The Role of Islamic Social Finance in Reviving the Economy During COVID19 Pandemic Crisis

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Abstract

This paper attempts to discuss the role of Islamic social finance in reviving the economy during and after the COVID 19 pandemic crisis. Specifically, it explained the role of zakat, waqf, sukuk, and crowdfunding in helping customers, producers, and governments in helping those affected by the crisis as well as increasing the economic activities which in turn would help reduce unemployment and revive the recession faced by many countries throughout the world during this pandemic crisis. The instruments of Islamic social finance need to be mobilized to boost the economy during the COVID19 pandemic is as well as the anticipated post-COVID19 pandemic. Zakat, waqf as well as social investments through sukuk and crowdfunding should play significant roles not only during but also post-pandemic that could increase the economic activities and help the economy to get out of recession.

Keywords: Islamic social finance, zakat, waqf, crowdfunding, COVID19.

Introduction

The pandemic of COVID-19 kept a challenge for countries around the world to find an immediate solution to flatten the curve. The pandemic could be perceived as a “disruption”. Disruption means “disturbance or problems which interrupt an event, activity, or process” (Oxford Dictionary, 2020). Disruption, by definition, shakes the “way of doing things” and accelerates change and transformation. In other words, disruption introduces a nonlinear change in a world that, up to that point, could be said to be progressing linearly. Nonlinear thinking as opposed to linear thinking is that there are various solutions instead of just one solution to revive the economy during and post-pandemic. Solutions like the lockdown and partial lockdown have indicated that the moves have been successful, though in different degrees among countries to flatten the medical curve in the short-run (Eggers et al., 2020). But, in the Post-COVID 19 crises, the bigger challenge is the steepening of the recession curve and that is leading the financial system into a crisis. The
lockdown has created issues like demand and supply shocks that have significantly affect the global economy, which is expected to lead to economic depression.

In recent times, COVID 19 has demonstrated its pandemic power. This adverse event includes “disruptive” economic scenarios. When many countries in the world are forced to implement the lockdown, the question asked is “What is the role of Islamic Social Finance in supporting the economies of the countries in which it operates?”

There is an urgent need to study, plan, strategize, and implement the suitable social instruments that the economic and financial sector can make available to the well-being of society. There is a need for highlighting the link between Islamic Social Finance and its role in reviving the economy during the COVID 19 pandemic.

The Effects of COVID19 Pandemic on the Economy

Among the effects of the pandemic if it prolongs are retrenchment, shutting down the operations of the company due to the reduction in domestic and foreign demand, high cost to the government to meet the needs of the people, foreclosure: the legal process by which a lender attempts to recover the amount owed on a defaulted loan by taking ownership of and selling the mortgaged property, and the food crisis.

Manufacturing industries are cutting down production; employees are losing jobs and facing cash flow constraints. Governments are struggling to safeguard the employment and livelihoods of the people to reduce the adverse impacts. All these effects turn it into a “pandemic crisis”. To fight the pandemic, many governments have announced stimulus packages to channel the funds to people, so they have money to spend even if they aren’t working.

Islamic Social Finance

The Islamic social finance sector includes Islamic institutions based on philanthropy, such as zakat (obligatory charity), sadaqah (voluntary charity) and waqf (endowment), cooperation, like qard (loan) and takaful (insurance). It also includes social investments through sukuk (bonds), crowdfunding, and non-profit Islamic microfinance organizations that aim to reduce poverty by giving out qard hassan (Zamir Iqbal, 2006; Ashraf & Hassan, 2013).

In responding to the Covid19 pandemic crisis, Islamic social finance should play roles to support job and income security for those affected by the crisis, contribute to preventing poverty and unemployment, bolster economic and social stability and peace and act as powerful economic and social stabilizers (Hidayat et al., 2020).

Besides, Islamic social finance should play roles in reviving the economy by increasing economic activities that involve a boost in consumption, increase in investment as well as
government expenditure to help the growth of the economy (Ashraf & Hassan, 2013; Zamir Iqbal, 2006; Warde, 2010).

The Role of Zakat

Zakat plays an important role in promoting a more equitable distribution of wealth while also creating a sense of solidarity amongst Muslims. The role of zakat becomes increasingly crucial during these troubled times. Zakat institutions are non-profit organizations that collect and distribute alms. Zakat institutions exist to provide social welfare and build social capital in civil society using a religiously-inspired tax collected from Muslims (Haji-Othman et al., 2019). The collection of Zakat is voluntary in most countries and it is mandatory in six Muslim majority countries: Malaysia, Pakistan, Libya, Saudi Arabia, Sudan, and Yemen. To help the nation overcome this pandemic, zakat institutions should optimize the zakat fund to help communities survive (Haji-Othman & Nayan, 2019).

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The Role of Sukuk

Sukuk is a good way to access large scale financing by structuring instruments that promote social good through risk-sharing. Sukuk grant partial asset ownership, investors have the right to receive profits, meaning that selling sukuk is selling benefits of the ownership. The sukuk funds could be channeled to develop projects for the benefits of society such as a renewable energy project, vaccination, educational project, or low-cost housing (Rahman et al., 2020).

Sukuk could be combined with other Islamic finance instruments. The combination of sukuk other Islamic finance instruments include sukuk retakaful, waqf sukuk, and murabahah sukuk. Sukuk retakaful is an insurance securitization, which is structured for a relatively short-time maturity (three to five years) and expected to be purchased by institutions, namely mutual funds, pension funds, sovereign wealth funds, not individual. Waqf sukuk is known as cash waqf-linked sukuk (CWLS) is a social investment where cash waqf invested in sukuk. The principle of perpetuity that preserves the waqf asset and redistributes the benefits distinguishes it from other endowment or charitable fund. Murabahah sukuk is a sale and purchase agreement based on the Shariah principle. Murabahah itself is a contract of sale at
an agreed cost-plus-profit, hence, the *murabahah sukuk* includes a disclosure of the original cost and the mark-up price (Buana, 2020).

**The Role of Crowdfunding**

Crowdfunding is a method of raising capital through the collective effort of friends, family, customers, and individual investors (Pierrakis & Collins, 2014). This approach taps into the collective efforts of a large pool of individuals primarily online via social media and crowdfunding platforms and leverages their networks for greater reach and exposure.

There are three types of crowdfunding, donation-based crowdfunding, rewards-based crowdfunding, and equity-based crowdfunding. In donation-based crowdfunding, there is no financial return to the investors or contributors as donation-based crowdfunding. On the other hand, rewards-based crowdfunding involves individuals contributing to the project in exchange for a monetary reward. Meanwhile, equity-based crowdfunding allows contributors to become part-owners of the company by trading capital for equity shares (Bone & Baeck, 2016)

**The Role of Waqf**

Cash *waqf* is one of the alternatives to the country to eliminate poverty. In Malaysia, cash *waqf* was flourishing and its implementation has been noticed by the public. Cash *waqf* has great potential to boost the country’s economy and develop the community. Fund collected through a cash *waqf* certificate program can be allocated to social-related development areas such as agriculture, education, health, and infrastructure and poverty alleviation program during this Covid19 crisis.

Cash *Waqf* plays a big role in the economy and society in the country. In Malaysia, Cash *Waqf* is one of the alternative instruments that can overall improve social welfare and reduce the poverty rate and at the same time, lessen the burden of the government. *Waqf* promotes mutual help and assist among Muslims. This culture encourages the wealthier to always remember the poorer, lead them to contribute their money to the *Waqf* fund. Also, *waqf* could assist those affected by this Covid19 crisis.

Cash *Waqf* could play a significant role in financing micro and medium-sized enterprises (MMES). The Cash *Waqf* model is meant to develop and enhance the financial services for micro and medium-sized enterprises (MMEs). MMEs can face their financial challenges and obligation in business and commerce by using the financial infrastructure based on the Cash *Waqf* model. Cash *Waqf* has the potential to improve domestic economic growth and play an important role in socio-economic development by allowing the MMEs to have access to financial services.
There are six cash waqf schemes which have been implemented throughout the world, including waqf shares scheme, deposit cash waqf scheme, compulsory cash waqf scheme, corporate waqf scheme, deposit product waqf scheme, and co-operative waqf scheme. Waqf shares scheme was implemented in Malaysia, Indonesia, Kuwait, and the UK, which was designed to finance halal goods and services needed in the different cultures. Besides, the deposit cash waqf scheme was established in Singapore, Bahrain and South Africa. While a compulsory cash waqf scheme, which is a public waqf, has been implemented in Singapore. Also, the corporate waqf scheme has been in practice in Malaysia, Turkey, India, Pakistan and Bangladesh. In addition, the deposit product waqf scheme, which is a public waqf has been practiced by two banks in Bangladesh, the Social Investment Bank Limited (SIBL) and the Islamic Bank Bangladesh Limited (IBBL). Last but not least is the co-operative waqf scheme which has been established in Uzbekistan (Abdel Mohsin, 2013).

Conclusion

Islamic Social Finance could be used to complement government expenditure to revive the economy during the COVID19 pandemic. Instruments of Islamic Social Finance need to be mobilized sooner rather than later to revive the economy during the COVID19 pandemic is as well as the anticipated Post COVID19 pandemic. Zakat and waqf should play significant roles not only during but also post-pandemic. Social investments through sukuk and crowdfunding should be mobilized that could increase the economic activities and hopefully revive the economy.

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