

# Role of Islamic Finance during COVID-19: A Study on Practical Implication of Zakat as Short-term Emergency Support System

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**Abstract**— Islamic Finance has always been well known for its unique characteristics to deal with finance. However, few countries pay heed on Islamic rules and regulations and fewer actually prefer to run based on it, the reason is obvious the oppositional standpoint with capitalism. Nevertheless, as the world is facing serious public health crisis like COVID-19, and all normal economic activities cease to function properly, conventional finance is facing serious challenges handling this situation. Though COVID-19 has already been called as great equalizer, not discriminating based on any social, economic, or political strata, Under-developing countries are having quite a hard time surviving this crisis, and Bangladesh is not an exception, especially the vulnerable community of Bangladesh. The objective of this study is to find out the practical implication of Zakat as short-term emergency support system for vulnerable community of Dhaka north City Corporation. To conduct the study, primary source of data was used, following a semi-structure questionnaire using quantitative method of data collection, and convenience sampling style was used for limited mobility induced by COVID-19 lockdown. The study finds out that the practical implications of Zakat are quite useful especially as a short term emergency support system during the COVID-19 crisis, this study also finds out that Zakat can be used as a tool for building resilience also only if smaller number of Zakat recipients are selected.

**Keywords**-Islamic Finance, COVID-19, Zakat, Short-term support system, Vulnerable community.

## I. INTRODUCTION

Coronavirus Disease or more popularly known as COVID-19 is a dangerous novel series virus that emerged in November of 2019 from Wuhan, china. Though it has significant lower mortality rate comparing other viruses of its series, but it is way more dangerous due to its serious level of contagious characteristics. As a result, it is creating far reaching impact on social, political, economic, and religious as well as so many other dimensions throughout the world. As discussions are taking place, days are passing, more and more countries being affected by COVID-19 and the death toll rises [1]. International

project, research for creating vaccines and medicines by hundreds of governments, thousands of industry researchers and hundred thousand of academic group is taking place, however; any formal institutional approval on any vaccine and medicine is yet to come [2],[3]. The impact of COVID-19 is so far reaching that actual estimation of it is out of question. In broader socio-economic, political, financial, religious labels, the impacts are subcategorized from aviation, tourism, education, human rights, politics, corruption, prison, transport, religious practices, food industry, fashion industry, restaurant, religious practice, sports, and even military sector. According to a report of Asian Development Bank, due to COVID-19 outbreak, the global economy could possibly suffer from an estimated 8.8 trillion USD [4]. Where the world's most developed countries are finding it hard to confront COVID-19, least developed countries like Bangladesh is facing grave dangers, not only because it's economic status but also because its capital is the most crowded city in the whole world [5], creating challenges to maintain social distancing, as a result this crisis is creating a new layer of vulnerable community in the city as the normal workflow has come to an end. As reported till November 6th of 2020, a total of 4,17,475 was infected and 6,036 died by COVID-19[6].

Sharia compliant finance or more popularly known as Islamic Finance is a financial activity that complies with Islamic Sharia Law for practical implication of Islamic economics. The mode of Islamic Banking under Islamic finance is consists of Murabahah (cost-plus), Ijara (leasing), Wadiah (safekeeping), Mudarabah (profit-sharing and loss-bearing) and Musharaka (joint venture), while the social finance mode includes Waqf, Zakat and Qard Hassan, etc. All of these instruments of Islamic finance are unique in their own attributes, and Zakat is not an exception. According to United Nations Development Program, Zakat can be an important instrument for supporting emergency program as crisis response and have significant usefulness as short-term emergency support system mitigating the aftermath of COVID-19 [7].

### Objectives of this Study

The objective of this study is to find out the practical implication of Zakat as short-term emergency support system in Bangladesh by measuring how effective Zakat was mitigating the aftermath of COVID-19 to the donee.

## II. LITERATURE REVIEW

The literal meaning of the term Zakat is "that which purifies"[8], it is a form of religious charity but obligatory in nature for who meet the criteria. Zakat is one of the five pillars that uphold the religion Islam, position as right after praying (Salah) as third [9]. In the beginning Zakat was a mere socially constructed idea, but as Prophet Muhammad migrated to city of Medina with the very first Muslim Community, it was made obligatory to the Muslims [10].

Although Zakat is often considered as poverty alleviation approach, the actual implication is beyond that. A recent study by Abbas about firm's value and Zakat potential shows critical insight. Using data from yearly financial statement of enormous 227 mining and manufacturing companies, the study revealed that Zakat have positive impacts on the profitability of firms [11]. However, in this study Zakat is considered as conventional tool for using as a short-term emergency support system.

Islamic finance especially Zakat has always been a crucial means to poverty eradication in Muslim countries. However a study in early 90s took place in Pakistan revealing crucial insight, the cross sectional study was conducted based on random sample survey and identified Zakat only as means to temporarily solution to poverty reduction and not an effective method for permanent rehabilitation for poor, the study concluded with few recommendation of modification of contemporary Zakat system if to make it more meaningful instrument for poverty eradication [12].

Later in the mid 90s, another study on socio-economic development and Zakat funds was conducted by Anwar, he emphasized on innovative financial approaches for development as most of the Muslim countries were facing underdevelopment, he proposed a mechanism to utilize Zakat fund for long-term investment for socio-economic development, his mechanism illustrated that there is potential for Zakat fund as long term investment for the pace of socio-economic development especially for under-developing countries [13].

Another earlier study such as by Thomas and Miora in 2005 was conducted in one of the Muslim Country Pakistan, on the role of social welfare by Zakat. The study initially showed that Zakat provides minimal advantage to the poor community, especially the elderly, the reason behind this poor implication of Zakat identified by authors as corruption, favoritism and greed. However, the authors find Zakat as a potential tool for social welfare as it ensures rehabilitation and redistribution of wealth [14]. Another study by Nazri et al published in 2012 implied that Zakat as an institution to alleviating poverty has lost its pride. The authors suggest that this declining situation can be improved if collaboration with Microfinance Institutions is considered [15].

After the fall of Soviet Union, capitalism was spreading its tentacles across the world, leaving its aggressive profit seeking attitude among countries, *riba* (interest) was becoming prevalent and common practice even in few Muslim countries. During the millennium another country in south Asia name Bangladesh, was facing serious poverty related problems, many five-year plan, three-year plan and two-year plan was initiated but no desired result came out of it. Though micro credit and social safety net program relieved little tension but poverty was still at large. During that time Islamic finance mainly Waqf and Zakat was gaining popularity for poverty reeducation because of its multilayer instrumental supporting mechanism including free education, scholarship, medical treatment. A study indicated the absence of formal Islamic finance mechanism to reeducation of poverty as a great deal for government of Bangladesh; it suggested that government should consider making state-controlled Zakat system for ensuring effective poverty eradication tool [16].

Later in the year of 2008 during worldwide financial crisis, an influential study was published. The study intends to reveal the primary causes of the financial crises, and identified the reason as inadequate market discipline of the financial system which leads to excessive lending, high leverage and finally the vicious cycle that cause the decline of assets prices and helped to form economic slowdown. The study also finds out that Islamic finance can be a proper tool to inject discipline into the system and thus mitigating financial instability and preventing such occurrence from ever happen again, along with that the study recognize the role of Zakat as great medium for supporting the poor and vulnerable community that emerged during the crises. However, the study couldn't find any suitable mitigating measure from Islamic finance instruments to minimize the crises but it did find out the potential role of prevention [17].

Another study was conducted in 2010 by Laila on Zakat and food security. It proposed to achieve food security by mechanism of Zakat as an instrument of Islamic finance. It argues that Zakat can be utilized as an effective instrument against socio-economic problems range from poverty to natural disaster through food security, although necessary modification depending on geographical and social variables should be applied before implementing. The study found positive role that Zakat plays over poverty and food security, even empowering poor but that would require strong safety net program integrated with enhanced Zakat fund. Finally this study suggests that Zakat can play vital role in emergency support system if government support is assured [18].

Focusing on a broader grey zone, another study was conducted in the next year 2011 supporting Chapra's statement of Islamic finance as disciplined finance. This study argues that diverse Islamic economic practices can have a distinct role to play if institutional support is given, however coordination must be assured and to successfully implement and desired scheme, this study also reveals that other Islamic finance instruments such as Sadaqa, Qard Hasan can help create social stability [19].

Like many other Muslim countries Zakat is a state administrated matter in Malaysia, though it didn't happen

overnight, many phases and transformation took place for the Zakat institution to reach on this stage. It s to be believed that state controlled institutions can better perform solving state level challenges like poverty, illiteracy, vulnerability and improving capacity building, however actual success depends on several factors including collection of Zakat, Zakat management, Zakat distribution and maintaining Sharia rules [20].

While Bakar and Ghani conducted a study in 2011, they argued Zakat as an Islamic Institution having ties with Islamic economics aims to cater for the social welfare of Muslim’s. They suggested that Zakat can contribute to improve the minimum quality of life of poor people but to ensure that a proactive mechanism for distribution is prerequisite. Their study advised Ghazali invented maslahah approach for implementation while measuring standard for minimum quality using Abraham Maslow’s human development theory [21].

Poverty reeducation has always been a priority in most of the Muslim countries, and every time it gains momentary velocity after each economic slowdown or crises, Where the Islamic finance industry showed promising potentiality by demonstrating growth and development over the past few decades; however its full potential is yet to be realized, moreover it would require to eliminate the gap between Islamic finance practice and theory [22]. A study on Zakat took place in 2014, This study argued that Muslim countries are underestimating Zakat as strategy to fight against poverty. While examining the role and impact of Zakat on 3 Muslim countries, the study finds out many interesting insights. It argues that Zakat should be integrated with poverty reduction program to not only elevate poor people out of poverty but also to improve their living standard, however that would require additional Islamic finance tools to incorporate with, it also suggests that Muslim government body should take Zakat as obligatory institution matter not voluntarily and leave it up to citizen, along with hat government should also consider formulating poverty reduction policy at national level and vital stakeholders such as practitioner, researcher, social worker and policy makers should work together for poverty eradication because poverty is a complex challenge and to solve it will require sophisticated approach from all level [23].

An influential study was published in 2016 by Beik and Pratama, it analyzed the impact of effectiveness of Zakat program for alleviating poverty for participating households. The study was conducted based on primary source of data using administrative questionnaire and following interview of around 120 participates, the scale for determining effectiveness were consist of four indices. The study finds out that Zakat utilization program has a positive impact over welfare index, it helps to decrease poverty rate and increase income rate for participated households [24].

Another influential recent publication by Radwan and Biancone, provides critical insight on Islamic finance as unconventional finance for social finance. They argue that innovative and unconventional ways of social finance are demand of time, but it is hard to discover an effective one because of many challenges including high risk, governance problem, evaluation problem and difficulties of measuring

social value; however they propose Islamic finance offers wide range of instrument with innovative potentiality, they argue that these instruments can create positive impact on social enterprise development [25].

### III. METHODOLOGY

This study intends to find out the practical implication of Zakat as short-term emergency support system during COVID-19 Pandemic outbreak in Dhaka north City Corporation of Bangladesh by measuring how effective Zakat was mitigating the aftermath of COVID-19 to the donee. The study was conducted based on Primary source of data, using semi-structured questionnaire following a descriptive quantitative method. The sampling style was convenience sampling because limited mobility due to of pandemic lockdown. The data were collected by both online and physical interview of 100 respondents as both Zakat recipient/donee and giver.

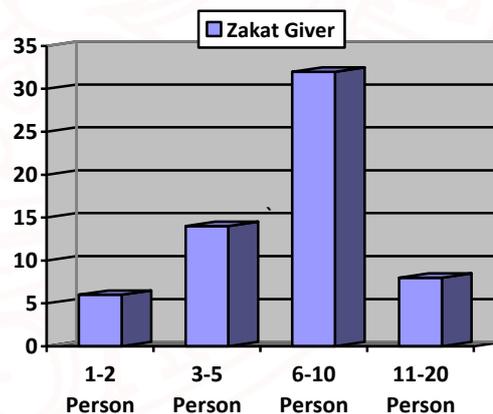
<b>Respondent types</b>	Zakat Recipients (50) & Zakat Givers (50)
<b>Data source Type</b>	Primary data source
<b>Method</b>	Quantitative method
<b>Questionnaire</b>	Semi-Structure
<b>Sampling Style</b>	Convenience

Methodology

### IV. ANALYSIS AND FINDINGS

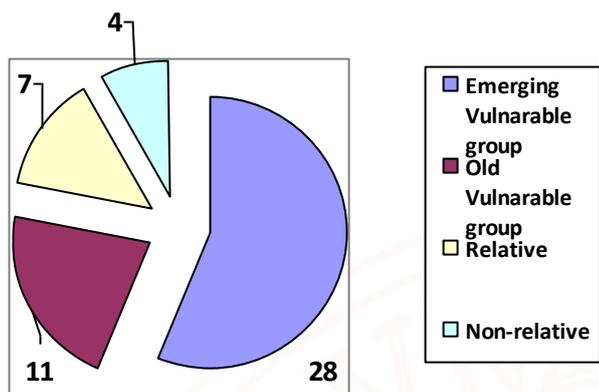
The analysis was done in four phases, upon receiving data from both Zakat Recipients (50) & Zakat Giver (50).

Analysis of Zakat Giver



Graph 1: Number of Zakat recipients by Giver

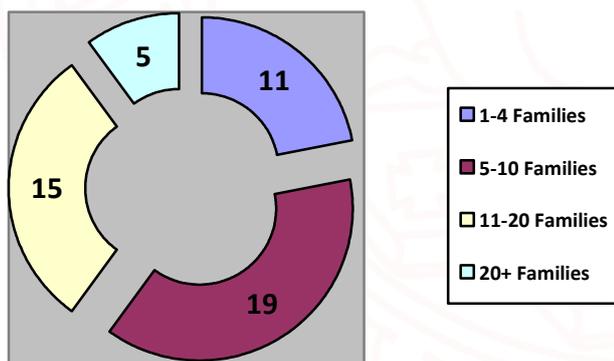
As the graph 1 shows, among the respondents of Zakat giver, 6 respondents gave Zakat to 1-2 persons, 14 respondents gave Zakat to 3-5 persons, 22 respondents gave Zakat to 6-10 persons, and 8 respondents gave Zakat to 11-20 persons. Suggesting that most Zakat giver usually helps around 6-10 persons by giving Zakat, and then the most people usually give Zakat to 3-5 persons.



Graph 2: Zakat recipient group type

As the graph 2 shows among the respondents of Zakat giver, 28 respondents gave Zakat to Emerging vulnerable group, 11 respondents gave Zakat to old vulnerable group, 7 respondents gave Zakat to relative and only 4 respondents gave Zakat to non-relative, which suggests that most people gave Zakat to emerging vulnerable group due to COVID-19 crisis, and the next most Zakat giver group give Zakat to old vulnerable group, while relative receive more priority than non-relative, implying COVID-19 as a factor to Zakat giving.

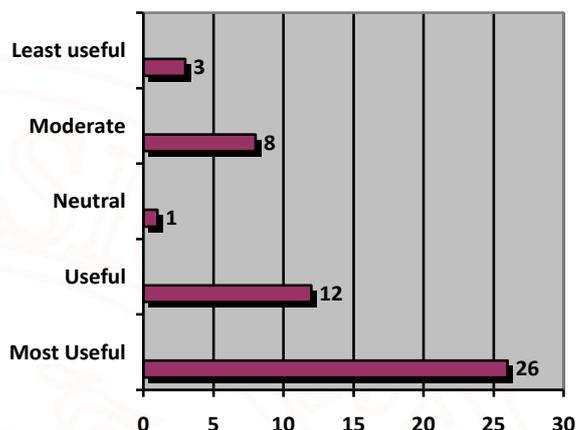
Analysis of Zakat Recipient



Graph 3: Zakat from Number of families

Graph 3 shows that among the respondents of Zakat recipients, 19 recipients received Zakat from 5-10 families, 15 recipients received Zakat from 11-20 families, 11 recipients received Zakat from 1-4 families and only 5 recipients received Zakat from 20+ families. This analysis indicates that most of the Zakat recipients usually get Zakat from 5-10 families, while the next most Zakat recipients get Zakat from 11-20, and the least recipients get Zakat from only 1-4 families. However, recipients from only 1-4 families get Zakat on higher scale

comparing those recipients who get Zakat from first 2 categories. The first 2 categories recipients who get Zakat from many families (5-20 altogether) usually receive low Zakat from each family comparing the latter category.



Graph 4: Usefulness of Zakat

Graph 4 shows that among the Zakat recipients, 26 recipients consider received Zakat as most useful during the COVID-19 crisis, and 12 recipients consider received Zakat as useful, while only 1 recipient considers it as neutral, and 8 recipients as moderate and 3 recipients as least useful.

According to the analysis and discussion the final findings of the study suggest;

- Most Zakat givers have a tendency to cover wider population as Zakat recipient.
- New emerging vulnerable group due to COVID-19 received more Zakat, as Zakat giver considered it as a factor to select Zakat recipients.
- Most Zakat recipients receive Zakat from many families although in smaller amount, while least Zakat recipients receive Zakat from few numbers of families but in higher amount.
- Most of the Zakat recipients consider Zakat as most useful, especially during COVID-19 crisis.
- Although in smaller scale, but selecting fewer Zakat recipients from individual Zakat giver increase the chance of building resilience for needy people.
- Zakat acted as an effective immediate but short-term emergency support system for the vulnerable community.
- Zakat have successfully mitigated the aftermath of COVID-19 for the emerging vulnerable community induced by Coronavirus outbreak in Dhaka City.

## V. CONCLUSION

Poverty profile of Muslim world was already severe before Corona's arrival. As a result, the outbreak hits hard all the Muslim countries especially least developed countries like Bangladesh. Many new vulnerable groups emerged during this crisis period. But it was a relief that the holy month of Ramadan appeared during the crisis with its blessing and unconventional financial instruments. As it already discovered that Islamic Finance with its diverse instruments have enormous potential for social finance [26]. The study finds out that Zakat is indeed effective as a short-term emergency system for venerable community, and have successfully mitigated the aftermath of COVID-19 for the emerging vulnerable community induced by Coronavirus outbreak in Dhaka City, besides; it can also be used as a tool to build resilience but with modification of it like selecting fewer Zakat recipients. The paper has few limitations induced by COVID-19 restricted mobility affecting data collection process; however, the finding of this study suggests parallel effectiveness of Zakat on alleviating poverty as earlier studies like Ali and Hatta's (2014) paper titled as 'Zakat as a Poverty Reduction Mechanism Among the Muslim Community: Case Study of Bangladesh, Malaysia, and Indonesia' suggested [27]. This paper leaves a trail for researchers to study different aspects of Zakat which ranged from studying possibilities of modality of Zakat modification as a financial instrument for improve its effectiveness and to wider state-controlled Zakat management system for Bangladesh and so on.

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