works on IMFIs contribution during COVID-19

Reference	Number of IMFIs
(Dianto and Amsari, 2021)	1-3
(Bistiana and Indrarini, 2021)	1-3
(Jayengsari and Husaeni, 2021)	1-3
(Trimulato, 2021)	4-10
(Masi, 2021)	1-3
(Fitri and Murniati, 2021)	1-3
(Oktavia, 2021)	4-10
(Alam and Aisyah, 2021)	1-3

#### 4.4. Discussion

Based, on the findings above, we need to highlight some points. First, not all IMFIs are severely affected, some even experienced an increase in their performance. This result goes against the basic assumption that SMEs that are hit directly by the pandemic will experience difficulties in running their business. Any difficulties in SMEs will give either a direct or indirect impact on IMFIs. However, the fact that some IMFIs performed better suggested that either the SMEs are not much affected or the IMFIs implemented robust regulation. As for the first possibility, it is the opposite of the fact. Thus, the possible reason is the direct cash assistance from the government. Several studies already mentioned the success of the program such as Arumdani et al. (2021). It means, due to the success of the program, many SMEs are still able to meet their obligations. In

another word, SMEs are still greatly affected but the government program helped them a lot. Therefore, moving to the second possibility, which is the robust managerial of IMFIs. As has been mentioned above, thus IMFIs with good performance during the pandemic already set firm policies and implemented solid risk management (Aisyah et al., 2021). Thus, any other IMFIs should also set a firm policy and ensure tight control over its implementation.

The second point to highlight is the strategies implemented by IMFIs. While some IMFIs only do passive action with regular effort and no persuasive communication involved, some others tried their best to do the opposite. Indeed, active action mixed with persuasive communication and high creativity leads to an increase in trust among customers and communities. Building customer relationships is already proven in retailing areas in general (Nyadzayo and Khajehzadeh, 2016; Algamdi et al., 2021) as well as in the field of financial institutions (Bhat and Darzi, 2016). It is also already proven in the IMFIs industry that good communication and customer management lead to loyalty toward the financial institution (Kartika et al., 2021). In short, other IMFIs needs to put more effort to enhance their quality which ultimately brings greater loyalty from the customer.

The third point to highlight is the continuous contribution from IMFIs amidst the pandemic. The way IMFIs devoted their selves either through financial or non-financial contributions is in line with the priority agenda of IMFIs in Indonesia, which is to ensure the welfare of its members in specific, and society in general. It stems from the very philosophy of Indonesia's IMFIs set by Mohammad Hatta the founding father of Indonesia (Yusuf et al., 2019). The contribution placed by IMFIs continues to help the government eradicate poverties and help SMEs (Adnan and Ajija, 2015) by eliminating some hindering factors found to be the most obstacle for SMEs to growth (Purwanto et al., 2022).

#### 5. Conclusion

The effect of COVID-19 is clearly felt by everyone. The impact can be seen not only in the health aspect but also in economic conditions. The sudden downturn in economics has had an effect on many SMEs in Indonesia who become a customer of IMFIs. Thus, IMFIs found themselves in a bad situation where the liquidity and profit declined drastically. This research investigated three things. First, how severe is the impact of the pandemic on IMFIs? Second, what are the strategies carried out by IMFIs? Third, how stable is the contribution of IMFIs during the pandemic? All are done to combine and synthesize all previous findings.

The research found that there are three criteria for affected IMFIs. First, most of IMFIs were directly hit by the pandemic and thus lost their liquidity and profit. Second, some IMFIs remains stable where they didn't face liquidity problem. Third, there are some IMFIs that perform better compared to the



prior pandemic. The reason for their good performance is robust regulation and tight control over the policy that has been set as part of risk mitigation.

Another finding is that there are three types of strategies done by IMFIs during the pandemic. The first is based on the type of approach, some IMFIs used an active approach while others used a passive one. Example of active approaches is continuous engagement with the customer, helping customers sell their business product, and renting a business card to customers along with the required capital to run a small business. Second, based on the type of idea, some IMFIs used distinctive ideas while others put effort to come up with an extraordinary idea. Examples of extraordinary ideas are creating a saving account that is used by customers to make daily savings ranging from IDR 5k to 20k and donating basic necessities to increase royalty from customers as well as making them reluctant for making a late payment. Third, based on the type of activity, some IMFIs do a persuasive activity, while others are only administrative.

The last finding is about IMFIs' contribution. During the pandemic and amidst their difficulty to meet liquidity, IMFIs still contribute to society whether through financial contribution or non-financial contribution. This shows that IMFIs held tightly to their principle to create welfare for its member.

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## Compliance with ethical standards

## Conflict of interest

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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