

## COVID-19: OPPORTUNITIES IN ISLAMIC FINANCE TO OVERCOME THE CONSEQUENCES OF THE GLOBAL ECONOMIC CRISIS

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### Abstract

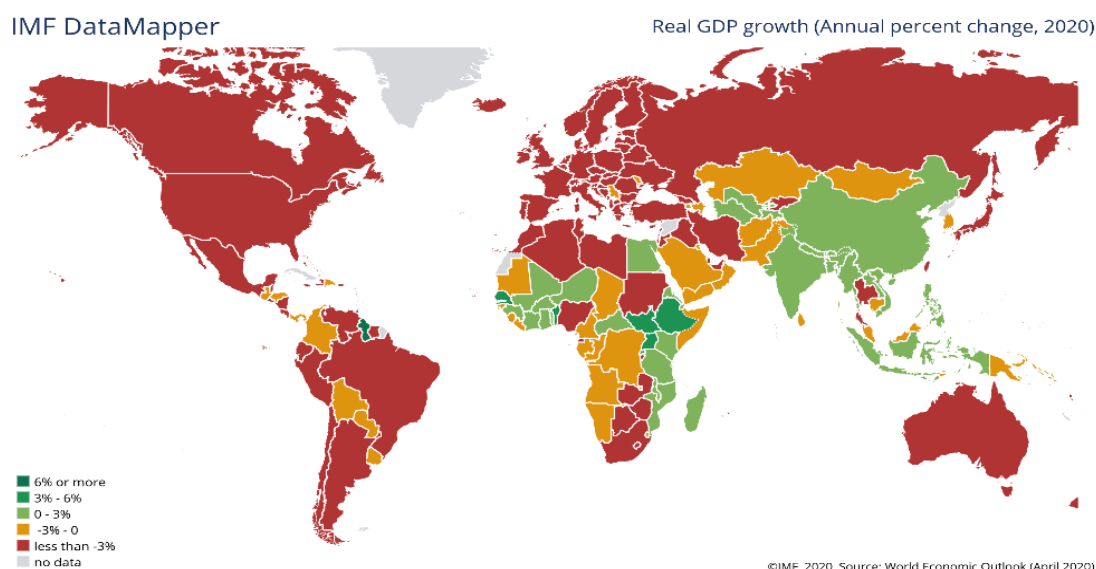
It should be acknowledged that the process of the pandemic has demonstrated how critical it is for humanity to approach socio-economic relations in society from an ethical point of view. As everyone knows the fundamental values of Islam put great focus on social justice, equality, and distribution of wealth between the haves and the have nots. Therefore, in this context, the potential of Islamic microfinance products, including Mudaraba, Salam, Takaful, Zakah, Sadaqat, and Qard-al-hassan, as a response to the global economic crisis during the coronavirus pandemic, was explored.

**Keywords:** Pandemic, Islamic financial instruments, household income, microfinancing,

### Introduction.

It is well known how much damage the Coronavirus pandemic has caused to the global economy, and become a severe obstacle to the development of globalization. The shock to the worldwide economy from COVID-19 has been both faster and more painful than the 2008 global financial crisis (GFC) and even the Great Depression ([www.ccn.com](http://www.ccn.com))

Early estimates predicted that most major economies would lose at least 2.4 percent of the value their gross domestic product (GDP) over 2020, leading economists to already reduce their 2020 forecasts of global economic growth down from around 3.0 percent to 2.4 percent ([www.worldbank.org](http://www.worldbank.org))



According to World Bank estimates, the growth of gross domestic product (GDP) of Uzbekistan in 2020 will be 1.6%. It is noted that the COVID-19 pandemic is a severe challenge for the economy of Uzbekistan. According to experts of the bank, growth will sharply decline in 2020 as a result of a significant reduction in foreign trade and domestic economic shocks. GDP growth in 2021 is projected to be at 6.5% in 2022 – 5.5%. Reduced tax revenues and additional costs to respond to the crisis are expected to increase the budget deficit to 5.6% of GDP in 2020 and 4.7% of GDP in 2021.

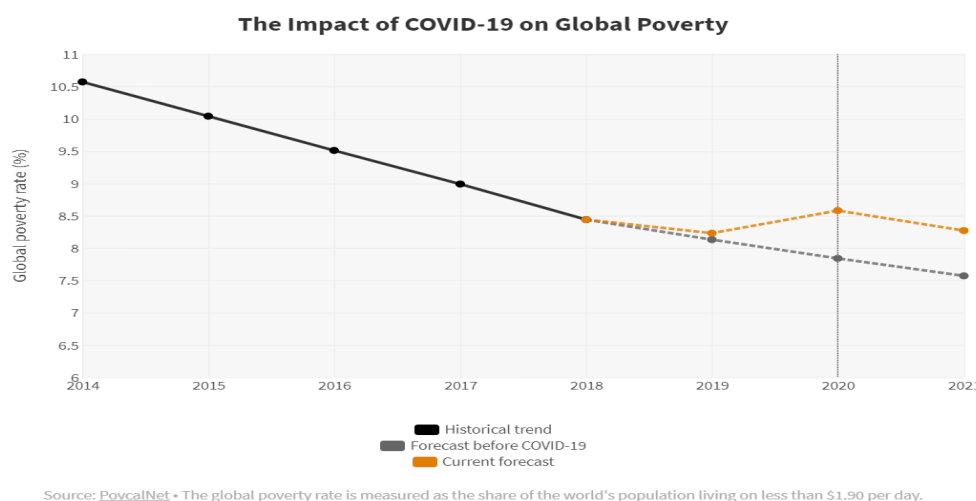
The Government of Uzbekistan adopts a variety of legal regulations to ensure the stability of the economy during the pandemic. According to them, the main focus of funding is to provide support to those who have lost their primary income, disadvantaged communities, and entrepreneurs (Sh.Mirziyoyev, 2020). The document notes that from 2020 1 April to 1 October, low income and disadvantaged individuals are financially supported by the charity funds donation, cash, and goods (services) are considered as deductible expenses when calculating income tax (rate of 15%), goods (services) are exempted from value-added tax (rate of 15%) and is not included in the object of taxation on value-added tax (rate of 4%). The deadline for the provision of interest-free deferment (installment plan) for tax payments on a simplified basis is extended until 31 December 2020.

### **Why poverty reduction is important?**

Analysis of past disease outbreaks such as SARS and Ebola suggests that income poverty is an important factor in disease transmission (Fallah, 2015). Given the nature of Coronavirus and its dissemination, control and prevention strategies need to be extended to everyone, while still considering that vulnerable communities might be at higher risk of contracting Covid-19. People living in or near poverty frequently lack enough cash and are unable to buy food easily. Hunger, obesity, pneumonia and other types of health-related shocks and stress intensify the susceptibility of the virus and lead to the vicious cycle of disease, destitution and death. Poverty generates factors that enable the transmission of infectious diseases and the preventive impact of vulnerable populations to have sufficient access to prevention and treatment.(GRIFFITHS & ZHOU, 2012). Poverty can drive pandemic, but pandemic can also create or deepen poverty. Afterwards, this can be caused domino effect in global sscenario. It is impossible to end a pandemic without fighting poverty, and not stopping a pandemic will lead to an increase in poverty in countries and populations. All countries have already realized that joint effort and cooperation is a single way in fighting against and stopping global pandemic. As Eighth Secretary-General of the United Nations, Ban Ki-moon argued that promoting sustainable development, saving planet and poverty reduction are one and the same battle for mankind (Ban Ki-moon, 2011).

## From Pandemic To Global Poverty

The most commonly understood concept of absolute poverty metrics is poverty in economic terms — earning less than \$1.90 a day. But the World Bank moves beyond the level of cash that a individual or a family earns to enhance the concept of poverty. The definition describes that, poverty is hunger, lack of shelter, being sick and not being able to see a doctor as well as poverty is dying a child from illness due to unclean water, powerlessness, lack of representation and freedom. The world is making great strides in reducing global poverty. A fifth of the world has climbed out of deep poverty since 1990. According to the World Bank estimations, in 2015, 734 million people lived on less than \$1.90 a day all over the world (World Bank, 2020). However, due to both COVID-19 crisis and the decline in oil prices, this trend is expected to change in 2020. The COVID-19 crisis will have a major effect on the poor due to employment cuts, lack of remittances, rising inflation and service deficits such as schooling and health care. Besides, the reduction of action due to the COVID-19 pandemic had an immediate and widespread effect on jobs. Global hours worked could decline by 10.5 per cent this year, equal to 305 million full-time employees on a 48-hour workweek. (Figure 1)



It is forecasted that COVID-19 is likely to cause the first increase in global poverty since 1998, when the Asian Financial Crisis hit.

### **Islamic microfinancing opportunities.**

Based on the above economic situation analysis, offered below the products that are effectively used to increase the income of businesses and the population around the world in terms of Islamic financial instruments to minimize the effects of the crisis.

## **1. Redistributive instruments for households.**

Redistributive instruments are products such as Zakah, Sadaqat, and Qard-al-hassan complement risk-sharing instruments to target the poor sector of society to offer a comprehensive approach to eradicating poverty and to build a healthy and vibrant economy.

**Zakat.** Zakat is the third pillar of Islam. It is a prescribed share of one's wealth that should be distributed among those entitled to it. According to Chapra, the renowned Islamic economist, zakah is the financial duty of a Muslim "to pay out of his net worth or agricultural output, if these are higher than the threshold of zakah, a specified portion as an indispensable part of his religious duties." A primary objective of the zakah is economic empowerment, which can be interpreted from the Quranic verse as a way of providing for the basic needs of Muslims, especially those who are most needy.

**Sadaqat.** The second instrument of redistribution is Sadaqat (voluntary social spending). Researchers argue that according to Islam, poverty exists not because economic resources are scarce, but because they are misallocated, inefficiently managed, unproductively hoarded, and unevenly distributed. Independent social spending, according to Islam, is the best possible way for members of the Islamic social order to promote a more equitable distribution of wealth and resources. Muslims with the financial capacity to donate beyond their Zakah requirements are therefore strongly encouraged to further invest in infaq and Sadaqat.

**Qard-al-Hassan.** One of the effective tools of monetary policy in Islamic finance is Qard-al-Hassan. Under Shariah law, lending money is permissible. The only riba is actually forbidden. Qard hassan are benevolent loans with "no interest" that attempt to support the vulnerable and alleviate their hardships. Although the cash paid by the lender is considered an interest-free loan, Lewis and Algaoud (2001) point out that the borrower can repay any amount over the loan as long as the lender has not asked for it. Obaidullah (2005) adds that it is allowed for the lender to ask for collateral and charge administrative expenses on loan.

## **2. Risk-sharing financing instruments for business.**

The use of risk-sharing financing instruments can offer Shariah-compliant microfinance, financing for small and medium enterprises, and micro-insurance to enhance access to finance. Shariah-compliant financial principles can be compatible with microfinance, and technical standards can be put in place, for example, through standard Shariah-compliant microfinance arrangements such as a Murabaha agreement, or possibly even a mudaraba agreement. As shown too, the leasing or purchase of property or other goods can be accomplished via an ijara agreement. Elsewhere in microfinance, we have seen that bank accounts can be offered by banks under an amanah or wadia contract, while the community-based solution found in a takaful contract is ideal for providing microinsurance.

The system of lending in Islamic microfinance varies from traditional microfinance due to the prohibition of interest. Unlike traditional microfinance, IM provides an interest-free way to provide small loans to people who are vulnerable and poor.

**Table 1: Differences between conventional and Shariah-compliant MFIs**

	<b>Conventional MFI</b>	<b>Shariah-compliant MFI</b>
<b>Liabilities (sources of funds)</b>	External funds and savings of clients	External funds, savings of clients, Islamic charitable sources
<b>Assets (mode of financing)</b>	Interest-based	Shariah-compliant financial instruments
<b>Financing the poorest</b>	The conventional doesn't target the poor adequately	Poorest are included when integrating zakah with microfinance It can meet the needs of the poorest of the poor
<b>Funds transfer</b>	Cash has given	Goods transferred
<b>Main target group</b>	Primarily targeting women	Targeting the household members either the husband or the wife or both.
<b>Dealing with default</b>	Group/community pressure and threats	Religious values/family kinship

Source: Ahmed (2002: 25) [7]

IM offers the investor a chance to become involved with successful projects that could play a major part with solving poverty and alleviating hunger in many countries around the world. IM relies mainly on the delivery of financial services to developed or emerging regions subject to certain requirements laid down in Islamic jurisprudence. It reflects the merger of two increasing sectors: microfinance and the Islamic finance industry. This has the ability not only to offer a solution for rising pressure to support the poor, but also to integrate the socially conscious Islamic values of caring for the less fortunate.

The paper concludes that Islam offers a rich set of instruments and unconventional approaches, which, if implemented in the true spirit, can lead to reduced poverty and lack of financial resources among entrepreneurs. Therefore, politicians who are serious about reviving capital turnover through additional financial resources during the economic crisis in our country should use the potential of Islamic instruments to achieve this goal and focus on improving regulation and financial infrastructure to create a favorable environment.

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