



## Mitigating the Effect of Covid-19 on the Society Through the Islamic Social Finance

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### ABSTRACT

As at the end year of 2019, the Covid-19 pandemic outbreak had caused an unparalleled human crisis around the world. The disease is causing not just a health problem but also an economic crisis. Numerous countries fell into meltdown and more people fell into poverty. The government may not be sufficiently and solely able to take the economy back to its track. The concentration has now moved from the spread of the virus to the economic consequences the pandemic brought upon the community. Therefore, the aim of this study is to conceptually explore the role of Islamic Social Finance (ISF) in mitigating the effect of the Covid-19 pandemic on the people and the entire community. The method employed by the study is the review of past literature to enable the study to gain insight into the role of ISF. Based on the insight from literature, the study document that Islamic social finance via zakat and waqf decreases the effect of the Covid-19 pandemic on society. Specifically, the study found based on reviewed literature that zakat is positively associated with a decrease in the effect of the pandemic on the people. Similarly, the study found that waqf is positively related to the decrease of the effect of the Covid-19 pandemic on the people and the entire global economy. The study has contributed to the body of knowledge by looking at the role of ISF in terms of the effect of the Covid-19 crisis on the society which is still an ongoing phenomenon. The study has implication for the government and policy-makers in terms of adopting Islamic social finance principles and products to address the Covid-19 crisis, thereby enhancing the social wellbeing of the people and the development of the global economy.

**Keywords:** Covid-19 pandemic, Islamic Social Finance, Zakat, Waqf

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### INTRODUCTION

In the first quarter of 2020, a transmissible virus known as coronavirus was discovered in Wuhan City, China. The case was there since December 2019, however, the news just started spreading at the beginning of January 2020. Since the circulation of this deadly virus, the World Health Organization (WHO) was motivated to announce it a world pandemic. On January 10 2020, the causes began to be obtained and identified the hereditary code, named as new coronavirus. The ensuing research has indicated a connection which is near the coronavirus that caused "Severe Acute Respiratory Syndrome" (SARS) in Hong Kong in 2003. At that point, WHO named it as the novel coronavirus (nCoV-19). The contagious virus is transmitted directly from human to human transmission, which results in the fast increment of the positive cases. On February 11, 2020, WHO named this virus covid-19 (Hambari, Arif & Zaim, 2020). Covid-19 is another sort of corona contagion which was not discovered previously in human. The major source of this disease is yet unknown, however, considering the past encounters, it must likely be transferred to the human from animals. Basically, it is a large disease that has basic symptoms like cough, normal cold, to more critical illness like SARS. As time passes and passing

hour, the adverse impact of this covid-19 is manifoldly increasing (Haider Syed, Khan, Raza Rabbani & Thalassinou, 2020). The spread of covid-19 pandemic has prompted the rise of several policies taken by the public authority such as the policy of maintaining distances or social distancing from larger numbers of people. These policies are considered to be factors that can greatly slow the spread of the deadly covid-19 illness. The approaches to handle the spread of covid-19 universally have multiplier consequences on several aspects of life not only towards health but also towards other aspects such as economy, small and medium enterprises (SMEs), industries, business and all the socio-economic sectors around the globe (Ferdaus, Hidayatullah & Zahrati, 2020; OECD, 2020).

Other consequences of Covid-19 like the economic meltdown; closure of borders and shops; restriction of movement; absolute inhouse lockdown of people; and the suspension of economic activities severely affected the global economy negatively (Koonin, 2020; McKibbin & Fernando, 2020). Consequently, there has been tumbling stock markets, the interest rate is slashed by central banks, and the industrial production is nearly zero, thereby leading into enormous loss

of a job, hence a financial catastrophe is around the corner (Segal & Gerstel, 2020). As the issue at hand is obvious to everyone, the amount of damage to be done by this pandemic will greatly depend on the measure of remedial activities taken by the government to minimize the damage. Otherwise, the coronavirus as affirmed earlier will to adversely affect the country's economy, SMEs and industries (Segal & Gerstel, 2020). Along these lines, it was anticipated by economic scholars that there is no particular time and date for the end of the pandemic. Furthermore, the effect of covid-19 on the economy may probably place numerous people in poverty. There will be a lack of food because of the disturbance of agricultural products and less of food importation because of movement restrictions. Therefore, Islamic finance has an aggregate task to perform in rebuilding the country after decimation by covid-19 through Islamic social finance. Islamic social finance is important in addressing the current challenges and resuscitating the global economy. Islamic finance has great potential like capitalizing on Islamic social financial mechanisms such as waqf and zakat. As such, the objective of this study is to conceptually explore the role of Islamic social financing in mitigating the negative effect of Covid-19 on society. Hence, the extant literature on Islamic social finance indicates that zakat and waqf enhance the wellbeing of the society in a critical situation similar to the pandemic (AbdulKareem, AbdulGaniyy, Mahmud & Yazid, 2020). So, Islamic finance can equally serve as a mechanism to alleviate hardship and provide relief to the community during and after the covid-19 pandemic.

Therefore, Islamic social finance from the perspective of the effect of Covid-19 has theoretical and practical significance. This is because the concept of Islamic finance in relation to the effect of the pandemic on the society still calling for scholarly attention. Moreover, Islamic social finance via Zakat and waqf practices have played a significant role in the provision of economic and social wellbeing thereby mitigating the suffering of the people and the society. This is, the adoption of the zakat and waqf in various countries enables the amelioration of the impact of the deadly virus among the people. The remaining part of the study is outlined thus: literature review, methodology, result and discussion and lastly the conclusion.

## LITERATURE REVIEW

### Conceptual definition

The covid-19 pandemic appeared at the beginning of 2020, which attacks human life and rapidly transforms into a universal pandemic. It is an acronym in which 'CO' represents corona, 'VI' stands for virus, and 'D' is for the disease. The diseases were called 2019 novel coronavirus or 2019-nCoV. The Covid-19 virus is a new virus which is linked to the same family of viruses as SARS (Hambari, Arif & Zaim, 2020). It has resulted in involving various dimensions such as lifestyle, social, economic and health crises. Furthermore, covid-19 has led to an increase in the level of unemployment, poverty and development of many social problems, thereby limiting government spending. Several people in various countries face difficulties in life. Hence, this study is complementary to

past studies which have similar theory and issues in their discussions concerning Islamic social financing model based on zakat and waqf mechanisms for covid-19 pandemic economic recovery (e.g. Hudaefi, Junari and Zaenal, 2020; Ferdous, Hidayatullah and Zahрати, 2020; Ainol-Basirah and Siti-Nabiha, 2020). Islamic Social Finance (ISF) is contemplated as a means for mitigating the Covid-19 effect. According to Azman and Ali (2019) defined ISF "as a sector comprising traditional Islamic institutions based on philanthropy - zakāt, ṣadaqah and waqf; institutions based on mutual cooperation e.g. qarḍ and kafālah; and also the contemporary Islamic microfinance institutions"(p. 49). The scholars emphasize the primary objective of ISF which is "to meet the needs of the poor and to make a dent in their ever-rising levels of poverty. Economic justice, inclusive participation and shared prosperity are the principles behind ISF" (Azman & Ali, 2019, p.49). The principles of ISF originates from the value of Islamic philanthropy that incorporates standardized giving behaviours to attend to the needs of the unprivileged. This is consistent with the view of the United Nations that ISF helps the government as well as communities to actualize a wide range of needs for development (Azman & Ali, 2019)<sup>1</sup>. From this perspective, zakat and waqf can be one of the social wellbeing nets that conceivably assist vulnerable people in different forms such as food, education, health, and the survival of SMEs. This is because, according to Azman and Ali (2019), "zakat with its defined set of beneficiaries in need and rapid disbursement, can be vital for crisis response. While waqf is well-suited for building resilience through institutions, infrastructure, and permanent sources" for funding similar crises like the Covid-19 and this is in agreement with the view of the United Nations Development Program in its Sustainable Development Goals (SDGs).

The concept of Zakat was based on the annual payment under Islamic law regarding the creation of wealth which is used for religious as well as charitable purpose as one of the five tenets or pillars of Islam. Faafar (2017) stressed that Zakat is one of the five pillars of Islam alongside the other four pillars<sup>2</sup>. Zakat is derived from the Arabic word of (زكى) or (زكو) which indicates to be pure, to increase and to grow. Zakat literally denotes righteousness, honesty, integrity, purity and growth (Faafar, 2017). Qaradawi (1999) described zakat as required by Allah to be given to those that are eligible (the poverty-stricken) as mentioned by Allah. Zysow (2012) defined zakat payment as the obligation for the benefit of recipients of zakat, for instance, the poor, the collector, and the travellers. All the Muslims who are qualified to pay zakat must pay a minimum 2.5% of their wealth every year to poor people, destitute, needy and others. Zakat is an obligatory charity instrument is Islamic finance that can be utilized multi purposely, mostly for poverty alleviation among Muslims society (Hassan & Ashraf, 2010). Al-Quran has mentioned eight (8) recipients of zakat, however, there is consensus among jurists that the most significant of zakat can be used for alleviating poverty by paying it to the poor and needy. Zakat is significant in Islam and it is mentioned more than 30 times in Al-Quran (Haider Syed *et al.*, 2020). Allah says in Surah Al-Maida, Verse 12:

<sup>1</sup> Islamic social finance: The Future of Humanitarian Partnership?, "bond.org, accessed on 9 June 2019, <https://www.bond.org.uk/news/2019/02/islamic-social-finance-the-future-of-humanitarian-partnership>.

<sup>2</sup> Shahadah (Belief in Allah and there is nobody to worship except Allah), Salah (five times daily prayers), Sawm (fast in the month of Ramadan), and Hajj (Islamic pilgrimage).

*“Behold, I am with you; if you establish Prayer and pay Zakah and believe in My Prophets and help them, and lend Allah a good loan, I will certainly efface from you your evil deeds, and will surely cause you to enter the Gardens beneath which rivers flow. Whosoever of you disbelieves thereafter has indeed gone astray from the right way” (Surah Al-Maida, Verse 12).*

Consequently, in the context of the present study, Zakat is seen as a mechanism for alleviating or mitigating the poverty, suffering, and other difficulties created by the Covid-19 pandemic.

Similarly, waqf is one of charity that is highly recommended in Islam. Documentary and literature have demonstrated that waqf is one of the significant instruments used for social development. The idea of waqf emanated from the Arabic word of “waqafa” which means the opposite site or stall on the place. Literally, it signifies “causing a thing to stop and standstill”. It likewise means to make it dependent on, keeping, stop, holding and detention (Abdulkareem, Mahmud, AbdulGaniyy & Aliu, 2020; Baalbaki, 1988). Technically, waqf implies confinement of something specifically by the owner or waqf institutions that all the benefits derived from it should be given as a charity for the benefits of the needy, for the sake of Almighty Allah and with intentions of getting rewards from Almighty Allah (AbdulKareem, Ogunbado, AbdulGaniyy & Mahmud, 2019; Gwadabe & Ab Rahman, 2020). Therefore, the concept of waqf could be deployed in the Covid-19 case to alleviate its negative effect on the economy and the wellbeing of people.

### **Impact of Zakat to the Social Development**

Suprayitno, Aslam and Harun (2017) conducted a study in Malaysia regarding zakat and sustainable development goals in five (5) states in terms of human development. The study document that zakat enhances human development as it increases the wellbeing of the less privileged. The author further stressed that zakat is one of the most significant sources of fund available within the financial system and Islamic economic; it is the main income for Muslims countries besides tax such as agriculture products tax, land tax and others. Moreover, Zakat is a wealth distributed to ‘the have-not’ following the ordinance of Allah which is in accordance with the Al-Quran, Sunnah and teachings of Islam (Suprayitno *et al.*, 2017). Another study by Hidayatullah and Priantina (2018) described that zakat can be distributed to victims of disasters. From this perspective, the Covid-19 pandemic has been considered as a disaster, hence it is conceivable to use funds of zakat to assist the people affected. In an investigation of the role of zakat in mitigating the effect of Covid-19, Hambari, Arif and Zaim (2020) posit that zakat is one of Islamic social security fund that is required by the society in the face of the present pandemic globally and Malaysia specifically. The scholars re-emphasize that zakat organizations should focus on the Covid stricken communities and places to fulfil their necessities in ameliorating its effect by providing health facilities, education and awareness, food and other relevant materials.

In their own submission, Chamani, Anshory, Hudaefi, Junari and Zaenal (2020) affirmed in a report that zakat institutions have a significant and vital role to assist the public authority in preventing the impact of covid-19 in the economy given its position as a charitable organization. This vital role can be

executed in different dimensions such as education and social orientation to enhance the wellbeing of the people affected by the pandemic. Among the suggestions for institutions of zakat is the health sector, regarding a zakat institute for the study and provisions of vaccine for the covid-19 pandemic to forestall the spread of the disease. Moreover, the study conducted by Chamani *et al.* (2020) in the capital of Malaysia demonstrates that zakat institution has played an important role in assisting people during the covid-19 pandemic. This can serve as a reference for other countries to take zakat as essential mechanisms for social financing. With collaboration with several parties, the procedure of overcoming the covid-19 pandemic will be lighter (Hambari *et al.*, 2020). As clarified in the above mentioned, it is obvious that zakat has an important role in preventing a covid-19 pandemic. In the same vein, Hambari *et al.* (2020) posit that several people in various countries face difficulties in life. Zakat is one of Islamic social financing that can play an essential role in overcoming the difficulties by providing supports to societies. Besides, the institutions of zakat in Malaysia play a significant role to help the government in dealing with the covid-19 pandemic in the country. During the period of implementation of movement control order (MCO) by the government, zakat institutions provided fund to assist people through the different programs for the victim of covid-19 (Hambari *et al.* 2020). This effort demonstrates that institutions of zakat have an important role to play by assisting people amidst the crisis and beyond.

Further, an Indonesian investigation relating to the use of zakat to cushion the effect of Covid-19 and other related crisis by Sulaeman and Ninglasari (2020), recommends that zakat could assist the government and policy-makers in their plans to mitigate or minimize the negative effect of the deadly pandemic. Similarly, Ibrahim (2015) in his study entitled investigating the role of Zakat in Establishing Social Welfare and Economic Sustainability found that zakat plays a significant role in mutual assistance to Muslims communities. That is, zakat assists to redistribute wealth, reduce inequality, alleviate poverty and as well assist in demonstrating the willingness of the rich Muslims to submit themselves to the commands of the Almighty Allah by worshipping Him and assist in implementing His injunctions. This view was equally upheld by Owoyemi (2020) in another study relating to zakat management in Nigeria. Ferdaus, Hidayatullah and Zahrati (2020) examine business incubation Model based on Productive Zakat for Economic Recovery of SMEs for Post COVID-19. The study strongly emphasizes on the utilization of zakat product for community development schemes which has gigantic potential in reestablishing the economy of the people affected negatively by the covid-19 pandemic. It is demonstrated by the authors that zakat in Malaysia helps various people during the MCO by offering various innovations and empowerment for the community-based business programs that can provide multiplier impacts on the community. More so, the outcomes of the study conducted by Haider Syed *et al.* (2020) shows that Islamic social financing has enormous potential to fight any sort of pandemic, especially through Zakat which has proved to be an effective mechanism to fight the covid-19 pandemic around the world.

Likewise, Islamic social finance has great potential and variety of economic mechanisms including zakat that can effectively alleviate the suffering of the Muslim communities (Noordin 2018). In a similar vein, zakat has been one of the Islamic social programs that have a significant role to safeguard and

promote Muslim wellbeing during the period of the caliphate. The zakat management and distribution during the second caliph was efficient and effective to the extent that zakat was offered to all the needy in communities (AbdulKareem et al., 2020; Ashurov, Alhabshi, Othman, Habibullah & Yusof, 2020). All these demonstrate that zakat can play a potential role in improving the wellbeing of communities especially during the covid-19 pandemic and after.

### ***Impact of Waqf to the Social Development***

Waqf is one of the major Islamic economic mechanisms utilized for the socio-economic development of communities. Waqf involves "religious endowment" which likewise alludes to a devout or charitable donation. Generally, waqf has been the mechanism for social development that incorporates maintenance and provision of mosques, libraries, scholarships, shops and educational institutions (AbdulKareem, 2017; Kahf, 1998). Also, waqf serves as an instrument for eradication of poverty and socio-economic development of Muslim societies. Awqaf institutions, which are plural of waqf, play an important role in the history of Islam, starting from the era of Prophet (SAW) up to 19<sup>th</sup> century. The waqf institutions have significant impacts on the social lives and economy of many societies. It has established a network which covers all the areas of human life such as education, health, religious, social and economic sectors (AbdulKareem et al., 2020; Gwadabe & Ab Rahman, 2020).

Ihsan and Ibrahim (2011) stated that waqf has been portrayed as a powerful concept discovered by the academicians and Islamic scholars as an essential instrument for the wellbeing of the masses. For a long time, waqf has played a significant role in the social development and economy of different Muslims societies. Thus, "its popularity as a unique and progressive development tool shows a decreasing trend in the Muslim community nowadays" (Mahat, Jaaffar & Rasool, 2015, p.295) based on challenges that are in the process of been overcome. Moreover, waqf experiences innovative changes in its instrument with the establishment of various waqf products that accommodate the wellbeing and needs of the communities and revive the economic circumstances that seem vigorous in the contemporary worldwide economic meltdown (Suhaimi & Ab Rahman, 2014). In a study conducted by Khalil, Ab Rahman, Thaidi and Rahman (2020), waqf could ease the burden faced by the community during and after enforcement of MCO in Malaysia. The benefits of waqf are not only to the advantage of community and society but also to the public authority and country development. More so, Ainol-Basirah and Siti-Nabiha (2020) investigate waqf projects and income generation by institutions of waqf in Malaysia and found an improvement in its application in mitigating the suffering of the vulnerable people during the pandemic. However, the authors suggest further improvement on waqf to meet the post-pandemic needs of society to stabilise the economy.

Faturohman, Rasyid, Rahadi, Darmansyah and Afgani (2020) explore the application and potential of waqf institutions in the Islamic Development Bank in Indonesia, Malaysia, Kuwait and Egypt. The outcome of the study revealed that waqf can support financial activities through the waqf properties use for various purposes, for example, infrastructure, health, food and education. In the same vein, the efforts to stimulate community economic empowerment could be achieved through cash waqf for financing SMEs. Also, the contribution and role of

cash waqf can grow local economic activities according to the potential of regions (Merlinda, Qurrata, Yusida, Purnamasari, Seprillina & Hussain, 2020). Besides, the waqf mechanism plays a significant role in Muslim communities as it assists the poor, the orphans, and the aged through the provision of business activities, health, training and education (Razak, 2020). In his submission, Ratnasari (2020) posits that waqf can play an important role to improve various activities such as waqf hospital particularly for Covid-19 pandemic victims, waqf isolation house, waqf polyclinic, waqf masks, waqf universities, waqf ventilators and others.

### **METHODOLOGY**

This study is conceptual and it explores past empirical and theoretical studies conducted on the concepts of Islamic social finance such as waqf and zakat as mechanisms to alleviate the impact of the covid-19 pandemic on the individuals and the economy generally. The main method employed is the review of extant literature to deduce or gain more insight into the roles of ISF in mitigating the effect of the Covid-19 pandemic. Consequently, the study examines previous articles and relevant materials from reputable journals, textbooks, newspapers and internet sources on the concepts of zakat and waqf which are principal instruments of ISF. Based on insight arising from the findings of previous literature, the study deduces its proposition and conclusion.

### **RESULTS AND DISCUSSIONS**

Based on the literature reviewed above, it can be considered that Islamic social finance can counter the emerging danger of Covid-19 pandemic. This is because extant literature document evidence of the positive and favourable association between Islamic social finance in the form of zakat and waqf and social development. To this effect, Zakat and waqf are vital concepts in Shariah or Islamic law that have enhanced the economic development of several nations via poverty alleviation and equity in wealth redistribution. This is based on the fact that Zakat is one of the five key pillars of Islam which entails the mandatory payment of the minimum of 2.5% of the wealth of qualified Muslim faithful. Hence, the objective of distributing zakat is to alleviate poverty and to help the poor to meet their basic needs particularly during the pandemic emergency (Hanum, 2019). This is consistent with the general view that zakat is not just for religious activity, but a fundamental mechanism to accomplish social-economic development (Retsikas, 2014). Therefore, via zakat distribution, economic growth could be accelerated and the underprivileged empowered and this is applicable to tackling the effect of the pandemic during and after the Covid-19 economic crisis. As such, zakat plays a crucial developmental role in the society by strengthening and uplifting vulnerable communities through self-empowerment and several other types of intercession. On the other hand, the insight from past investigations reveals that waqf is also an important tool of social wellbeing that conceivably assist susceptible populace in different sectors such as SMEs, education, and health as well as cushioning the effect of the pandemic. Hence, waqf is known as a voluntary mechanism for helping the general public as events and situations permits (Faturohman et al., 2020).

Islamic social financial mechanisms in this regard are premised on the establishment and provision of a better environment as well as ensuring the safety of the lives and dignity of the human being. These can be done by providing

the zakat and waqf based fundamental necessities desirable for economic upgrade and health care services for the improvement of individuals and their comforts due to the economic crisis occasioned by the Covid-19 pandemic. The present study based on insight from prior literature concludes that zakat and waqf have played a very significant role in reducing or mitigating the difficulties of the people and society during and after the Covid-19 pandemic. It is therefore evident that zakat and waqf have provided greatly to meet the needs of the vulnerable in the form of medical facilities (such as ambulance, medical equipment and isolation centres) to curb the spread of the deadly virus Covid-19. Also, through zakat and waqf financial supports were given to the victims of Covid-19 to mitigate their afflictions thereby enhancing their survival. Hence, through zakat and waqf funds were given to the poor people who were affected by the pandemic to re-start businesses that were endangered by the imposition of lockdown and various restrictions by the government to prevent the spread of the virus. More so, the study discovered that zakat and waqf have potential immunity in curbing the health and economic effect of the Covid-19 pandemic in most countries.

## CONCLUSION

This study aims at conceptually exploring the role of Islamic social finance via zakat and waqf in mitigating the effect of the Covid-19 pandemic on the people and society at large. Based on insight from literature this study concludes that ISF enhances the wellbeing of the masses affected by the Covid-19 and other related crisis. From the theoretical perspective, this study discovered that studies on the role of ISF and Covid-19 crisis are still ongoing as the pandemic has not been totally subdued globally. This is because reports of new cases relating to Covid-19 and even Covid-20 are globally evident and this requires further application of the ISF principles to cushion the situation. From the practical angle, this study concludes that the government and policymakers need to intensify efforts in the practice and application of ISF principles to mitigate the effect of the Covid-19 pandemic. To this effect, this study discovered that measures were taken by the public authority to curtail the spread of the virus through the imposition of lockdown, closure of Airports and suspension of all business activities which negatively affect individuals and the entire economy. However, this study equally found based on previous investigations that Islamic social finance via its products like that zakat and waqf helps in alleviating the effect of the pandemic. Zakat and waqf institutions have played a significant role in the provision of economic and social wellbeing and ameliorate the suffering of society using different programs in different countries.

This study is conceptual therefore future study should engage empirical investigation to explain the role of ISF in mitigating the effect of Covid-19 pandemic. Also, the study is limited to the application of Islamic social finance principles like zakat and waqf to mitigate the effect of Covid-19 pandemic. Subsequent investigations may extend the scope of the study to include Sadaqat, Infaq, Qard Al-Hassan and other ISF instruments to enhance the generalizability of the study. Consequently, it is recommended that government from various countries, Islamic banks and policymakers should work hand in hand to implement Islamic social finance as an alternative way to develop the social wellbeing of the people across the world. Moreover, zakat and waqf can be adopted in strengthening the economic stability by utilizing the funds

not only for easing welfare of the low-income people and underprivileged but also to finance the business activities of SMEs which are considered to be the hub of most economies which are equally affected by the deadly virus Covid-19 pandemic. Conclusively, the concept of ISF (zakat and waqf) in itself is an important basis for economics to reduce the gap between the poor and the rich in the society and to strengthen the global economy.

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