

Opportunities and Challenges of Sharia Microfinance Institutions in the Pandemic and Recovery Period

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Abstract. This paper discusses the opportunities and challenges of Islamic microfinance institutions during the pandemic and recovery. The focus of the discussion was: the state of MFIs during the Covid 19 pandemic, as well as the opportunities and challenges of MFIs during the pandemic and recovery. The research was conducted with a qualitative approach and a descriptive method. The sources of data collected are primary and secondary, with data collection techniques through observation, interviews, exploration with documentation studies, and related literature studies. The result of his research is the state of MFIs during the Covid-19 pandemic from their financial performance; although some aspects have decreased, they have generally increased. From the service aspect, MFIs improve access and digital-based services. The opportunities during the pandemic and recovery are as follows: the financial performance of MFIs is quite good; support for the entire Islamic financial ecosystem and the government; the potential of a Muslim-majority population; the role of MFIs in MSMEs and the informal sector; and easily accessible physically and financially. Challenges include economic growth under pressure; public savings and financing have declined; declining business activities in the real sector, including MSMEs and the informal sector; assistance to debtors in the fields of sharia business and financial science and practice, sharia marketing, and online technology; primary on-the-counter and digital services, including human resources competence and technological readiness; building communication through inclusion and literacy; cooperation with other LKS; and product and service innovation. This research has implications for management to formulate business policies, such as determining the business development of MFIs, determining their profits and financing assistance to MSMEs.

Keywords: Covid 19, Islamic Microfinance Institutions, Opportunities, Challenges.

1. Introduction

Starting at the beginning of 2020 was a difficult time in almost all sectors and almost all over the world. This is due to the impact of the Coronavirus Disease 2019 (Covid 19) pandemic, which began in Wuhan, China, at the end of 2019. On March 11, 2020, the World Health

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Organization (WHO) designated Covid 19 as a global pandemic. The decision was issued when Covid 19 had spread in 118 countries and had infected approximately 121,000 people in Asia, the Middle East, Europe, and America (Dzulfaroh, 2021). The government has implemented various policies to suppress the spread of Covid 19 (Muhyiddin, 2020), such as Large-Scale Social Restrictions, learning from home, working from home, and so on.

The pandemic then affected almost all sectors, including the economic sector (Sumarni, 2020). The impact on the economy is not only in Indonesia, but the global economy is currently in a state that has not been conducive (Iskandar et al., 2020). The economy in Indonesia affected by Covid-19 is illustrated, among others, by economic growth indicators in 2020, which are under intense pressure (OJK, 2020b). The economic growth experienced a significant decline compared to the previous year, which reached 5.02% and 5.17% in 2018. In 2020, the first quarter reached 2.97%, then the second quarter reached -5.32%. It reached -3.49% in the third and 2.19% in the fourth quarters. Meanwhile, economic growth in 2021 in the first quarter compared to the previous year in the same period increased by 0.74%. From the average economic growth in 2021, it reached 3.69%; this achievement increased compared to 2020, which contracted by 2.07%. Then in 2022, economic growth increased compared to the previous year, which was 5.31%.

Conversely, Islamic financial performance during the Covid-19 pandemic was quite good. It can be seen from the total Islamic assets as of December 2019, which reached IDR 1,468.07 trillion—increased by 22.8% in December 2020, reaching IDR 1,802.86 trillion, consisting of IDR 608.90 trillion in Islamic banking assets, IDR 116.34 trillion in Islamic Non-Bank Financial Industry assets, and IDR 1,077.62 trillion in Islamic capital market assets. Meanwhile, the market share of Islamic finance as of June 2019 reached 8.29%. Encountered an increase of 19.3% in December 2020, reaching 9.89%, covering 6.51% of the Islamic banking market share, 4.43% of the Islamic Non-Bank Financial Industry market share, and the remaining Islamic capital market share (Bank Indonesia, 2020).

In the financial industry, if in the market share of the bank financial industry, Islamic banking is still much smaller than conventional banking. However, the growth of assets is higher in Islamic banking (OJK, 2020a). Assets in Islamic banking in 2020 reached IDR 594.- trillion, and in 2019 reached IDR 525.- trillion. In conventional banking, in 2020, it reached IDR 9,178 trillion in 2019, amounting to Rp 8,563 trillion. Islamic banking asset growth reached 13.14% compared to 7.18%.

Meanwhile, the growth of assets of the NBFIs in 2019 reached IDR 2,452.16 trillion for conventional and IDR 105.61 trillion for the Islamic NBFIs. In 2020, it reached IDR 2,525.36 trillion for the conventional NBFIs and IDR 110.52 trillion for the Islamic NBFIs. Each rose 2.99% and 4.65%, higher growth in the Islamic NBFIs. In the Islamic NBFIs in 2019-2020, the largest market share is Islamic insurance institutions on average, reaching 41.68%, and the smallest from Islamic microfinance institutions on average by 0.41% (OJK, 2020b).

The above growth is in line with the Chairman of the Board of the Financial Services Authority (FSA), Wimboh Santoso, who stated that the Islamic financial industry is growing well during this pandemic so that it can play a role in supporting national economic recovery and empowering MSMEs with various schemes (Putri & Helmiyunita, 2021) and following a previous statement from Vice President K.H. Ma'ruf Amin when opening the 5th National Conference of the Sharia Economic Community in January 2021, that in this pandemic situation, the Islamic economy and finance must be encouraged to continue to play a more critical role in the Indonesian economy and economic recovery.

The government, through FSA, has issued a policy to help MSMEs to minimize the impact of Covid 19. The government has issued a national economic stimulus policy as a countercyclical due to the spread of Covid-19 through the Financial Services Authority Regulation (POJK) No. 11/POJK.03/2020. This policy regulates banks to support economic

growth stimuli, especially for debtors affected by the Covid-19 pandemic, including MSME debtors.

Iskandar et al (2020) in their research, put forward several solutions that can be offered within the framework of Islamic economic and social financial concepts and systems that can help economic recovery. One of these solutions is through superior business capital assistance for the business sector or Micro, Small, and Medium Enterprises (MSMEs) (Iskandar et al., 2020). Small and micro enterprises are part of MSMEs. The MSME sector has proven to survive in the conditions of the financial crisis in 1998 and 2008. However, during this pandemic, the MSME sector is most vulnerable to being affected (Irham, 2020).

So far, MSMEs have been relatively able to survive, but in their business development, they have experienced several obstacles, including the capital. SMEs generally tend to be underserved by NBFIs; this business is considered not bankable. On the other hand, one type of NBFIs, namely microfinance institutions (MFIs), can meet this in accordance with Haryanto's research. Namely, MFIs have a significant role in supporting capital needs for SMEs (Haryanto, 2011). In the research, Anggraeni et al. (2013) also support this but seen from the aspect of business profits, namely financing from MFIs has a positive and significant effect on MSMEs business profits (Anggraeni et al., 2013).

The statement from FSA also supports the above. It was stated that financial institutions need comprehensive support to encourage community empowerment, especially for lower-middle-income people and MSMEs. So far, MSMEs have been hampered by access to funding from formal financial institutions. To overcome these obstacles, society has grown and developed non-bank financial institutions. The activities of this institution are conducting business activities for business development services and community empowerment. The institution became known as a Microfinance Institution. Law Number 1 of 2013 states these MFIs can operate conventionally or in sharia (Amin, 2019).

Trimulato's research (2021) shows that MFIs experienced asset and financing growth in the March 2021 period. During a pandemic, MFIs provide excellent service and collaborate with other Islamic financial institutions. From this description, we can see the importance of MFIs in supporting national economic recovery during this pandemic. However, on the other hand, there are several obstacles faced by MFIs, as revealed by Rusydiana's research (2013) long before the pandemic; for this reason, these institutions must pay attention to their opportunities and challenges, especially during this pandemic which has a significant impact on business environmental factors. In addition, it provides benefits for the MFI itself, including the success and development of its business activities while contributing to the recovery of the national economy.

This study aims to discuss the opportunities and challenges of MFIs during the Covid 19 pandemic and the recovery period. The research was conducted in 2020 during the pandemic, until 2021 and 2022, namely the recovery period (Bachtiar, 2021). Departing from the studies above, the difference is that this study does not discuss opportunities only but also discusses challenges during the pandemic and recovery. The method used is a qualitative approach and a descriptive method. The data sources collected are primary data and secondary data. The research will discuss the state of MFIs during the Covid 19 pandemic and the opportunities and challenges of MFIs during the pandemic and recovery.

2. Reserch Method

This research was conducted with a qualitative approach and descriptive method. The types of data are qualitative and quantitative. The sources of data collected are relevant primary and secondary—data collection techniques through observation, interviews, literature studies, and documentation. Data analysis techniques start from collecting data, reducing, grouping, and then conducting data analysis with qualitative analysis. The conservation

carried out is a structured observation in BMT, BPRS and Sharia Cooperatives to explore phenomena related to research. Interviews were conducted with ten people on the object in the business division, operational division and manager of the cooperative unit. The interviews were conducted in a structured manner to collect data according to the focus of the study, namely the opportunities and challenges of MFIs during the pandemic and recovery in aspects of financial and service performance. Thus, the questions asked are related to the opportunities and challenges of MFIs during the pandemic and recovery. Meanwhile, literature and documentation studies were carried out to collect data to complement the above data and data related to the state of MFIs during the Covid 19 pandemic from supporting literature and related institutions.

3. Results and Discussion

3.1 The State of MFIs During the Covid 19 Pandemic

According to Rusydiana, Islamic financial institutions are financial institutions that operate based on the concept of sharia and the main method is the principle of profit lost sharing. The structure of this institution is grouped into Islamic Commercial Banks (ICB), Sharia People's Financing Bank, Islamic Insurance and Baitul Mal wa Tamwil (Rusydiana & Devi, 2013). ICB and Islamic People's Credit Bank are included in the NBFIs group and islamic insurance, BMT, Micro Waqf Bank (BWM), and others are included in the NBFIs. MFIs in the financial system in Indonesia are part of the financial industry, included in the NBFIs group.

According to Law No.1 of 2013 (Trimulato et al., 2021), MFIs are financial institutions that provide business development and community empowerment services. These services provide loans (financing) for micro-scale businesses to their members and the community, manage savings, and provide business development consulting services that are not only profit oriented. The forms of MFIs are (1) Formal institutions, for example, in the form of banks or cooperatives; (2) Semiformal institutions, such as non-governmental organizations; (3) Informal sources, such as money releasers. Meanwhile, the central bank, Bank Indonesia, categorizes MFIs as follows: (1) MFIs in the form of banks and: (2) non-bank MFIs, including BMT (Furqani, 2020).

MFIs are business institutions based on Sharia principles that also have a social (socially oriented) role, namely in collecting zakat funds, infaq, sadaqah, waqf, and other sources of social funds, and as a business-oriented institution, developing its business in the financial sector (Suriadi & Sriningsih, 2021). These business activities are like the intermediary function at the bank, namely funding or collecting funds from members and prospective members (customers), then lending or channeling funds to the economic sector or informal sector that is halal and profitable. The role carried out is as in QS Al Maidah (5) paragraph 2.

The functions and roles of MFIs include (Suriadi & Sriningsih, 2021) : (1) Identifying, mobilizing, organizing, motivating, and developing the potential capabilities and economic potential of its members/work areas; (2) Improving the quality of human resources of its members to be more professional and Islamic to face global competition; (3) Mobilize and mobilize the potential of the community to improve the welfare of members; (4) Carry out functions as a financial intermediary for social funds including zakat, infaq, sadaqah, waqf, and grants; (5) Carry out the function as a financial intermediary between fund owners as financiers and depositors with fund users to develop productive businesses.

The state of MFIs during the Covid 19 pandemic can be seen from various aspects; the discussion in this paper focuses on aspects related to financial performance and services or products. Like the banking sector, NBFIs financial performance has improved during this

pandemic. One of them is shown by the growth of NBFIs assets. In 2019 conventional NBFIs reached IDR 2,452.16 trillion, and islamic NBFIs reached IDR 105.61 trillion. In 2020, it rose 2.99% and 4.65%, respectively; conventional NBFIs achieved IDR 2,525.36 trillion, and islamic NBFIs achieved IDR 110.52 trillion. Growth is higher in islamic NBFIs. The model shared in the islamic NBFIs in 2019-2020, the largest is the average insurance institution reaching 41.68% and the smallest MFI averaging 0.41% (OJK, 2020b) .

MFIs also improved their financial performance during the Covid 19 pandemic, including MFIs. Although MFIs provide the smallest share in the growth of sharia NBFIs, their financial performance at this time has also increased. Its asset growth in 2020 was IDR 499.7 billion, growing 6.8% from 2019, IDR 467.9 billion. In 2021, it reached IDR 567.2 billion, growing 13.5% for financing disbursed in 2020, amounting to IDR 192.77 billion, growing 14% from 2019 of IDR 169.03 billion. Meanwhile, growth in 2021 reached 15.85%, amounting to IDR 223.33 billion. Public deposits in 2020 rose 3.15% from the previous year and 21.9% in 2021 (OJK, 2021).

Meanwhile, according to research by Trimulato et al. (2021), during the Covid-19 pandemic, MFIs grew slowly. This research looks at monthly growth from actors, assets, and financing. From March 2020 to March 2021, the growth in MFI players reached 6.58%, and the total assets of MFIs amounted to IDR 499.7 billion. Its financing grew by 13.66%. However, as of April 2020 and December 2020, financing decreased by -2.84% (Trimulato et al., 2021). Meanwhile, the results of Hidayat's research (2021) stated that although still constrained by economic conditions amid the Covid-19 pandemic, the performance of MFI microfinancing to strengthen MSMEs has been good, and MFIs have been able to increase capital for MSMEs so that the quantity of MSMEs production increases (Hidayat, 2021).

According to the 2020 Indonesian Islamic finance development report, the growth in the number of MFIs still shows a positive trend indicated by the following aspects. During 2020, with the addition of 5 (five) MFI players, the share reached 35.09% of the total MFI industry. The addition includes the addition of three Micro Waqf Bank (BWM) MFIs -facilitated by FSA- and 2 (two) non-BWM MFIs. The impact of this pandemic during 2020 caused an obstruct to the the development of MFIs in line with the hampering of the business world (real sector), including micro-enterprises where the majority are the principal debtors of MFIs. The asset value reached 40.48% of the entire industry. The growth of MFI assets reached 6.80% (yoy) to IDR 499.70 billion. Financing contracted by -0.63% compared to the previous year to IDR 57.18 billion. In line with this, public deposits in MFIs also experienced a slowdown, with growth reaching 3.14% compared to the previous year to IDR 54.34 billion (OJK, 2021).

The data and explanation above illustrate that, in general, the financial performance of MFIs is maintained and shows a positive trend during this pandemic. Although some aspects had experienced a slowdown or contraction, such as public savings and financing, this was related to the decline in business activities in the real sector, informal sector, and most people's income due to the impact of the pandemic. People are more careful in squandering their money; their income is used to meet primary needs according to current conditions. Even though it had declined, MFI microfinancing to strengthen MSMEs has been good.

Several things encourage the financial performance of MFIs, including that this institution has grown and become an alternative in economic recovery in Indonesia before the pandemic, as explained in Rusydiana's research (2013)—especially its role as a partner of SMEs and the informal sector in the capital. However, although it is increasing, MFIs still experience many obstacles in their development. Several problems are faced by MFIs, both internally and externally (Rusydiana & Devi, 2013).

Then there is support from the government during the pandemic through POJK Number 14/POJK.05/2020 concerning Countercyclical Policy on the Impact of the Spread of Coronavirus Disease 2019 for Non-bank Financial Service Institutions and POJK Number

58 /POJK.05/2020 concerning Amendments to POJK Number 14/POJK.05/2020 concerning Countercyclical Policy on the Impact of the Spread of Coronavirus Disease 2019 for Nonbank Financial Service Institutions. The regulation was enacted on April 14, 2020, to optimize the performance of nonbank financial service institutions, maintain financial system stability, and support economic growth during the Covid-19 pandemic, which is predicted to impact debtors and Nonbank Financial Service Institutions until 2022. One of the contents of this regulation is financing restructuring so that MFIs are encouraged to maintain their financing performance.

On the other hand, government support for MSMEs enables them to survive when affected by the Covid-19 pandemic so that MFIs can minimize the risk of financing and financing problems. Such support is carried out in collaboration with Bank of Indonesia and in the form of policies classified into 3 (three) policy groups, namely restructuring MSME financing (credit), working capital financing, and other forms.

The webinar activity themed "Challenges of Islamic Banking and Microfinance in the Pandemic Period" stated the presence of BWM at this time. First, BWM has increased access for unbankable surrounding communities to formal finance, thus helping them with non-cash financial system services. Second, it has development and adjustments during this pandemic in the form of BWM Mobile services, which are digital-based services for making transactions, viewing mutation history, checking balances, payments, transfers, and dropping financing (Darmawan, 2020). With digital-based financial services, MFIs are ready to meet the community's needs for fast-paced, practical, cheap, and safe services during the pandemic.

3.2 Opportunities and Challenges of MFIs in the Pandemic and Recovery Period

Significant changes in the business environment have occurred in the last two years due to the Covid 19 pandemic. The business world tries to survive in this condition, and for that, a business needs to adjust to its environment's changing conditions. In the conditions of a business environment that undergoes rapid transformation, to survive, the flexibility of an effort to adapt to its environment is an absolute thing to do (Haryanto, 2011).

The following are changes in related business environmental conditions. MFIs during the Covid-19 pandemic are generally stable, although some aspects still need attention. During this pandemic, economic growth has experienced intense pressure, but on the other hand, Islamic financial performance is quite excellent. Pressure on economic growth has little effect on Islamic financial performance, including MFIs. The financial performance of MFIs experienced growth in terms of assets and financing distributed. Assets rose 6.79% in 2020 and rose 13.5% in 2021. Meanwhile, financing disbursed in 2020 rose 14% and 15.85% in 2021 (OJK, 2021). This means that the Islamic financial sector is in a stable position for several reasons. Among them, the loyalty of the entire Islamic financial ecosystem (Mudassir, 2020), and the population in Muslim-majority Indonesia has contributed to the increasing demand for Islamic financial services (Puspaningtyas, 2020), especially digital-based.

Based on Putri's research (2021), the Islamic financial industry grew well during the pre-pandemic period and the pandemic, so it can support national economic recovery and empower MSMEs. These data and presentations are in line with and relevant to Haryanto's research (2011), which explains that MFIs have a vital role in supporting capital needs for SMEs (Haryanto, 2011). Likewise, research by Anggraeni et al. (2013) states that financing from MFIs (BMT) has a positive and significant effect on MSMEs business profits.

Hidayat's research (2021) explained that the MSMEs sector had made a meaningful contribution to the Indonesian economy during this pandemic. This is because MSMEs are resilient to economic crises; one example is not much dependent on foreign factors such as foreign exchange, debt, or imported raw materials in their business activities. Its ability to

survive in the face of crises illustrates that the MSMEs sector has advantages and has the potential to be further developed through the right policies and support from the right institutions (Hidayat, 2021).

SMEs are a real sector that has proven to survive in crisis conditions. This is because of its relatively high ability to adapt to environmental changes but also because it is more dominant in the local content of the resources it uses. However on one hand, there are many obstacles in business development, one of which is difficulty in capital (Haryanto, 2011).

The above description is in line with the research of Iskandar et al., which proposes several solutions in the framework of Islamic social, economic, and financial concepts and systems to help economic recovery. One of these solutions is through superior business capital assistance for the business sector or MSMEs (Iskandar et al., 2020). FSA has also issued a policy to help MSMEs to minimize the impact of Covid-19, namely regulating financial institutions to support economic growth stimulus, especially for debtors affected by the Covid-19 pandemic, including MSMEs debtors (OJK, 2020b).

On the other hand, a study by Trimulato et al. (2021) stated that during the Covid-19 pandemic, MFIs grew slowly. This research looks at the growth of MFIs, assets, and financing. From March 2020 to March 2021, the growth in MFI players reached 6.58%, and the total assets of MFIs amounted to IDR 499.7 billion. Its financing grew by 13.66%. However, as of April 2020 and December 2020, financing decreased by -2.84% (Trimulato et al., 2021). Meanwhile, the results of Hidayat's research (2021) stated that although still constrained by economic conditions amid the Covid-19 pandemic, the performance of MFI microfinancing to strengthen MSMEs has been adequate, and MFIs have been able to increase capital for MSMEs so that the number of production increases (Hidayat, 2021). From these two studies, it can be said that the decline in MFI growth is a decrease in the period below the year due to the impact of the pandemic, but in the annual period, it is generally good (OJK, 2021).

In addition to those mentioned above, other findings need to be the attention of MFIs that are still relevant during the pandemic and recovery. This finding aligns with Rusydiana's research (2013) and Suriadi et al.'s (2021). First, the top priority is mentoring the community. MFI customers are primarily in the SME sector, which tends to be low in knowledge and practice of Islamic business and finance, Sharia marketing, and online technology.

With this assistance (Iskandar et al., 2020), MSMEs actors can run businesses and manage finances according to Islamic rules, as exemplified by the Prophet Muhammad (Khaerul, 2013). Running sharia marketing means that it will make its business activities develop and have a spiritual brand that has superior charisma and uniqueness as QS Al Baqarah (2) verse 265, and make Allah the ultimate stakeholder (Khaerul, 2013)—mastering things related to digital technology such as online services, digital marketing and so on, which is needed in the current technological era and during a pandemic. Thus, SMEs can survive and even increase their business and profits.

Second, MFIs should perform excellent service; this is in line with Trimulato's research (2021). In this fast-paced, cheap, and practical era, excellent service is not only directly from humans (on the counter) but also the readiness for digital-based services. Especially during this pandemic, public interest in digital-based services has increased, in line with Istiatin's (2021) research. A comprehensive support system is needed for excellent digital-based service, including human resources and technology, which still needs improvement. Larger financial institutions or fintech (financial technology) institutions that are booming -working in the same sector-have more ready for digital-based services (Istiatin, 2021). A comprehensive support system for digital-based priming services is required, including from the human resources and technology side where it is still very necessary to improve. Larger financial institutions or financial technology institutions - which are working in the same sector - have more readiness for digital-based services.

Third, increase the intensity of communication and access to customers. Building intense communication with the community, including through inclusion and literacy, is expected to further introduce the existence of MFIs to the community and increase the use of MFI products and services. Fourth, cooperation with other Islamic Financial Institutions (Trimulato et al., 2021). Cooperation in working in the SME sector will optimize the achievement of programs and business targets. In this digital era, coupled with the pandemic, digital-based services are needed, with cooperation will make it more efficient.

Fifth, product and service innovation. Diversity of products/services, especially those needed by small, micro, and informal communities. This diversity is technology-based, so it is no less competitive in the era of digitalization because most people in this era have used digital technology (Bank Indonesia, 2020) especially during the pandemic. Allaberganova's research stated the potential products that need to be explored, namely zakat, sadaqah, mudharabah, salam, and qord alhassan (Allaberganova, 2020).

Sixth, strategic location. People who are underserved and not bankable for bank financial industry, can potentially become MFI customers. MFIs in this era do not only think about location problems related to the physical location of their offices. MFIs must seize this opportunity in ways that are easily accessible: physically, electronically (digital services), and financially. The challenge for MFIs is that public interest in opening a business is relatively large but not yet internet literate. Hence, the information obtained is low due to difficulties accessing the internet (Trimulato et al., 2021).

Some still need help accessing the internet for several reasons, including networks or technology stuttering. Therefore MFIs still have to think about being easily accessible physically. Easily accessible electronically is a digital-based product and service that is easily accessible because of adequate technological equipment, available networks, and tech-savvy people so that it is easy to use. While financially affordable is the affordable costs that must be incurred according to customers' ability, most of whom are SMEs.

Based on a literature study from Pujiyono's research, BMT has opportunities and challenges. Related to macroeconomic growth: still open market opportunities for MSMEs, supportive government policies, and inter- and inter-institutional cooperation between BMT (Indonesia, 2013). In the future, the challenges faced by BMT include supra and limited infrastructure, HR competence (Hidayat, 2021) and still lack of training, modern infrastructure to support the online system, capital needs to open branches, and the level of competition with NBFIs, giant banks serving the microfinance sector, and financial standardization and guarantees for customers (Indonesia, 2013).

The description above shows that MFIs have a record of sound financial performance so far, even though the pandemic was brutal. MFIs still play an essential role in supporting national economic recovery, although several obstacles are still faced. The following data corroborates this statement that most of the business financing in Indonesia that is distributed, approximately 85%, is channeled to MSMEs (OJK, 2021). Meanwhile, the contribution of MSMEs to the Gross Domestic Product (GDP) in 2019 was 60%; in 2020, it was 61% (Hidayat, 2021), and in 2021 it was 61.07%. Thus, it is necessary to encourage MFIs to grow (Rusyiana & Devi, 2013). Therefore it is necessary for MFIs to re-identify their opportunities and challenges during the pandemic as described above, thereby benefiting the MFIs themselves. These benefits include MFIs being able to achieve profits, development of their business activities, and at the same time, contribute to the recovery of the national economy. If MFIs develop well, they have opportunities to increase capital and financing assistance to the MSMEs and the informal sector to contribute to reducing poverty (Suriadi & Sriningsih, 2021).

4. Conclusion

Like other financial institutions, the financial performance of MFIs has increased. There are some aspects of slowing growth, but they are generally good. The growth of MFI assets in 2020 reached 6.8%, and financing growth reached 12%, while public deposits experienced a slowdown with a growth of 3.15%. In 2021, assets grew by 13.5%, financing by 15.85%, and public deposits by 21.9%. Although some obstacles to economic conditions remain amid the Covid-19 pandemic, financial performance generally shows a positive trend. Public savings and financing had decreased due to the decline in business activities and most of the community's income due to the impact of the pandemic. However, MFI microfinancing for MSMEs is adequate. From the service aspect, MFIs strive to meet the community's needs during the pandemic by increasing access and services for the public with a cashless or digital-based financial system.

The opportunities and challenges of MFIs during the pandemic and recovery are as follows; opportunities include: Islamic financial performance is quite adequate, including MFIs; loyalty from the entire Islamic financial ecosystem; the population in Indonesia is Muslim-majority, so it has the potential to increase demand for MFI services/products; MFIs have a vital role in meeting the capital needs of MSMEs and the informal sector; support from the government, one of which is through financing restructuring policies; Strategic access, meaning it is easily accessible both physically and financially. Sound financial performance and easily accessible services during the pandemic will allow MFIs to increase their business activities, for example, by meeting the increasing public demand and capital needs of MSMEs and the informal sector. Supporting the Islamic financial ecosystem and the government will increase public trust in MFIs. It's essential in supporting the capital of MSMEs and the informal sector, but its market share is still small, indicating that the potential of MFIs needs to be driven by all components.

The challenges include: economic growth is under solid pressure; some aspects of financial performance have slowed down or even decreased, such as public savings and financing; declining business activities in the real sector, including MSMEs and the informal sector; assistance to debtors in the form of, knowledge and practice of Islamic business and finance, sharia marketing, and technology online; excellent service both on the counter and digital-based (easily accessible electronically), including, in this case, the support of HR competence and technological readiness; the smallest market share in sharia NBFIs, so it is necessary to build communication through inclusion and literacy; cooperation with other Islamic Financial Institutions; product and service innovation.

Economic growth pressures affect several aspects of MFI's financial performance, and encouragement from various elements is needed so that these aspects can rise again. For this reason, it is essential not only to disburse financing but also to be provided assistance so that MSMEs can increase their profits and business and return financing, demand capital, or save their funds. Another thing that can be taken is inclusion and literacy to MSMEs and even to the broader community so that they are well acquainted with the products and services of MSMEs. Especially if these products and services are digital-based with excellent service, MFIs will be ready to compete, according to the community's needs during the pandemic and recovery.

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