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Overcoming the Economic Crisis due to a Pandemic through Islamic Finance

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Abstract

The Covid-19 disaster is an exogenously induced downturn that is expected to leave 2021 global GDP approximately 5 percentage points lower than in January 2020 pre-Covid-19 estimates. The negative impact on low-income households is especially severe, jeopardizing the world's significant progress in reducing extreme poverty since the 1990s. To react to frequent crises and catastrophe global economic stagnation, a new paradigm is required. Institutionalized risk-sharing can assist the global economy in resiliently absorbing shocks and stimulating stagnant demand. Islamic finance principles assist the economy in avoiding endogenously generated crises, such as the Global Financial Crisis, and provide a strong safety net against exogenously induced cycles, such as the Covid-19 crisis. In practice, this necessitates a diverse set of well-functioning institutions to translate these principles into real-world impact. As it currently stands, the Islamic financial industry's many essential components of this spectrum are still missing. The crisis should be viewed as an opportunity to fill gaps and diversify the industry. Given the fact that the Covid-19 crisis is exogenously induced, the impact on Islamic banks is expected to be comparable to that on conventional banks. The similarity of their business model, sharia-compliant equities, on the other hand, outperformed their conventional counterparts. The ineffectiveness of non-profit organizations, like awqāf and zakat, reduced the role of safety net in curbing the repercussions of the crisis. The Covid-19 pandemic poses liquidity, resilience, and capital challenges for the Islamic banking sector.

Keyword: Covid-19 pandemic, Islamic finance, safety net

INTRODUCTION

COVID-19 represents a major economic downturn that in many countries has led to depression or crises. Since the financial crisis, the global economic contraction has reached its worst level. The recession began at the end of February and lasted until the beginning of April in the 2020 economic downturn. The crash on the stock market was short and most major market indices have stabilized or reached new heights by the end of 2020. Each industrialized country and developing country shall have entered a recession or contraction by September 2020. Full recovery in some areas will not occur until 2025 or later, according to the World Bank's projections (Eichengreen et al., 2021).

The impact of the COVID-19 pandemic is seen beyond the public health sector as it spreads and locks down to limit the escalation of the pandemic. The pandemic has many economic impacts on the real economy. Because of the COVID-19 pandemic, half the world's population has been ordered to stay at home to prevent the spread of the virus. It would have major implications for economies worldwide as the capital and customer demand were stagnating worldwide soon after a major economic slowdown in 2019 (Abdal & Ferreira, 2021).

The recession led to abnormally high and rapid inflation in several countries and to the failure to comply with the volume of the claimant in U.S. government-funded unemployment insurance

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programs and practices. By October, over ten million jobless applications were received in the United States. The UN has anticipated that world unemployment in the second half of 2020 will fall by 6.7% and 195 million full-time workers are expected in April 2020. In the United Nations (UN). Reduced transfer payments affected developed countries, reducing famines caused by the pandemic of COVID-19 (Mohapatra et al., 2020).

The global financial crisis and the oil price dispute between Russia and Saudi Arabia in 2020 resulted in a drop in oil markets, destruction of tourism, the hotel and electricity sectors, and significant drops in customer demand compared to the previous few years. The financial market crash in 2020 culminated in a 20% to 30% decrease in the stock index between the end of February and March 2020. The recession brought about wild shifts in global stock markets, mainly because of political instability. Islamic banking entities in the Arab world are very dependent on governmental budgets, except for their Asian or African counterparts, which means that the unprecedented fall in oil prices is having a major impact on them (Faheem et al., n.d.; Mundaca, 2013).

The outcome of COVID-19 could also pave the way for Islamic banking, particularly given the growing importance of social responsibility for companies and environmental sustainability. Global statistics forecast that Islamic financial deposits would have increased by 5% in 2020 before the pandemic. On 23 April, several services conforming to the Sharia system were highlighted, including Zakat (charity) and Sukuk, within the UN development program (UNDP). The pandemic economic growth in most economies (Table 1). presents severe economic consequences for the real world.

Table 1 The pandemic economic growth in the world

	2016	2017	2018
Real GDP growth (PPP exchange rates)			
World	2.6	-3.9	4.8
OECD	1.5	-5.9	3.5
Non-OECD	3.5	-2.3	5.7
Real GDP growth (market exchange rates)			
World	2.3	-4.8	4.3
OECD	1.6	-6.1	3.5
Non-OECD	3.4	-2.5	5.6
North America	2.3	-4.8	2.5
Europe	1.5	-7.4	5.0
Euro area	1.2	-8.3	5.6
Asia & Australasia	3.8	-1.8	5.4
Latin America (ex. Venezuela)	-0.6	-8.1	4.1
Middle East & North Africa	0.1	-5.3	1.7
Sub-Saharan Africa	2.0	-4.2	1.7

Source: IsDB Group Report on Covid-19

LITERATURE REVIEW

COVID-19 is by far the worst pandemic since Spanish influenza in 1918 and the State of the global economy. The country was in the middle of a global crisis and a deep stock market decline as the pandemic began at the end of 2019 and extended to 2020. The plurality of analysts forecast a moderate recession. Due to the rapid spread of the pandemic, global economies have locked populations to manage the epidemic. This culminated in the simultaneous decline of several industrial and consumer industries, which placed a burden on banks and jobs (increased interest rates). As a result, a crash in the inventory industry and a contraction occurred (Ben-Ishai, 2020; Vinod & Sharma, 2021).

The latest global distancing measures for the pandemic have brought an end to a large part of the world economy. The COVID-19 pandemic has economic consequences in addition to the transmission and control of infectious diseases. As the CIVID-19 virus spreads across the globe, concerns are shifted from the supply process to reduced production in the service sectors. The pandemic caused the worst recession in world history, with about a third of the world's population locked down (Alvarez et al., 2021).

A wide range of panic buyers, increased use of supplies for the fight against the pandemic, and delays in continuum factories and logistics are believed to have an impact on the supply failure. Many cases of price gouging have occurred. Overall reporting on health problems, emergency procurement, and associated food shortages and other essential foodstuffs has been reported in some countries. In particular, the technology sector has warned of delays in the delivery of electronic products. The number of VOCID-19 cases from outside mainland China decreased considerably on 24 February 2020 as a result of world stock markets. The most difficult week since the 2008 financial crisis will have taken place on the world stock market by 28 February 2020. The global stock markets crashed by several percent in March 2020.

Outbreak insecurity and associated behavioral changes can result in temporary food shortages, increases in prices, and market instability. These price increases would have a detrimental effect on vulnerable populations who rely on food markets and humanitarian aid for their livelihoods and access to food. Protectionist measures such as import duties and export bans could significantly increase the world's population, as demonstrated by the food price crises of 2007–2008.

The corona-virus pandemic disruption has significant impacts on the markets of the capital, including stocks, bonds, and commodities, like crude oil and gold. In March 2020, the war on oil prices between Russia and Saudi Arabia led to the crude oil price collapse and a correction of stock prices. Under the UN Development Programme, developing countries would sacrifice US $220 billion of COVID-19 profits with months if not years of economic effects. Some anticipate a fall in the price of natural gas.

In the early stages of the outbreak in April and May, there was a clear correlation between the gravity of the COVID-19 outbreak and the fiscal and stock price volatility. The broader effects of this instability on credit markets could have culminated in more extreme economic downturns without the government's intervention and central banks introduce quantitative easing.

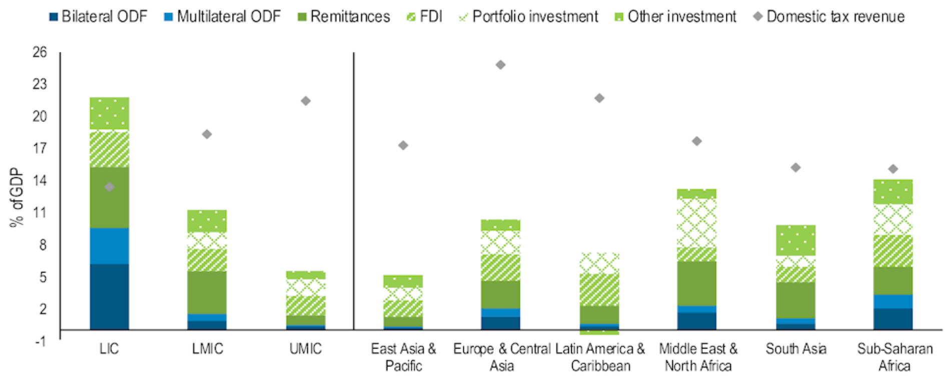

Figure 1. The finance mix and level in ODA-eligible countries differs by income group and region.

Risk Sharing Outlook

The debt trap is worsening over time. During the GFC, the US and EU governments invested over 20 trillion dollars. The result of this investment is that sovereign debt problems have emerged in several nations (Braga & Vincelette, 2011). Yet additional debt is incurred by countries worldwide to deal with the pandemic crises. According to the Finance Institute, global public debt has doubled to $70 trillion since the 2008 recession; this is expected to lead to a pandemic reaction. So far, approximately $ 9 billion of sovereign commitments have been made to tackle the pandemic threat. The growing sovereign-debt level raises serious questions about the risk of another sovereign-debt crisis.

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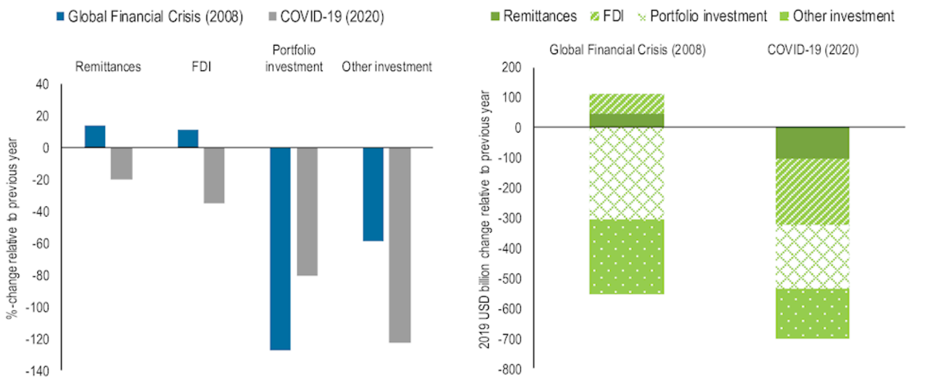
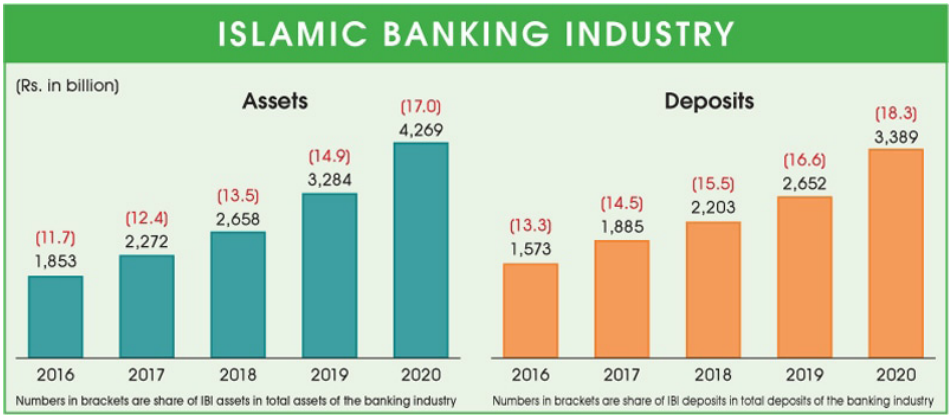


Figure 2. The overall COVID-19 consequence on external private finance in developing economies is estimated to be USD 700 billion and could exceed the impact of the 2008 financial crisis by 60%.

Banking and Finance in Islam

On two fronts, Islamic finance is protected against widespread crises: the strong connection between finance and real economic operations; and risk-sharing work as the first line of defense. The main line of defense against exogenous risks is a strong social security net. By integrating the two defense lines, we can gain a clearer picture over time of economic success. Without liquidity restrictions, it would almost surely end in produced booms and bubbles. Since the bubble is volatile, it will burst into recession and plunge the world. The recession could be serious, and the recovery of the economy may take longer, without a strong safety net. On the other hand, the boom is more durable, and bubbles are less likely to form because credit is inextricably linked to positive activities.



The objectives of Islamic finance are the elimination of income inequalities and social justice. It cannot be achieved without a positive contribution on the part of all institutions, including the financial system (Ahmed, 2010; Gheeraert, 2014). One way to achieve this ideal is to bring moral values into society, including social, political, and economic efforts, in all aspects of human life. This helps people to rid themselves of covetousness and indulgence, which makes them the measure of success and achievement in their self-satisfaction and accumulation of rich. In addition to the strong and solid system which can be relied on to contribute to creating a just and equitable society, the financial system must promote fair income distribution. Although recently approved and still evolving, the Islamic financial system experienced steady, consistent growth after the global financial crisis in the last decade. Even in the period following the crisis Islamic finance has established itself as a sustainable financial system to withstand the test of time and remain profitably (Al-Sharkas & Hassan, 2010; Sanchez et al., 2011).

The size and magnitude of the current pandemic and its economic consequences have been agreed upon among scholars, economists, and financial researchers (Kalimullina & Orlov, 2020). So far, the “solution” to the current crisis’s economic damage seems far removed. Several governments have already announced stimulus packages that either do not offer long-term solutions to the current problem or prepare the current system for future mitigation of similar crises. While global economists are seeking solutions and developing strategies to address the crisis, the present study aims at reintroducing an alternative financial system with the capacity to limit the economic effects and bring stability to markets if it is not eliminated (Aalbers, 2015; Meltzer et al., 1999). The study concluded that the current pandemic provided an opportunity to verify the importance of the Islamic financial system.

Islamic Financial System

Several Islamic scholars believe that Islamic finance is capable not only of addressing the economic impact of such a pandemic but that it can also become an alternative financial system and challenge the conventional financial system (Pervez, 1990; Pitluck, 2012). The current pandemic has provided Islamic finance with another opportunity after the financial meltdown in 2008 to demonstrate its potential and brilliance (Al Eid & Arnout, 2020). The Islamic financial system is based on risk-sharing principles, ethics, and moral principles that enable the Islamic financial system to act as a possible warrior, protecting the interests of the poor and vulnerable in crisis (Mohammed et al., 2014; Richardson, 2006).

In terms of how it aims to achieve the ideals of equitable income distribution and socio-economic justice, the importance of Islamic finance can be understood (Mirakhor, 2010). Some specialized Islamic microfinance institutions offer micro-entrepreneurs and poor people affordable finances for higher incomes, wealth, and living standards (Abdul Rahman, 2010). An ethical alternative to the world, particularly Muslims (Yasin et al., 2020) is one of the goals of Islamic finance. Islamic finance does not endorse unethical practices such as betting, alcohol trading, and pornography, among others. It was not that during the 2008 worldwide financial crisis Islamic finance was not affected; rather, in contrast to its standard counterpart, it was less impactful (Syed et al., 2020). Likewise, due to its intrinsic power vis-à-vis the conventional financial system, Islamic finance has a lot to offer during the present global economic crisis.

The above claims by Islamic scholars of today are based on the following Islamic finance theories.

a. The principle of equality and social justice is the first and foremost theory behind Islamic finance. Islamic finance derives this from Islamic core values, which believe, through the preservation of the environment and the protection of the earth’s valuable resources, in fairness, equality and socio-economic justice and a continuous commitment to security and security for future generations (Al-Jarhi, 2017).
b. Islamic finance believes in the distribution of wealth rather than the accumulation of wealth. Some financial products, including Sadaqa, Zakat, and Qardh Al-Hasan are examples of Islamic Finance’s commitment to preserving the rights of the poor through the promotion of excess income distribution among the rich (Kamarudin et al., 2019).
c. The mode of financing of Islamic finance is based on equity and not debt. The transactions are based on asset trading. Haram is declared to use the debtor for financial products such as bonds. Islam is an entire code of life and in every aspect of life, it preaches justice and fairness. It leads Muslims to live within their financial means and prevents them from engaging in transactions outside their reach (Wilson, 1997).
d. Islamic finance is about sharing risks rather than taking risks. Islamic finance promotes risk-sharing and prevents one party from putting undue risk. There is truthfulness and transparency in the relationships between the parties (BinMahfouz & Kabir Hassan, 2013).
e. Islamic finance offers investment options that are safe, socially responsible, and ethical. Islamic finance does not prove fraudulent and Islamic trade practices do not involve Muslims. Rather, the principles of Islamic finance are designed to minimize the likelihood of fraud and unethical practice (Mohd Noor et al., 2018; Raza Rabbani et al., 2021).

Is Islamic finance good enough in this context during a situation like the current pandemic economic crisis? This is demonstrated by the performance of Islamic financial institutions during and after the

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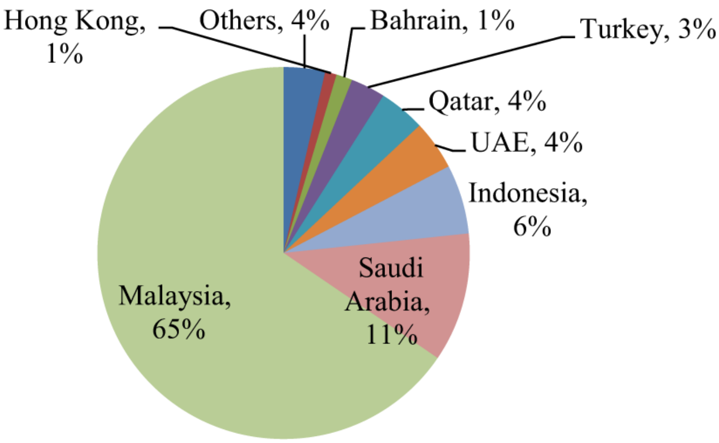
global financial crisis, and it can be interpreted as a vote of trust to Islamic finance (Abdelsalam & El-Komi, 2014; Basher et al., 2007).

The COVID-19 pandemic provided an opportunity to save the poor and provide ethical financial services for the Islamic financial system. The Islamic financial institutions also have an opportunity to compete strongly with the conventional financial system. Naturally, these are not challenging without them. The following section provides descriptions of various financial services which can be used at various stages of the pandemic to help people and institutions recover.

Islamic Equity Funds

Fund deposits in shares of joint-stock companies in an Islamic equity company. Profits are generated largely by capital gains from the purchase and sale of securities as the values of securities increase. Profits are frequently made through dividends paid by the respective companies.



Source: Islamic Financial Services Industry Stability Report (2015, p. 19)

Islamic Finance as a Natural Disaster Management System

Trade practices were built on participation and profit-sharing and loss sharing during the initial days of Islam. Interest-based business transactions were strictly forbidden because payment of interest was considered by the rich to exploit the poor (Akmansyah, 2015; Nienhaus, 1985). However, even in Muslim countries and Muslim communities, the situation began to change in the fifth century when interest-based transactions began to domineer the world of finance, replacing profit and loss-sharing by interest and guaranteed profits (Izadi & Hassan, 2018).

In the twentieth century, profit sharing practice was revived, and Islamic finance began to emerge in Arab countries utilizing a small cottage industry in the late 1970s. Islamic finance is different from conventional finances because its principles are derived from the Quran [words of Allah] and the Sunnah [hadith of the Prophet Muhammad] (Djojosugito, 2008; Z. Iqbal & Mirakhor, 1999). Islamic financial institutions are not permitted to do certain things under Sharia principles, such as (Alsharari & Alhmoud, 2019; Šeho et al., 2020):

a. To pay or receive interest (premium paid by the borrower to the lender).
b. For the purchase and sale of illegal or certain non-Islamic products such as alcohol, pork, meat, and poultry not certified, as well as any alcohol or haram fats.
c. Gharar Transactions—Gharar means highly uncertain transactions which can lead to fraud or disappointment. Common derivatives from finance, such as options, futures contracts, and futures contracts, are subject to the Gharar and are prohibited by Sharia law.
d. Maysir refers to transactions that are subject to certain specific events.

e. Transactions not related to underlying assets, such as obligations, conventional loans, etc.
f. For the late payment of a late transaction, charge extra money.

Over the past four decades, Islamic financial institutions have introduced many Sharia-compliant financial products and services around the world (Ben Jedidia & Guerbouj, 2020; Jaballah et al., 2018). These products are introduced in consumer finance, investment banking, financing of the poor and needy, risk capital, and small and medium-sized businesses (Ata, 2019; Sherif, 2020). These products and services are equity-based financing options, such as Musharakah, Diminishing Musharaka, and Mudrabakah, as well as asset-backed financing for Islamic financial institutions, such as Murabaha, Ijarah, Istisna, Salam, and Istisna. Qardh-Al-Hasan, Bay-Al-Sarf, and Agency are some other popular financial services (Hardianto & Wulandari, 2016; Wulandari et al., 2016).

RESEARCH METHOD

The theoretical approach to this research design takes COVID-19 into account. The present study aims to create insights into the innovative Islamic approach to tackling the pandemic economic crisis. The pandemic of today has created a lot of unsafe, volatile, ambiguous, and complex. To address this issue, we propose the efficient use of Islamic finance products/services. In this study, Islamic approaches take four phases of economic opportunities into account.

These Islamic approaches derive from the Holy Text of Islam (Qur'an) and Traditions (Hadith) which have been gathered from Prophet Muhammad's life (positive) (possible) to the Prophet (positive). The Islamic financial system is based on the principles of Sharia, which deal with many different aspects of society, such as business, banking, contracts, and business transactions. These principles are incorporated in this study and appropriate innovative instruments are proposed (Razaly et al., 2015; Tlemsani et al., 2020).

A comprehensive overview of conventional literature and Islamic finance are the basis of the proposed model. To understand the current economic problem caused by the COVID-19 pandemic, the conventional finance literature has been used, and Islamic finances have been used to provide potential solutions on a variety of occasions (Ozsoy, 2016). This study also offers an appropriate framework for using various products and concepts in Islamic finance at each stage and their mechanism of involvement.

RESULTS AND DISCUSSION

Respond to COVID-19 by the Islamic Financial Service and Social Open Innovation

The two topics needed during an emergency, such as the current pandemic are social and open innovation. The face of global social and economic structure may be changed by social innovation (Chesbrough & Di Minin, 2014). Support from the political decision-makers and the trust in innovation that brings good results and sustainable economic growth is the most important factor for the success of social innovation (Fursov & Linton, 2022; Lopes et al., 2017; Ning et al., 2009).

The pandemic is also relevant to social and ouverte innovation and provides an additional opportunity to find and develop open, innovative solutions to combat the pandemic's economic shocks. The possibility to provide sustainable financial systems is provided by social and open innovation. Open innovation provides more opportunities in an organization for company social responsibility and co-creation (Yun et al., 2019; Zajko, 2017).

In Islam, any innovation, whether social or open, is welcome as long as the fundamental ethos and principles of sharia are not violated (C. Iqbal, 2021) as mentioned above. Islamic financial services represent a type of ethical financing based mainly on ethics and moral principle and accept any innovation to improve financial services (Akhtyamova et al., 2015; Dogan et al., 2019). Customers of Islamic finance have already accepted innovations such as Financial Technologies (Fintech) and its associated finance services. The restrictions imposed by the COVID-19 pandemic such as the social dissociation have made these financial services based in Fernando more popular among customers of Islamic finance (S. Khan & Rabbani, 2021; Syed et al., 2020).

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The importance of creativity and innovation is already recognized by companies and customers in believing that such innovations offer quality, efficiency, transparency, customer confidence, and profitability (Al-Salem, 2009). The Islamic financial industry's unprecedented growth is partly since it incorporates innovation, including social and open innovation, and has played an important role in its past growth (Hamdani & Wirawan, 2012). Social and open innovation in Islamic finance would help to fight the economic consequences of the COVID-19 pandemic.

Musharaka and COVID-19

Musharaka is one of the most popular Islamic financial services for the financing of individuals and organizations used by Islamic financial institutions and banks. It refers to 2 or more people who collect capital under the terms of the agreement to do their business and share profits and losses. Musharaka is a strong, Islamic financial facility for welfare development and poverty alleviation (Selim, 2020b).

The following describes some fundamental characteristics of Musharaka (Arshed & Kalim, 2021; Azli et al., 2011).

a. The capital is contributed by the partners (joint ownership).
b. Rights and responsibilities are defined in the partnership.
c. In the agreed profit-loss ratio, profit and loss are to be shared by the partners. The profit is to be shared in their capital ratio in the absence of any ratio. A sleeping partner cannot benefit more than the contribution of capital.
d. Under the partnership agreement, the Musharaka partnership is administered. Partners may appoint an active partner and other partners may be silent or asleep.
e. Active or managing partners have the right to more profit than their capital contribution.

Mudarabah and COVID-19

Mudaraba is regarded as one of the most popular and genuine modes of Islamic financial services by ancient and contemporary scholars in Islamic finance. The Rabb-Ul-Maal is a contributing party of Mudaraba, but the other Party that manages the Mudaraba agreement is called Mudarib (Ebrahim & Sheikh, 2015; Maali & Atmeh, 2015; Sapuan, 2016). It is a party that contributes to this capital. Mudaraba's basic characteristics can be summarised as follows:

a. There are two main parties to the Mudaraba contract. The provider of capital is known as Rabbu-Ul-Maal, and the manager of the business is known as Mudarib.
b. There is an agency relationship between the Mudarib and Rabb-Ul-Maal as there is a master–agent relationship between the parties.
c. The capital is contributed only by the Rabb-ul-Mall, and in certain cases, the Mudarib could contribute capital to the Musharaha and Mudaraba combinations. iv Under the agreed conditions, the profit shall be shared between the Parties. However, only the Rabb Ul-Mall will be able to share the loss, because the Mudarib is the foregoing benefit that it loses in the event of a loss.
d. The capital of the Mudaraba contract can be in cash or kind.
e. In various contexts of a modern enterprise, the Mudaraba contract can be applied. Saving and current deposit accounts with Islamic banks are the most popular application of Mudaraba. In that case, Mudarib is the Islamic bank and Rabb-Ul-Mall is the repository.

Murabaha and COVID-19

Murabaha is essentially the Islamic finance sales contract and is not a method of financing. The transaction is carried out on a more costly basis in the case of a Murabaha sale. The distinction between normal sales and Islamic sales, i.e., a Murabaha, is clear from Islamic finance. A sale of goods between parties with a mutual agreement is defined in Islamic Finance (Bulutoding et al., 2021; Gundogdu, 2018; Mediawati & Agustami, 2016; Shah & Niazi, 2019).

It must meet the following three conditions, to be a valid sale and to comply with the sharia principles.

a. The goods must be in existence at the time of the sale agreement. Non-existing goods are not allowed for sale.
b. The goods shall be the property of the seller. The seller cannot sell anything he doesn't possess. Such sale is not a valid sale in Islamic finance before the acquisition of ownership of the goods;
c. The goods must be physically or constructively owned by the seller, as derivatives are haram in Islamic finances as options.

Ijarah and COVID-19

Ijarah means to pay a fee, rent, or fare to a person. Ijarah is the sharia-compliant conventional finance lease version. Ijarah means giving someone the right for a fee, rent, or fare to use a property (Ehsan Wahla et al., 2018). In two ways, Ijarah may be used. The second type relates to the use of the asset and property for a fee or payment when one employs the services of a person at a fee. In conventional finance, the leases can be of two types: an operating rental, a rental contract, where the right to use property has been secured, and a capital lease, a lease agreement, where ownership of the asset is transferred at the end of the contract period to the renter (Ahmad et al., 2020; Z. A. Khan et al., 2019).

Islamic financial institutions only recognize the operational type of rent, while capital leases are not permitted under Sharia law (Yaakob et al., 2014). Islamic financial services like Ijarah have become a potential warrior to the crisis in recent Islamic financial developments (Saleem & Mansor, 2020; Sifat & Mohamad, 2016). The changes have increased demand for Ijarah contracts. It is necessary to develop user-friendly contracts for Ijarah to meet the needs of the persons and organizations affected by COVID-19. The Ijarah agreements should be provided by Islamic banks based on the needs of people and SMEs.

Salam and COVID-19

The Istisna and Salam are the exceptions to the Islamic Finance sales contract. The three basic conditions of a sale, as explained earlier during the discussion in Murabaha, must be satisfied to become a valid sale. This is in breach of the Salam contract when the seller agrees to sell certain goods at a non-existent date, and the seller receives full payment at the time of the agreement (Anwer, 2020; Hisham & Jaffar, 2016; Muneeza et al., 2011; Ningsih & Wardayati, 2016). The contract is not in force. Salam describes the key features of the contract as follows:

a. The commodity is to be delivered at a future date.
b. The price for the Salam contract is paid in full at the time of the agreement.
c. Salam is allowed by the Holy Prophet Muhammad ﷺ to help needy farmers after the prohibition of Riba.
d. Salam contract is allowed only for a specific set of commodities like rice, wheat, dates, etc.
e. Salam contract can finance the immediate need of farmers and only for homogeneous goods.

Farming is the COVID-19 sector most seriously affected (Bochtis et al., 2020; Huang, 2020). A farm-friendly salam contract can be a lease on life for farmers who are already dying. Salam is a contract that our farmers need so much, and Islamic banks and governments must use it extensively to meet the farmers' needs in terms of funding. Concerned farmers with the COVID-19 can agree to obtain essential capital and supply the goods as soon as possible for delivery. It will help inject liquidity that is much needed in agriculture.

Istisna and COVID-19

Istisna is another exception to the Islamic Finance general sales agreement. In the case of Istisna, a contract for goods requiring production is allowed as an exception to the selling contract. It makes sense that the producer won't be ready to produce unless the buyer has given him a commitment (Araz, 2020; Hasmawati & Mohamad, 2019; Rashid & Hasan, 2014; Selim, 2020a). This is very logical. Istisna's main characteristics are as follows.

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a. It is an order from a buyer for the manufacturer to produce something for him.
b. It is allowed only for goods that require manufacturing, like the work of a carpenter, jeweler, or baker.
c. The payment of Istisna can be deferred or spotted, unlike the Salam contract.
d. To produce the goods, the manufacturer must use its material. In that case, it will become an Ijarah service if it uses the material supplied by the client.
e. To prevent any Gharar element, the goods to be manufactured must be of a specified quality, type, color, etc. Gharar is an Arabic term, which is an economic transaction that is described by the word "Haram" as being the element of uncertainty, disappointment, and excessive risk.
f. There is the possibility to cancel the Istisna contract before the manufacturer starts manufacturing the product.

CONCLUSION

The objective of this study is to propose Islamic financial instruments to deal with the COVID-19 economic crisis. This study identifies four essential economic crisis stages and ten Islamic financial concepts to be used in the various crisis stages. Different economies have experienced the four-stage of the COVID-19 induced economic crisis. Some countries are at one stage of the crisis or another. The development countries' core capitalist approach and the developing countries' semi-socialist approach have failed to face the economic crisis. This environment calls for concepts such as Zakat and Sadaqa, which promote the development and consumption of economically marginalized communities. Mudaraba and Murabaha encourage start-ups and small and medium-sized enterprises to either recover or startup. This promotion improves the morality of the individual and creates jobs that increase consumption. Sharia compliance and various investments in various infrastructures, such as immobilization, machinery, or any other asset, might help to bring economic normality. Consequently, in each stage of the pandemic, the Ijarah concept is one of the most relevant factors. The principles of Islamic protection and hospitality for the needy are respected. This principle contributes directly to the economy by taking on rich infrastructure benefits and contributes to the business class.

The study proposes the Islamic approach to sustainability to face the pandemic COVID-19 challenges and to identify a practical and possible solution. The pandemic COVID-19 has only affected human health and life but has directly affected the global economic process. The fundamental socialist and capitalist approaches cannot quantify the fundamental value of social justice. Islamic finance has faith in social development through Zakat, Waqf, and Sadaqa by spreading and sharing a surplus portion of wealth. These principles help people restore business and develop fair trade practices. This study also encourages governments to introduce concepts such as salam to ensure liquidity for farmers and others.

The paper concludes that Islamic finance, i.e. inclusion with stability and sustainability, has enormous potential. Islamic financial services like Islamic microfinance, Zakat, Sadaqah, Awqaf, and Qardh-Al-Hasan form part of a range of financial services offered virtually by Islamic financial institutions to combat economic adversity in the COVID-19 context. The article suggests that ten financial services be used to support the affected people at various stages because of COVID-19, with compartmental justification. The paper also describes how these instruments of Islamic finance at various stages are useful.

The current worldwide pandemic provided another opportunity for Islamic finances to demonstrate its resilience, but it also highlighted several challenges that must be addressed in the future. Strong liquidity infrastructures for Islamic finance institutions are the main challenges that must be addressed to turn Islamic finances into a sustainable alternative (Sun et al., 2020) by building aligning reform efforts with global financial regulatory reforms and adopting Financial technology (FinTech). For future scientists, scholars, and policymakers this will be a step forward.

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