

Public Policy in the Halal Economic Ecosystem: Strengthening Islamic Fiscal Governance in the Post-Pandemic Era

Wildana Amin,¹
Moh. Sholehuddin,²
Sohibul Kirom³

Al-Khairat Islamic Institute
Pamekasan, email:
wildanaaminamin@gmail.com

¹
sholhuddin03@gmail.com²
sohiebz212@gmail.com³

Abstract

The COVID-19 pandemic has generated significant economic and social disruptions, exposing the limitations of conventional fiscal policies in addressing inequality and social vulnerability, particularly in Muslim-majority countries. In the post-pandemic era, governments face the dual challenge of economic recovery and the strengthening of sustainable and inclusive fiscal systems. This study aims to analyze the role of public policy in strengthening Islamic fiscal governance as part of the halal economic ecosystem in the post-pandemic context.

This research employs a qualitative interpretive approach with a phenomenological paradigm. Data were collected through in-depth interviews, document analysis, and limited observation involving policymakers, Islamic social finance practitioners, and experts in the halal economy. The data were analyzed thematically to capture key patterns and meanings related to policy implementation and governance practices.

The findings indicate that Islamic fiscal instruments, particularly zakat and waqf, have contributed to social protection and economic resilience during and after the pandemic. However, their potential has not been fully realized due to weak governance, limited institutional coordination, and the lack of integration between Islamic fiscal instruments and national fiscal policy. Public policy support remains largely normative rather than strategic.

The study concludes that strengthening Islamic fiscal governance through integrated public policy is essential for enhancing the effectiveness of the halal economic ecosystem. Integrating Islamic fiscal instruments into national fiscal frameworks can promote equitable, inclusive, and sustainable economic recovery in the post-pandemic era.

Keywords: Public Policy, Islamic Fiscal Governance, Halal Economic Ecosystem

INTRODUCTION

The COVID-19 pandemic has caused major shocks to the global economy, including in Muslim-majority countries. This crisis has not only resulted in economic contraction and increased poverty, but has also exposed the limitations of conventional fiscal policies in responding to emergencies equitably and sustainably. In the post-pandemic era, governments face the dual challenge of recovering the economy while simultaneously strengthening long-term social and fiscal resilience. This situation has prompted the need for a more inclusive and community-based public policy approach. values, one of which is through the development of a halal economic ecosystem that is integrated with Islamic fiscal governance.¹

¹ World Bank, *Global Economic Prospects: Pandemic, Recession and Global Recovery* (World Bank, 2021), 1-6.



Several studies have shown that the halal economy is not solely related to the consumption of halal products, but reflects an economic system that emphasizes the principles of justice, balance, and sustainability. Within this framework, Islamic fiscal instruments such as zakat, infaq, sedekah, and waqf play a strategic role as mechanisms for wealth redistribution and strengthening the social safety net. The literature also concludes that optimizing Islamic fiscal instruments can help reduce income inequality and accelerate post-crisis economic recovery. However, empirical findings indicate that this significant potential has not been fully realized due to weak governance, a lack of public policy integration, and limited synergy between state fiscal institutions and Islamic social financial institutions.²

Researchers' interest in this issue is driven by the gap between the normative potential of Islamic fiscal management and the reality of its implementation in public policy. Scientifically, this issue is relevant for broadening the discourse on alternative fiscal policies that are oriented not only toward macroeconomic stability but also toward social justice and public welfare. Empirically, many Muslim countries, including Indonesia, are embracing the halal economy as a strategic agenda for post-pandemic national development, as reflected in various policies and halal economic roadmaps.³ However, without strengthening Islamic fiscal governance integrated into public policy, this agenda risks being partial and ineffective in addressing the challenges of economic recovery.

Based on this background, this article aims to analyze how public policy can play a role in strengthening Islamic fiscal governance as part of the halal economic ecosystem in the post-pandemic era. The discussion aims to explain in simple terms the role of Islamic fiscal policy in supporting inclusive and sustainable economic recovery, ensuring its understanding not only by academics but also by policymakers and the general public interested in halal economic development.

LITERATURE REVIEW

Public policy is the government's primary instrument in responding to crises and guiding economic recovery. Dye defines public policy as the government's choice of action or inaction in addressing public issues.⁴ In the post-COVID-19 pandemic context, public policy, particularly fiscal policy, is required not only to restore economic growth but also to strengthen social resilience and mitigate the impact of widening inequality.

Public finance and welfare state theory emphasize that fiscal policy should be directed toward three primary functions: economic stabilization, equitable income distribution, and resource allocation for the public good.⁵ The pandemic has demonstrated that conventional fiscal approaches tend to be short-term and incapable of reaching vulnerable groups sustainably. Therefore, there is a need for a values-based and socially just public policy approach that aligns with Islamic fiscal principles.

Islamic economics provides a conceptual basis for developing public policies oriented toward justice and prosperity. Chapra emphasized that the goal of Islamic economics is to realize *falah* (goodness of God) through an economic system that balances individual and societal interests.⁶ In the context of public policy, this principle is relevant to addressing the challenges of post-pandemic economic recovery, which demands inclusivity and sustainability.

The concept of Islamic economics then developed into a halal economic ecosystem. This ecosystem encompasses the halal industry, Islamic finance, Islamic social finance, and the role of the

² Habib Ahmed, "Governance and Institutional Framework for Zakat, Waqf, and Islamic Microfinance," *ISRA International Journal of Islamic Finance* 11, no. 1 (2019): 7–11.

³ National Committee for Islamic Economics and Finance (KNEKS), *Indonesian Islamic Economic Masterplan 2019–2024* (KNEKS, 2019).

⁴ TR Dye, *Understanding Public Policy* (Pearson, 2017), 25.

⁵ RA Musgrave and PB Musgrave, *Public Finance in Theory and Practice* (McGraw-Hill, 2018), 32.

⁶ MU Chapra, *The Future of Economics: An Islamic Perspective* (The Islamic Foundation, 2010), 15.

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state in providing supporting regulations and policies. The literature emphasizes that the halal economy cannot develop optimally without the active involvement of public policy, particularly in the areas of regulation, fiscal incentives, and institutional coordination.

In the post-pandemic era, many Muslim countries, including Indonesia, have made the halal economy a strategic development agenda. However, without strong integration between the halal economy and national fiscal policy, the development of this ecosystem risks being partial and ineffective in driving comprehensive economic recovery.

Islamic fiscal policy is a crucial component of the halal economic ecosystem, serving as an instrument of redistribution and social protection. Instruments such as zakat, infaq, sedekah, and waqf (ZISWAF) possess unique characteristics because they are based on moral obligations and religious law. Qardhawi explained that zakat functions as an Islamic fiscal instrument aimed at reducing poverty and maintaining social balance.⁷

Several studies have shown that optimizing ZISWAF can contribute to post-crisis economic recovery by increasing the purchasing power of the poor and strengthening the social safety net. However, the effectiveness of Islamic fiscal management is largely determined by the quality of governance, including transparency, accountability, data integration, and synergy between ZISWAF management institutions and the government.

The literature also highlights that the weak integration of Islamic fiscal policy into public policy often leads to this instrument being positioned as a purely philanthropic activity, rather than as part of the national fiscal system. However, with good governance and public policy support, Islamic fiscal policy has the potential to become a strategic instrument in the post-pandemic halal economic ecosystem.

Based on the literature review, it can be concluded that strengthening Islamic fiscal governance is a key element in building an effective halal economic ecosystem in the post-pandemic era. Public policy acts as a bridge between Islamic economic values and fiscal practices at the national level. Integrating Islamic fiscal governance into public policy not only strengthens redistribution and social protection functions but also supports a more equitable, inclusive, and sustainable economic recovery.

RESEARCH METHODS

This study uses a qualitative approach with an interpretive design to deeply understand the role of public policy in strengthening Islamic fiscal governance as part of the halal economic ecosystem in the post-pandemic era. A qualitative approach was chosen because this study does not aim to test hypotheses or statistically measure relationships between variables, but rather to interpret the meaning of policies, governance practices, and institutional dynamics based on the experiences and perspectives of the actors involved.

This research is based on a phenomenological paradigm, emphasizing understanding the experiences and perceptions of stakeholders regarding public policy, the halal economy, and Islamic fiscal policy. This paradigm allows researchers to capture the realities of policy as experienced by participants, particularly in the context of post-pandemic economic recovery.

The research process involved several stages, starting with a search of relevant literature and policy documents, followed by a purposive selection of research participants. Participants were selected from an emic perspective, namely those with experience and direct involvement in the formulation and implementation of public policy, Islamic fiscal management, and the development of the halal economic ecosystem. Participants included policymakers, managers of Islamic fiscal

⁷ Yusuf Qardhawi, *Fiqh Al-Zakah* (Muassasah al-Risala, 1999), 26.



institutions, and academics or practitioners familiar with halal economic issues. The number of participants was determined flexibly until data saturation was reached.

Data collection was conducted through in-depth interviews to explore participants' perspectives and experiences, documentary studies of relevant laws and regulations, official reports, and policies, and limited observations to understand the institutional context and practices of Islamic fiscal governance. The researcher served as the primary research instrument, directly involved in data collection and analysis, while maintaining objectivity through self-reflection and openness to diverse perspectives.

Data validity was maintained through triangulation of sources and methods, as well as confirmation of findings with participants to ensure congruence between the data and the researcher's interpretations. Data analysis was conducted qualitatively using a phenomenological approach, through the process of grouping data, identifying key themes, and interpreting meanings. The results of this analysis are used to explain how public policy plays a role in strengthening Islamic fiscal governance as an integral part of the halal economic ecosystem in the post-pandemic era.

RESEARCH RESULT

The research findings demonstrate that public policy plays a crucial role in supporting the strengthening of Islamic fiscal governance as part of the halal economic ecosystem in the post-pandemic era. These findings were obtained through in-depth interviews, limited observations, and a review of policy documents related to the halal economy and Islamic fiscal policy.

First, the study found that Islamic fiscal instruments, particularly zakat and waqf, have contributed to maintaining social resilience during the pandemic and post-pandemic. The distribution of zakat and waqf funds has been largely directed towards social assistance, economic empowerment of the poor, and support for micro and small businesses. This finding aligns with reports from national zakat institutions, which indicate the increasing role of zakat as a social safety net during times of crisis.⁸ However, the utilization of Islamic fiscal instruments remains partial and has not been systematically integrated into state fiscal policy.

Second, the research results show that Islamic fiscal governance still faces various limitations. These limitations include weak coordination between Islamic fiscal management institutions and government institutions, suboptimal integration of data collection and distribution, and differences between the regulatory framework governing Islamic fiscal governance and national fiscal policy.⁹ These conditions impact the less than optimal effectiveness and accountability of Islamic fiscal management in supporting the halal economic agenda.

Third, the study found that the role of public policy in supporting Islamic fiscal policy still tends to be facilitative and normative. Existing policies largely acknowledge the existence of Islamic fiscal institutions, but have not yet fully incorporated these instruments into national fiscal planning and post-pandemic economic recovery strategies.¹⁰ This suggests that Islamic fiscal policy is still positioned as a complement, rather than a strategic instrument, of public policy.

Fourth, the research findings indicate that stakeholders have a positive view of Islamic fiscal policy's potential to support post-pandemic economic recovery. Islamic fiscal policy is seen as capable of strengthening income redistribution and social protection, particularly for vulnerable groups.¹¹ However, this potential is considered to have not been optimally realized due to weak public policy integration and ineffective governance.

⁸ BAZNAS, *Outlook Zakat Indonesia* (National Zakat Collection Agency, 2022).

⁹ Ascarya and D. Yumanita, "The Role of Islamic Social Finance in Poverty Alleviation," *Journal of Islamic Monetary Economics and Finance* 4, no. 1 (nd).

¹⁰ Musgrave and Musgrave, *Public Finance in Theory and Practice*, 45.

¹¹ Chapra, *The Future of Economics: An Islamic Perspective*, 22.

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Overall, the research findings demonstrate a gap between the significant normative potential of Islamic fiscal policy and the reality of its implementation in public policy. These findings emphasize that strengthening Islamic fiscal governance still requires more targeted, integrated, and sustainable public policy support to build a halal economic ecosystem in the post-pandemic era.

DISCUSSION

The discussion of this research's findings demonstrates that strengthening Islamic fiscal governance is inextricably linked to the role of public policy in building a halal economic ecosystem in the post-pandemic era. The research findings demonstrate that while Islamic fiscal instruments such as zakat and waqf have contributed to maintaining social resilience during the crisis, this contribution remains suboptimal because they have not been systematically integrated into national fiscal policy. This situation highlights the gap between the normative potential of Islamic fiscal governance and the reality of its implementation in public policy.

From a public policy theory perspective, these findings align with Dye's view that the effectiveness of public policy is largely determined by the extent to which the government actively incorporates an instrument into strategic decisions and actions.¹² In the context of Islamic fiscal policy, the normative and facilitative nature of public policy renders this instrument incapable of functioning as part of a comprehensive fiscal system. Consequently, Islamic fiscal policy is often positioned as a social philanthropic activity rather than an instrument of economic development policy.

The research also shows that weak governance is a major obstacle to optimizing Islamic fiscal policy. This finding reinforces public finance literature that emphasizes the importance of institutional coordination, data integration, and regulatory clarity in enhancing fiscal policy effectiveness.¹³ Without strong governance, the potential for collecting and utilizing Islamic fiscal funds is difficult to direct to support broader development goals, including post-pandemic economic recovery.

Within the framework of Islamic economics, this research finding reinforces Chapra's argument that economic policy should be oriented not only toward growth but also toward justice and social welfare.¹⁴ Islamic fiscal policy, through zakat and waqf, has characteristics that align with these goals. However, without the support of integrated public policies, these Islamic economic values are difficult to realize in national development practices.

This discussion is also relevant to the concept of the halal economic ecosystem, which emphasizes the importance of synergy between the state, the market, and Islamic social institutions. The global halal economy report indicates that the success of the halal economy depends heavily on the active role of the government in providing regulations, incentives, and policy coordination. The findings of this study indicate that the weak integration of Islamic fiscal policy into public policy has the potential to hinder the overall strengthening of the halal economic ecosystem.

Overall, the discussion of this research confirms that strengthening Islamic fiscal governance requires a shift in public policy approaches, moving from mere normative recognition to strategic integration. By integrating Islamic fiscal management into national fiscal policy, the government can strengthen its income redistribution function, enhance social protection, and encourage a more equitable and sustainable economic recovery in the post-pandemic era.¹⁵

¹² Dye, *Understanding Public Policy*, 36.

¹³ Musgrave and Musgrave, *Public Finance in Theory and Practice*, 48.

¹⁴ Chapra, *The Future of Economics: An Islamic Perspective*, 37.

¹⁵ Ascarya and Yumanita, "The Role of Islamic Social Finance in Poverty Alleviation."



CONCLUSION

Public policy plays a strategic role in strengthening Islamic fiscal governance as an integral part of the halal economic ecosystem in the post-pandemic era. Islamic fiscal instruments such as zakat and waqf have proven to contribute to maintaining social resilience and supporting economic recovery, particularly for vulnerable groups. However, this enormous potential has not been fully utilized due to various structural and institutional constraints.

Research findings indicate that the main weaknesses lie in the lack of integration of Islamic fiscal management into the national fiscal policy framework, weak coordination between institutions, and limitations in governance aspects such as transparency, accountability, and data integration. Furthermore, existing public policies tend to be normative and facilitative, thus failing to promote Islamic fiscal management as a strategic instrument for economic development.

Therefore, a more integrative and strategic transformation of public policy approaches is needed, making Islamic fiscal policy part of the national fiscal system. Strengthening regulations, improving governance quality, and synergy between the government and Islamic social financial institutions are key to optimizing the role of Islamic fiscal policy.

With strong integration and appropriate policy support, Islamic fiscal policy has significant potential to strengthen income redistribution, enhance social protection, and encourage a more equitable, inclusive, and sustainable economic recovery within the framework of a post-pandemic halal economic ecosystem.

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