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Identification of the Strengths and Weaknesses of the Conventional and Islamic Financial System during the COVID-19 Pandemic

Amra Nuhanović, Ph. D
Faculty of Economics, University of Tuzla
Email: amra.nuhanovic [AT] untz.ba

ABSTRACT---- *In October 2020, the number of people infected with the corona virus reached cumulatively 2 million cases and over 130,000 deaths, which shows that the economic implications of the pandemic crisis continue to complicate the economic and financial situation of the global financial system and national systems. Everything points to the fact that the virus will continue to persist. With the continuous expansion in Africa, Asia, Latin America, but also Islamic countries, the same economies are trying to stop the consequences that the COVID-19 pandemic brings with it. Accordingly, the subject of the research is to identify the strengths and weaknesses of the conventional versus Islamic financial system at the time of COVID-19. Having in mind the above, the main goal of the study is to investigate and identify the Strengths and Weaknesses of the Conventional and Islamic Financial System during the Covid Pandemic -19. The author came to the conclusion that during the global financial crisis of 2008 and the time of the pandemic of December 2019, the Islamic financial system showed better performance, in terms of better protection against certain risks and the fact that financial activities and business financial market are conducted in compliance with Sharia principles. Also, the author is of the opinion that if we overcome this crisis, we must learn and work both in terms of potential preventive measures against the pandemic, and in improving sustainable economic development before it is too late, whether it was a conventional financial system or Islamic. Secondary data collected from relevant sources will be used (desk research). In addition, other methods stand out: methods of analysis and synthesis, generalization and abstraction, methods of systematized approach (holistic approach), classification and comparison, and methods of induction*

Keywords--- conventional economics, Islamic economics and finance, COVID-19

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1. INTRODUCTION

The recent outbreak of COVID-19 has posed a huge challenge to economic researchers and financial analysts to find an adequate solution to the current situation. A complete economic "shutdown" has created problems such as shocks to world supply and demand which resonate with the global economy. For example, the manufacturing industry reduces production, employees lose their jobs, and face cash flow constraints. Governments are struggling to protect employment and people's livelihoods to reduce negative impacts.

In a rapidly changing environment, it is very difficult to measure the real impacts on the global economy by the COVID-19 pandemic (meaning primarily the level of production, employment, food security, poverty, international trade, etc.). The countries most affected by the pandemic make up the majority of global GDP. However, it is important to point out the very important fact that, contrary to the recent global financial crisis, the current pandemic and the current health crisis have affected almost all the world's economies.

To combat the pandemic, many governments have announced incentive packages to channel funding to citizens so that they have funds they can spend even if they are not working. However, there is a fear among Western capitalist economists about such government interventions, given that simplified interest-based borrowing can create a debt trap for households and businesses in the long run, which will negatively affect the global economic system.

On the other hand, Islamic finance is such a system that functions without interest, and which is claimed to be responsible, ethical, and sustainable and to protect the Islamic economy from potential shocks. As is well known, Islamic finance has proven to be quite resilient in the wake of the 2008-09 global financial crisis. Due to the nature of its products and instruments, which offer a balanced solution for directing funds to end users, but not for increasing debt levels. [1]

[1] Islamic social finance (i.e., Waqf, Zakat, and Islamic microfinance) can help ensure productivity, while, for example, Sukuk can help the government raise sufficient funds for further distribution and other purposes.

Islamic finance today inevitably represents an alternative to the conventional way of financing the various gaps we see and which we have witnessed to this day. With the increasing use and utilization of Islamic tools for social financing, such as Waqfs (Islamic endowments) in finance and *grosso modo* in the economy, greater contributions can be made in order to achieve poverty reduction and promote common prosperity in a sustainable way.

However, since the beginning of the COVID-19 crisis, Islamic countries (OIC member countries)[2] have made enormous efforts to intensify joint action in the face of the pandemic, both from an economic, social and legal point of view. The results of such sessions were reflected in initiatives (also supported by international financial institutions) in the allocation of funds to member states to combat the global effects of the corona virus pandemic and its economic and social impacts. Thus, the financial support of USD 2.3 billion by the ISDB (Islamic Development Bank) as well as the ISF emergency fund of USD 1 million exclusively for assistance to the least developed Islamic countries stands out.

Unfortunately, the pandemic has affected all economic sectors and all segments of the population. The rising rates of economic growth that preceded the outbreak of the pandemic are being questioned today. Unemployment and poverty rates are projected to rise dramatically around the world, and many Islamic countries are unfortunately at the center of these negative implications. In this regard, the current situation in Islamic countries shows that the pandemic has proved particularly harmful to vulnerable social groups in society, including the poor, the elderly, women, youth and children. and persons with disabilities. People without access to running water, refugees, or migrants displaced persons suffer and are at risk of a pandemic and its consequences in terms of limited mobility, fewer employment opportunities, conflict, conflict, increased xenophobia, prejudice and intolerance. Having in mind the above, *the main goal of the study* is to investigate and identify the Strengths and Weaknesses of the Conventional and Islamic Financial System during the Covid Pandemic -19.

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The paper is divided as follows. After introductory considerations, the second chapter provides a concise overview of the literature and previous research that addresses this issue. The third chapter is the research methodology, and the fourth is results and interpretation. Finally, the concluding remarks summarize the basic findings and suggestions for future research.

2. PREVIOUS RESEARCH

The OECD Interim Economic Assessment for 2020 provides an overview of current trends and the current economic and financial situation in the world economy at the time of COVID 19. Global economic perspectives are still uncertain. The negative implications of the pandemic include, among other things, a sharp decline in economic growth, direct disruption and imbalances in global supply chains, a decline in global demand for imported goods and services and a decline in international tourism, a sharp drop in world financial market prices, the decline in confidence in financial activities, the decline in trust of citizens - sufferers, etc. (OECD, 2020)

OIC Economic Outlook 2019, i.e. in the report published in the Statistical, Economic and Social Centre for Research and Training for Islamic Countries (Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), for Islamic countries, are achieved $ 20.6 trillion in GDP, or 15.2% of total world production, in 2018. [3] However, the report states that the financial sector of Islamic countries is very "shallow", with an unemployment rate of 6%, a sharp deterioration in the fiscal balance, etc. (OIC Economic Outlook 2019)

Chattha (2020), with the help of the Toronto Centre Note, presented a study on The Covid-19 Pandemic: Supervisory Implications and Priorities for Islamic Banking. Chattha considers six potential implications and priorities for supervisors, which regulate Islamic banks, in response to the COVID-19 pandemic: 1) ensuring transparency, clarity in regulatory interventions and a level playing field for all Islamic banks; 2) asset quality management of Islamic banks, and treatment of moratoriums and poor financing; 3) dealing with liquidity shortages and providing liquidity support in accordance with Sharia; 4) providing support for the issuance of the state Sukuk for fiscal deficits; 5) credit quality assessment; and 6) reviewing financial security networks and insolvency regimes for Islamic banks. (Chattha, 2020)

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[2] These are countries classified as "developing countries", with 21 of them classified as "least developed countries". Source: IMF WEO Databases.
[3]Algeria, Azerbaijan, Bahrain, Brunei Darussalam, Gabon, Iran, Iraq, Kazakhstan, Kuwait, Nigeria, Oman, Qatar, Saudi Arabia, Algeria Bahrain Comoros Djibouti Egypt Iraq Jordan Kuwait Lebanon Libya Mauritania Morocco Oman State of Palestine Qatar Saudi Arabia Somalia Sudan Syrian Arab Republic Tunisia United Arab Emirates Yemen, Somalia, Jordan, Lebanon, Jimena, Sudan, Iraq, Kurdistan

The Jakarta Post[4] published a very interesting article called How COVID-19 Will Reshape Islamic Finance Markets. Namely, it is a well-known fact that since the emergence of the Islamic financial industry (1970s), there has been a steady increase in demand for Sharia-compliant products and services,[5] and the total assets of that industry reached USD 2.5 trillion in 2019. However, under the influence of the COVID-19 pandemic, then the instability of oil prices and the uncertain macroeconomic environment, the Islamic financial industry is facing a challenge (but also new opportunities) unprecedented in its future development. The article clearly notes that the impact of the 2008 global financial crisis on Islamic banks and Islamic financial institutions was largely minimal due to bans on speculation and risky asset classes in the financial industry. However, the COVID-19 pandemic will have a more serious and deeper impact on Islamic financial markets, as the current crisis particularly affects small and medium-sized enterprises, as well as low-income and low-wage earners.

It should also be noted that compared to the conventional economy, Islamic finance is much more exposed to the "crown crisis", in the sectors of small and medium enterprise development, microfinance and retail lending. [6] Despite government measures such as tax breaks in Indonesia and Malaysia for small and medium-sized enterprises, they are still under enormous financial pressure (given the measures to close their businesses, which in turn are imposed to prevent and further spread COVID-19).

In April 2020, UNDP highlighted several Sharia-compliant financial instruments that could be part of an integrated plan in response to a pandemic, including zakat (charity) and Sukuk (Islamic bonds) to help countries prepare, respond and recover from pandemics.

Furthermore, Naharand & Farhan (2020), in their paper entitled The Future of the Global Economy Post COVID-19, deal with the analysis of the implications of the pandemic and the health crisis on the global financial system. The authors announce a new economic recession, much stronger and more devastating than during World War II. In doing so, they also gave a concise screening of the entire economy. The global political and economic balance in many countries has been shaken. We note large shocks to world supply and demand, and there is also volatility in financial markets. Economic life, especially in the US and Europe, has stalled.

The IMF has downgraded its global growth forecast for 2020 due to the expansion of Covid-19. The fund estimated that the global economy, which is expected to grow by 3.3%, will shrink by 3% in 2020. The forecast of global economic growth for the next year increased from 3.4% to 5.8%. According to an IMF report, the US economy will shrink by 5.9% this year and the Eurozone by 7.5%. Germany, one of Europe's leading economies, is expected to shrink by 7% and Italy, which is hardest hit, with an outbreak of 9.1% this year, the British economy will shrink by 6.5% this year. Developing countries' growth forecast down from 4.4% to minus 1% in 2020 (IMF World Economic Outlook, April 2020) According to Islamic economists, COVID-19 provides an opportunity for the so-called transformative development of Islamic finance. Cited by (IMF World Economic Outlook, April 2020)

- We expect the Islamic financial industry to show small to medium single-digit growth in 2020-2021, compared to 11.4% in 2019, following the strong market performance of the Sukuk.
- COVID-19 offers an opportunity for more integrated and transformative growth with a higher degree of standardization, a stronger focus on the social role of industry and a meaningful adoption of financial technology (Fintech).
- Coordination between different stakeholders is crucial for an industry that uses these opportunities for sustainable growth.

S&P Global Ratings believes the global Islamic financial industry will return to slow growth in 2020-2021. After strong performance in 2019, aided by a more dynamic Sukuk market, there has been a significant slowdown in basic Islamic financial economies in 2020, due to measures taken by various governments to combat the COVID-19 pandemic. [7]

[4]Available at: https://www.thejakartapost.com/academia/2020/06/05/how-covid-19-will-reshape-islamic-finance-markets.html, 20TH September 2020.
[5] For example: socially responsible investment, sustainability and digitalisation, thus approaching conventional fast-growing economies.
[6]Especially in Asia.
[7]In 2020, we expect a slowdown driven primarily by measures taken by various governments to control the COVID-19 pandemic. This slowdown will be offset to some extent by strong liquidity injections by various central banks to help their banking systems cope in a difficult environment. However, this, together with the complexity and lower appetite of investors, will contribute to the slowdown of the Sukuk market (as the primary source of financing) in 2020. Issues are projected to reach $ 100 billion in 2020 compared to $ 162 billion in 2019.

Furthermore, there is a common opinion according to Islamic analysts that the instruments of social Islamic financing can help Islamic countries, banks and corporations to cope with the current situation. This primarily refers to:

- Qard Hassan - free liquidity lines for financial institutions to provide subsidized lending to their corporations and SME clients.
- Social Sukuk - these instruments could help support the education and health system and attract investors in the field of environment, social policy.
- Vakuf - This could help provide affordable housing solutions or access to health care and education for people who may have lost part of their income.
- Zakat - could help make up for lost household income due to COVID-19.

3. RESEARCH METHODOLOGY

The subject of the research, and the defined general and operational goals, determined the research procedure. Having in mind the interdisciplinary character and complexity of the set subject of research, in this paper, different methods and techniques of scientific research will be used to prove the correctness of the set hypothesis. In general, general methods of scientific research are distinguished, i.e. basic methods of logical and scientific knowledge, as well as their combination, which are also appropriate to the subject of research.

In this context, the following research methods will dominate in some parts of the paper: basic methods of scientific description, collection and editing of facts, and formulation of individual statements, then methods of economic analysis and logical reasoning and understanding. The hypothetical-deductive method is a key method by which the theoretical concept of research will be formulated on the basis of existing scientific papers and knowledge in this field. The theoretical aspect of the research will involve the use of the method of analysis and synthesis. Methods of generalization and abstraction will be used in the theoretical part of the paper - a review of previous research, as well as in presenting research results. In addition, methods of systematized approach (holistic approach), classification and comparison will be used to present previous research, as well as the results of our own research. The method of induction will be applied in the empirical verification of hypotheses and research goals, in the context of making adequate conclusions about the conducted research. When drawing conclusions as well, methods of analysis and synthesis will be applied.

The planned research will be based on secondary data sources. Thus, the available secondary data sources will be processed using THE DESK RESEARCH METHOD. Thus, books from the field of Islamic economics and finance, international finance in the process of globalization, articles, studies, statistical publications, magazines, bulletins, reports of domestic and world institutions, and websites of relevant international financial and other organizations stand out.

The results of the research will be presented below.

4. ANALYSIS AND INTERPRETATION

4.1 Specific of Islamic financial system in times of COVID 19

All types of transactions, banking products, way of investing and business approach in Islamic banking are in accordance with the Sharia according to which it is forbidden to include interest in banking products and to perform speculative and unfair transactions. (Islamic Finance and ESG) The basic principle of Islamic finance is transactions accompanied by productive activities with an emphasis on risk sharing in order to strengthen the financial and real economy sectors, which implies discipline and responsibility of financial institutions in ensuring profits in accordance with assessed risk. The principle that defines Islamic finance is, therefore, risk sharing which ensures economic growth, financial stability and promotes financial inclusion by encouraging entrepreneurial ideas and opportunities.

The modern history of Islamic finance can be observed through three periods, its emergence in the 1970s and 1980s, the period of consolidation and increasing internationalization of the 1990s and the development at the beginning of this century. Islamic finance has evolved in these periods from an alternative economy on the margins of banking to recognized financial activities. Since the mid-1980s, the value of assets managed by Islamic finance has been about $ 5 billion. In the mid-1990s, that number rose to $ 150 billion. Islamic finance underwent major changes and growth at the beginning of the 21st century, reaching its peak just before the onset of the 2008 global financial crisis. Assets managed in accordance with sharia regulations recorded a growth of 160% in the period 2009-2012.[8] This growth has slowed in the last four years.

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[8] Aavailable at: (https://www.imf.org/external/themes/islamicfinance/, 20th September

Despite the challenges posed by the financial crisis, the global development of Islamic finance continues, making it one of the fastest growing financial segments in the international financial system

According to the Global Islamic Finance Report (2018), global Islamic financial services grew by 6.02 percent in 2017, compared to their value of $ 2.293 trillion at the end of 2016. At the end of 2019, Islamic finance was worth $ 2.413 trillion. Islamic finance, with a focus on profit-and-loss sharing and a ban on charging interest on financial transactions, has been spared the worst consequences of the financial crisis. In fact, Islamic finance has acquired the character of a fair and more efficient alternative to the existing international banking system. Islamic finance introduces greater discipline into the financial system by requiring financiers to share the estimated risk, linking loans to economic growth and approving loans to buy goods and services that the seller offers to buyers who want them with certainty. Although the growth of Islamic banking and finance has slowed over the past four years, this industry will continue to grow in the long run. It is expected that by 2020, the Muslim population will make up 2.5 billion people, and that Islamic finance will continue to shape the global banking scene. For example, 10 out of 25 fast-growing companies are Muslim, and Muslim demographics are increasingly shaping the market. With the growth of the middle Muslim class of consumers around the world, the halal industry has become a way of life that includes halal fashion, cosmetics, and tourism and service industries.[9]

Two prominent phenomena that have caused this development are the change in the mind-set of the Muslim consumer and the rise of ethical consumerism around the world. Although Islamic banking and finance are concentrated in the countries of the Middle East and Asia, the renewed interest of Western countries and transition countries in Africa and Central Asia represents a positive development (Hassan & Lewis (2009)). These economies have reluctantly embraced Islamic finance not only as a means of raising capital for infrastructure projects, but also as the mainstream of retail banking, finance, and insurance.

Another positive development in Islamic finance is the shift of focus to social goals and financial inclusion. In the light of the Arab Spring, the 2008 global financial crisis and the ongoing COVID-19 pandemic, there was a need for innovation in the service and manufacturing sectors that impacts economic creation, jobs and financial inclusion. Given social and ethical principles and an emphasis on risk-sharing and secured funding, Islamic finance represents the untapped potential of a significant and non-traditional resource that contributes to the achievement of UN self-sustaining development goals (SDGs). For example, as part of its obligations under SDGs, the Islamic Development Bank has announced that it will increase funding for ten-year SDGs activities from an initial $ 80 billion to $ 150 billion over the next 15 years. Despite impressive progress, Islamic finance as an industry continues to face several challenges. Increased transaction costs are one of the main unresolved issues facing the Islamic finance industry. Some would say that this is because this economy has not yet reached its full size. Others argue that the cause of this problem is a lack of legal and regulatory harmonization. Despite all the arguments, this issue requires a solid solution, especially in the area of home finances in many Muslim countries and communities living in non-Muslim countries (Baldwin & di Mauro (2020)).The industry is still facing the problem of how people perceive it. Many still think that Muslims created Islamic finances for Muslims by placing them exclusively on Muslim markets. Although it seems so, the spirit of Islamic finance is much greater. Take, for example, the ban on charging interest which is also part of Christianity and Judaism. It is also important to note that charging interest is also forbidden in Buddhism, Hinduism and many other religions and philosophies.

The gap in financial inclusion is another issue facing Islamic finance. Although there is a high demand for Islamic microfinance services in OIS countries (Organization of Islamic Cooperation), the services are not fully met. The study shows that, although OIS countries have more microfinance deposits and accounts per thousand adults compared to non-OIS countries, the values of MFIs (international financial institutions) deposits and loans as a percentage of GDP are still much lower in OIS countries (0.61 and 0.79 percent) compared to developing countries (0.78 and 0.97 percent) and low-income countries (0.92 and 1.19 percent, respectively) (Freedman, Kumhof, Laxton, Muir & Mursula, (2010). It is therefore necessary to create and improve innovative and diverse microfinance products to enable a poor society to thrive in this way. It is even more important to ensure fair distribution. At the same time, it would make sense to link these initiatives with certain types of insurance as one type of buffer of the Islamic financial services industry.

Another challenge is the lack of Islamic monetary policies. At the macro level, the availability of Islamic monetary instruments is necessary for the realization of the macroeconomic goals of the Islamic financial system if, among other things, adequate liquidity management is to be ensured. Some countries have initiated the creation of these instruments, such as Indonesia and Malaysia. However, more needs to be done to facilitate both transactions and liquidity management between countries with interest-free financial systems. (Guerrieri, Lorenzoni,, Straub, & Werning (2020). There is great potential in Islamic finance to promote sustainable economic growth by providing various funding opportunities (including

[9]Available at: https://www.gfmag.com/topics/blogs/islamic-finance-just-muslim-majority-nations, 20th September

microfinance), financing infrastructure projects, and expanding Islamic insurance services. In recent years, socially responsible investments have become increasingly desirable. The International Fund for the Financing of Immunization Companies has issued an international financial certificate (Sukuk) to fund immunization programs in the world's poorest countries through the Gavi Foundation - The Vaccine Alliance. Through the Islamic certificate issued by the Malaysian Khazanah as part of its sustainable and responsible investment program, revenues have been made possible to finance a "quality education" program as a basis for improving people's quality of life. Last year, Malaysia issued the world's first green Islamic financial certificate thanks to the cooperation of the Malaysian Central Bank, the Securities Commission and the World Bank (Mobin & Ahmad, (2017) The Green Sukuk will fill the gaps in green funding that are in line with the goal of "climate-related activities" and the goals of "protecting wildlife and plants at sea and on land".

Other Islamic financial instruments such as Zakat, Waqf, Takaful and Islamic microfinance can serve to meet other UN sustainable development goals. Microfinance institutions based on zakat and Waqf can be used for social programs. Vakuf real estate can generate income through their rental. The funds raised can be directed to social development programs. In the meantime, interest-free loans for the education, health and agriculture sectors can be secured with endowment cash. Microfinance insurance, on the other hand, can be an effective means of providing protection to the poor and thus contribute to sustainable poverty reduction. Financial inclusion of the poor requires a different approach in product design, pricing and payment methods. It requires innovation, flexibility, efficiency and dedicated leadership. Islamic microfinance has yet to enter the scene to allow equal access to finance within Islamic finance. In this sense, Fintech technology enables Islamic financial institutions to reach potential clients more efficiently (Mohamed & Ali (2018)) Fintech can help increase Islamic funding in regions where the brick-and-mortar model is not financially viable and which is tied to companies that do not offer their services online. Fintech can be a key catalyst in increasing the spread of Islamic banking in Muslim majority countries and can help execute common Islamic financial transactions. In addition, Fintech can also increase cross-selling Islamic banking products.

4.2 Pandemic crisis vs. Global financial crisis: position of Islamic finance

As the Covid-19 virus reached pandemic proportions, the closure of state borders and the isolation of states led to reduced consumer demand and the collapse of industrial production and service industries. The crisis has led to major financial problems for small and medium-sized enterprises (SMEs) and caused significant layoffs. In a few weeks, unemployment reached double digits. Large companies were also not immune to the pandemic. While Boeing and major U.S. airlines have sought help from state funds in excess of $ 100 billion to continue operations, several well-known companies, including Hertz, Thai Airways and JC Penney, have filed for bankruptcy.

As the Covid-19 pandemic paralyzed international trade almost to the point of stopping and devastated national economies, stock markets collapsed. The S & P500 began to fall on February 19 and lost almost a third of its value in a month. The fall of the US stock market came to a halt and it began to recover partially only after the Central Bank (Fed) pledged to borrow trillions of dollars and after the US Congress granted more than $ 2 trillion in federal emergency aid to US companies and financial institutions. Almost simultaneously, as a domino effect, stock markets in Asian markets began to fall. Along with the collapse of the U.S. stock market, Japan's Nikkei Index and Singapore's Straits Times Index lost about 30% of their value, while Hong Kong's Hang Seng Index fell nearly 20%. As the global economy experienced total paralysis, Morningstar Research reported that in March 2020, investors withdrew $ 326 billion from investment funds worldwide.

In the midst of an unprecedented economic crisis, an often neglected area of investment has emerged - Islamic investment funds. These funds avoid non-halal activities, such as: conventional finance, alcohol, gambling, pig products and adult facilities, as well as tobacco and weapons production. In addition, the selection criteria require investment in companies with low debt ratios, low cash and interest rates, low receivables and cash, as well as low revenues from prohibited activities. (Kayed & Hassan (2011)). Primarily intended for Islamic investors, these funds are also attractive to investors who do not take into account religious background. The fact that they avoid sectors related to arms production makes them attractive to a wider investor base, especially given the trend of environmental, social and managerial investment (ESG). Also, their conservative nature can be attractive to long-term investors.

During the economic panic caused by the Covid-19 pandemic in March, The MSCI World Index lost over 30% of its value, while The MSCI World Islamic Index lost 20% of its value, which is relatively better result by 10%. As the Islamic index proved to be better than others on the market during the crisis, it can be said that Islamic investment funds provided investors with a degree of protection against negative risk. It is particularly interesting that in certain countries there has been an influx of Islamic funds, although the pandemic has triggered a significant decline in managed assets (AUM) worldwide. According to Fitch, Islamic funds in Saudi Arabia recorded a 3% increase in managed assets (AUM), surpassing Malaysia as the largest market for Islamic funds in the world. Notwithstanding the above, it is still too early for triumphant conclusions because the Covid-19 crisis has been present for a relatively short time, and the better performance of the Islamic Financial Index provides relatively little data to draw significant conclusions.

Although some analysts have attributed the success of Islamic investment funds during Covid -19 to luck, we found a similar performance during another major economic downturn - the Global Financial Crisis of 2008-2009 (Cogan & Taylor.) Although better performance of Islamic indices during the Covid-19 crisis could be the result of short-term oscillations, data for a longer period of the Global Financial Crisis provide a basis for stronger experimentation to examine the relative performance of Islamic indices relative to conventional global indices. Approximately six months after the fall of Lehman Brothers, The MSCI World Index lost 42.6% of its value, while The MSCI World Islamic Index lost only 12.4% of its value, resulting in better a result of over 30%.

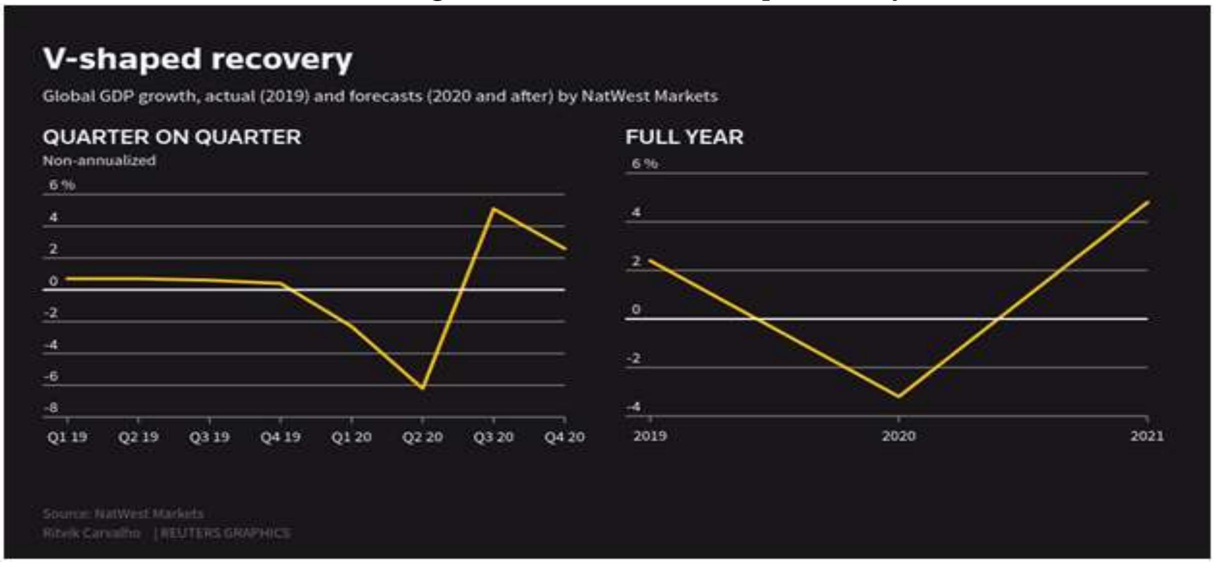
Another significant performance measure over the decade around the Global Financial Crisis - from the founding of the Dow Jones Global Index in October 2006 to December 2016 - indicates that a $ 100 investment in the Dow Jones Global Index would rise to $ 123.96, while equivalent investment would in the Dow Jones Global Islamic Index brought in $ 144.99, which is approximately a 20% better return. Part of the difference in performance during the Global Financial Crisis stems from the avoidance of Islamic funds investing in conventional financial institutions, and their investment in Islamic financial institutions, which has made them more conservative and resilient to adverse economic conditions. Famous are the examples of Bear Stearns, Lehman Brothers, Merrill Lynch and other giants of the financial world who filed for bankruptcy or were taken over to avoid bankruptcy. Their shareholders lost hundreds of billions of dollars. None of these conventional financial institutions operated in accordance with Sharia principles and were therefore not included in Islamic funds.

A study by Jemma Dridia and Maher Hassan of the International Monetary Fund suggests that Islamic banks outperformed conventional banks during the Global Financial Crisis due to smaller investment portfolios, lower leverage and avoidance of financing or investing in innovative (and risky) instruments that ruined conventional banks. Surprisingly, Islamic-managed assets amounted to only $ 15 billion in 2008. Although, according to the data of the Malaysian International Islamic Financial Centre, it increased almost five times to 70.8 billion US dollars in 2017, the projections are even more optimistic for the future - an increase to approximately 216 billion dollars by 2024.

4.3 Possible scenarios of economic recovery - post Covid period in conventional and Islamic economy

Economists analyse the current COVID-19 scenario and predict four possible models of economic recovery, as follows. In the shape of the letter V, means when the closure is completed and a quick return to economic normalcy. This option is possible, but difficult to realize because, as mentioned earlier, the world will not return to the same economic scenario as before the pandemic. Security measures, limited capacity, closed borders and fear of infection play against this possibility. Ranasinghe & Carvalho (2020) explained that the V-shaped recovery model is the best outcome. Similarly, a rapid recovery follows the collapse of production. "GDP cuts from April to June are likely to be on a scale we haven't seen in decades. But a fiscal and monetary stimulus - over $ 10 trillion and counting - could help an equally rapid recovery." Ross Walker, head of NatWest Markets' global economy, estimates that the economic downturn is expected in this quarter "with a significant jump in Q3 and Q4 as businesses reopen."

Figure 1: First scenario: V-shaped recovery



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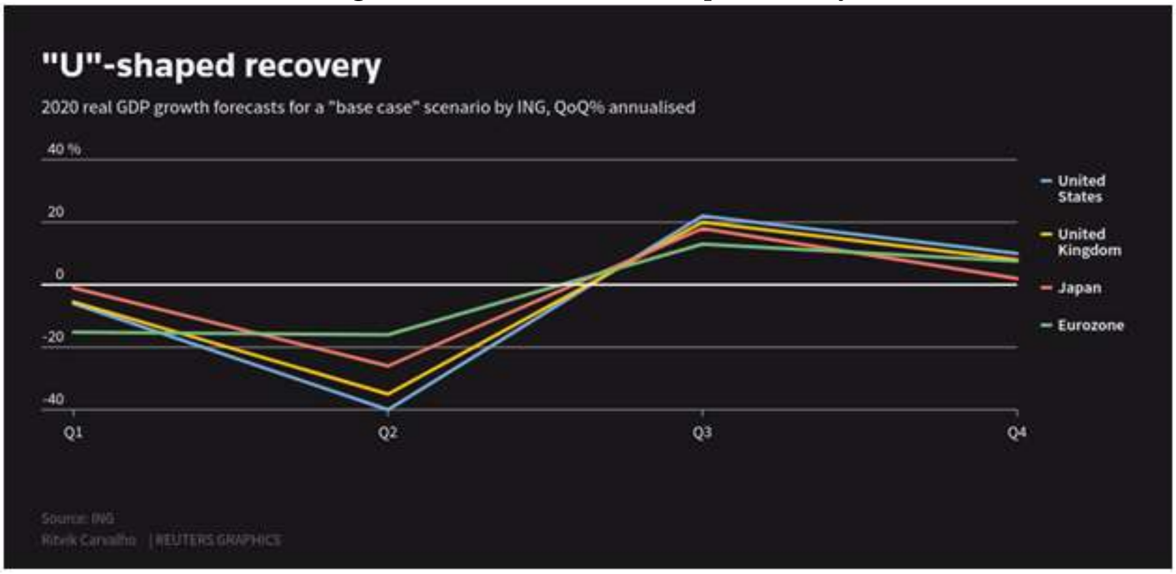
https://fr.reuters.com/article/health-coronavirus-economy-idUSL8N2BW4ZJ

The U-shaped option means that it will take more time to return to economic normalcy. This form of recovery seems to be in line with the situation we will encounter after closure, because the opening will be progressive, and the situation will be different from the one before the appearance of the coronavirus. Ranashighe & Carvalho (2020) argued, "Economies experienced a recession faster and deeper than 2008-09. Given this situation, they predicted that this could be the most likely outcome." Although almost all organisms agree that a U-shaped recovery is the most likely, some warn of a less favourable scenario. The U-shape is a basic case for ING's Brzeski, who notes that the impact of locks will last for some time after they are lifted. "The easing of locking measures will be gradual, social distancing will continue, and the tourism industry is likely to continue to suffer," Brzeski said.

Figure 2: Second scenario: U shaped recovery



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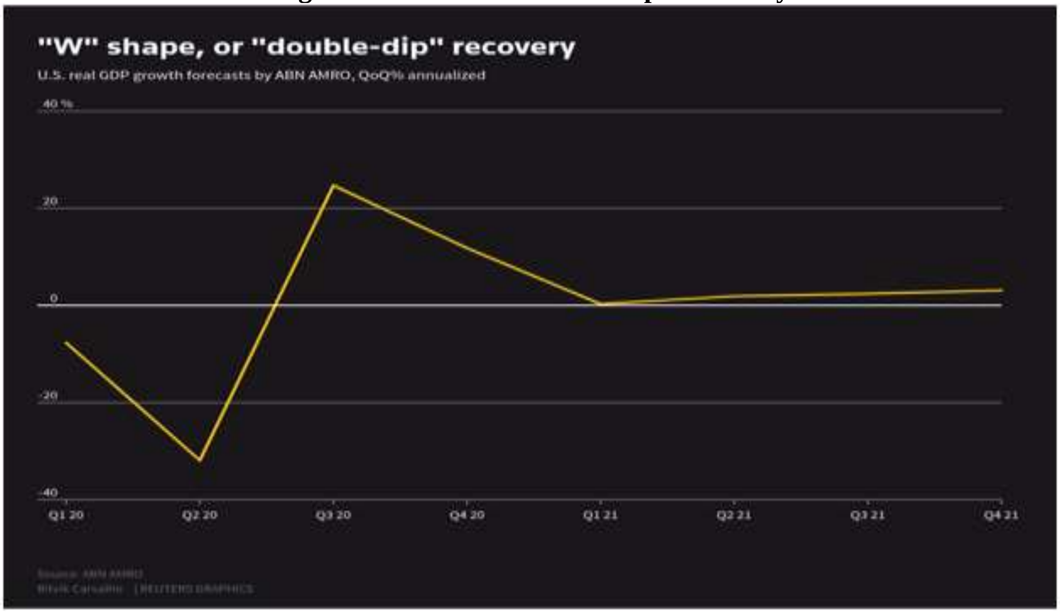
https://fr.reuters.com/article/health-coronavirus-economy-idUSL8N2BW4ZJ

In the form of the letter W or Double-dip, this means that, after a slight recovery, there would be a decline again, and then a final economic recovery. This option is in line with the outbreak or disappearance of the initial effect of monetary and fiscal measures established in the fight against coronavirus. According to Ranasinghe &Carvalho (2020), if easing the lock restrictions would initially boost activity, the effects of unemployment and corporate bankruptcies would begin to filter out.

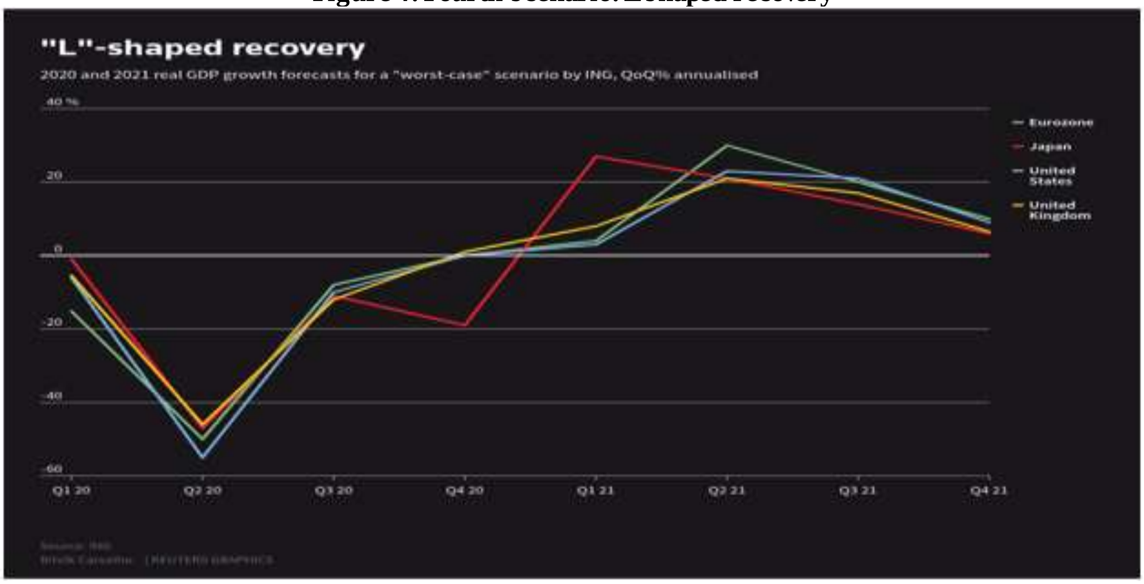
Figure 3: Third scenario: W shaped recovery



Source: https://insamer.com/en/the-future-of-global-economy-post-covid-19_2980.html
https://fr.reuters.com/article/health-coronavirus-economy-idUSL8N2BW4ZJ

L-shaped, this is the worst option we could face. That would mean that we will go through a great crisis that should take a long time to recover. This is the blackest economic scenario and implies strong economic and social changes, which always happens when there is a major economic collapse. Accordingly, Ranasinghe & Carvalho (2020) explained, "L-shaped outcomes may pose a risk to those emerging markets that are less able to engage a large stimulus and often rely on commodity exports."

Figure 4: Fourth scenario: L shaped recovery



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https://insamer.com/en/the-future-of-global-economy-post-covid-19_2980.html
https://fr.reuters.com/article/health-coronavirus-economy-idUSL8N2BW4ZJ

As can be argued, “recovery of normalcy” is a relative term, where it is impossible for us to return to a pre-pandemic state without vaccines or expanded immunity. When the closure is over, the return to economic normalcy will be gradual. Everything would be imposed between great hygiene and safety measures, avoiding crowds and checking infections from week to week to avoid regrowth. These measures will be a major challenge for many businesses, with limited capacity in restaurants and bars, concert halls, museums, universities, schools, etc., with their impact on business results. Finally, various studies show that biodiversity loss and ecosystem destruction are associated with increased transmission of infectious diseases. In recent years, we have experienced the proliferation of recurrent diseases such as COVID-19, MERS, Ebola, as well as SARS. In short, as soon as we overcome this crisis, we must learn and work both in terms of potential preventive measures against the pandemic and in improving sustainable economic development before it is too late.

5. CONCLUSION AND RECOMMENDATIONS

Islamic investment funds can provide some protection against adverse risk as evidenced by their better performance during two major crises. This is partly due to limited exposure to high-risk financial instruments, such as those of conventional financial institutions. These return on investment characteristics should be attractive not only to Islamic investors, but also to the general public.

Also, Moody's "2020 Investors Service's Report" predicts an increase in Islamic assets by 3 to 4% per year in the short and medium term. The report states that the demand for Islamic asset management is growing due to the "large Muslim population, favourable legislation and the growing demand of investors for products that comply with Sharia principles." We expect that these facts will further encourage the development of the Islamic asset management industry and thus expand the existing world of investment.

A study by Jemm Dridia and Maher Hassan of the International Monetary Fund suggests that Islamic banks outperformed conventional banks during the Global Financial Crisis due to smaller investment portfolios, lower leverage and avoidance of financing or investing in innovative and risky instruments that ruined conventional banks. Surprisingly, Islamic-managed assets amounted to only $ 15 billion in 2008. Although, according to the data of the Malaysian International Islamic Financial Center, it increased almost five times to 70.8 billion US dollars in 2017, the projections are even more optimistic for the future - an increase to approximately 216 billion dollars by 2024.

Islamic finance is a factor of stability in times of challenge. However, the assets of Islamic banks are estimated at about two trillion dollars, and Islamic finances are still low compared to the conventional financial market. Nevertheless, by adapting financial instruments to modern trends, it is possible to achieve an even greater reach of Islamic finance. In an environment that is generally unfamiliar with the concept of Islamic banking, Islamic finance has managed to establish itself, be recognized as supporting the growth and development of the entire community, and achieve continuous growth over the last decade.

Great potential for growth of this sector is especially in developing countries, integration of Islamic and halal industry, as well as new technologies and FinTech. The slow growth of Islamic finance could be overcome by the implementation of large infrastructure projects in less developed countries. Islamic banking traditionally offers products that protect their customers. However, at a time of paradigm shift towards block chain technologies, crypto currencies, FinTech services, which are new and relatively unknown to customers, Islamic banking needs to adapt to these modern trends

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