

# **IMPACT OF COVID-19 ON UNITED ARAB EMIRATES ECONOMY, MICRO, SMALL AND MEDIUM ENTERPRISES “MSMES” AND A WAY FORWARD TO ISLAMIC FINANCE**

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## **ABSTRACT**

The Economy of United Arab Emirates (UAE) was thriving with its upcoming preparations for Expo 2020, until there was a sudden pandemic strike of the noble COVID-19 taking a huge toll on the economy and its businesses. According to the International Monetary Fund (IMF) statistics, the UAE economy Gross Domestic Products (GDP) of 2020 is expected to slash by -3.5%. While major firms can handle pandemic impacts better, Micro Small and Medium Enterprises (MSMEs) do not have such tolerance to withhold such a huge slash. MSMEs contribute to 52 per cent of UAE's non-oil GDP and are a great backbone to the economy. In such a situation, Islamic finance can prove to be of a great aid to MSMEs and ultimately the economy. The purpose of this research paper is to measure the impact of COVID-19 outbreak on the UAE economy and MSMEs of the country while providing Islamic finance resolutions that can help this issue. The research was conducted through distributing surveys to various MSMEs in the UAE and interviewing them regarding the impacts of COVID-19 on their business and measures taken by them. Additionally, the research attempts to find a relation between the number of COVID-19 cases and economic impact from January 2020 – September 2020 by using Purchase Manager's Index (PMI) as an indicator. The results portray a negative impact between the amount of COVID-19 cases and the country's PMI. However, these results may not be completely accurate as it is too early to produce confirmed relations. The findings of this paper also show that

Islamic micro-finance solutions coupled with Islamic fintech mechanisms can help the country in preserving MSMEs consequently helping the economy in gradual recovery. However, results show that due to the various restrictions in Islamic finance, providing solutions to all MSMEs is not possible as many businesses may not be sharia compliant.

**Key words:** Small and Medium Enterprises, UAE, COVID-19, Economy, Purchase Manager's Index, Sharia.

## **INTRODUCTION**

The first country in the middle east to report a coronavirus case in January 2020 was the United Arab Emirates (The National, 2020). Soon after, the virus escalated in the country and the UAE went through many phases including a lockdown and various restriction on mobility. Like the global impact of coronavirus, the UAE has also incurred unprecedented losses and substantial uncertainties across various industries. According to the UAE central bank forecasts, the country's GDP is expected to decline by -3.6% (CBUAE, 2020). UAE's latest GDP pre-pandemic accounted for USD 421.14 billion (Trading Economics, 2020) and was ranked 25th in the Global Competitiveness Report (World Economic Forum, 2019).

The Micro, Small and Medium Sized (MSME) Industry is a rapidly growing sector around the world. Companies in the UAE are categorized small and medium enterprise when their turnover is equal to or less than USD 250 million and have lesser than 250 employees (Tasjeel,2020). Micro firms are those with turnover AED three million or less (Approximately 817 USD) and those that employ lower than 20 workers. Micro firms in the UAE constitute 61% of the total organizations. The MSME industry of UAE is contributing significantly to the economy by 60% through 400,000 MSMEs. Additionally, MSME sector of UAE supports 86% of private sector employment and contribute 73% towards trading sector (UAE Government, 2020). The industry has incurred huge damages since the pandemic strike as they lack the resources and financial stability of large corporations. To support this flourishing sector during hard times, the Abu Dhabi

Executive Council has launched AED 3 billion MSME credit guarantee scheme (UAE Government, 2020). Even through the support of government, the recovery process for the MSME sector and UAE economy is assumed to be at a steady pace.

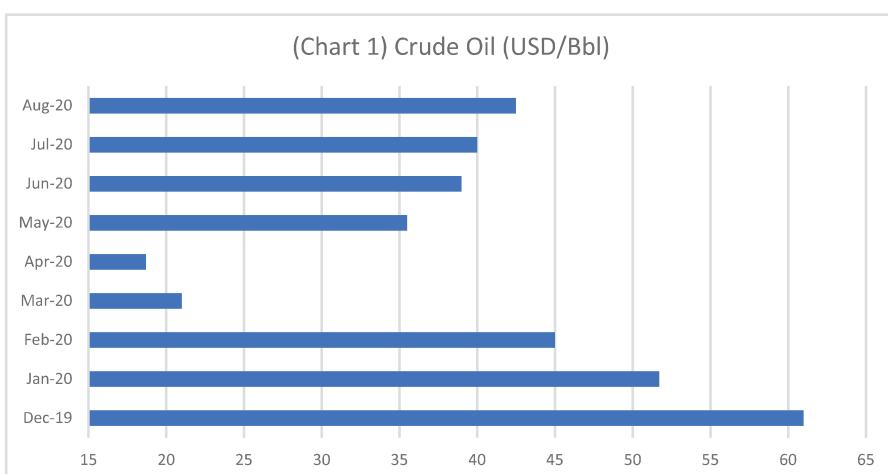
Islamic Finance is a faith-based mode of financing that promotes just economic mechanisms with the exclusion of interest elements and other prohibitions in Islam. Islamic financing has gained lots of credibility globally especially due to its benefits such as financial inclusion, reducing the impact of harmful products, stable investments, and overall acceleration of economic development. This has been proved through various circumstances one of which was the global financial crisis of 2008 where Islamic banking and finance sector proved to endure the situation much better than conventional ones. The UAE is a significant hub for Islamic Banking and Finance sector. The UAE's vision is to be a capital in Islamic finance and desires to incorporate Sharia compliant finances across maximum sectors. In fact, it is the third largest Islamic banking and finance market, contributes USD 158.72 billion of UAE's banking assets and has a faster industry growth rate than conventional banks in the region (Khan et al., 2019). The nation is currently processing a standardized global legislative framework for Islamic Financial Institutions-IFIs (Khaleej Times, 2020). Due to this reason, UAE has much potential resources of Islamic finance that can help in the economy recovery. The country must put extensive efforts in optimizing Islamic Finance towards a healthy economy. Hence, the purpose of this research is to measure the impact of COVID-19 on the UAE economy and its MSME sector while finding a solution to revive the economy and MSME sector through Islamic finance mechanisms.

## **2. LITERATURE REVIEW**

### **2.1 Economic Impacts of Coronavirus**

One of the most shocking and earliest effects of coronavirus was the erosion of USD 6 trillion from global stock markets, losses of USD 5 trillion in S&P 500 index in a week's span during February (Randewich, 2020). Similarly, the Dubai Financial Market index of UAE witnessed a -4.9 per cent decline which was

accounted as the biggest single day drop since Gulf war of 1991 (GCC Markets Monthly Report, February 2020). According to the IMF predictions, there is a high chance for occurrence of a global recession that may be worse than 2008 financial crisis with a possible revival from 2021 onwards. The recession of 2008 was triggered due to an inefficient monetary policy that consequently caused high leverage in banking industry, weak regulatory structures, and subprime mortgages (Allen and Carletti, 2010). However, Ozili and Arun (2020) state that there may be a different type of recession which has been triggered by coronavirus. According to El-Erian (2020), the coronavirus crisis has developed demand-supply shocks across the globe due to which this recession may not only be destructive but will also incur spillover implications. The impact of crisis on oil-dependent countries was worse as there was an ongoing price war between Kingdom of Saudi Arabia (KSA) and Russia that led to a 25 per cent decline in oil prices (see Chart 1) (Ozili and Arun, 2020). There occurred adverse impacts on the energy industry including coal, gas, oil and renewables due to the reduction in transport leading to a sharp decline in fuel demand. Another factor for major decline in oil prices was due to the excess supply of oil by KSA that surpassed oil demand and led to extreme losses in oil revenue for oil-producing countries. Due to such circumstances, these oil-dependent countries had to establish new budget corresponding the new oil price or were obliged to issue loans from world bank and IMF (Ozili and Arun, 2020). There has been a significant harsh impact on the economy and share prices of credible stock market indices due to travel restrictions, lockdowns, and monetary measures (Ozili and Arun, 2020). The reduction of Chinese economy Gross Domestic Products (GDP) by 13 per cent in the first quarter of 2020 has



significantly impacted many economies worldwide due to trade agreements. For instance, Central Asian economies trade 90 per cent of raw material to China and benefit vastly from China's FDI (Foreign Direct Investment) for this crisis have caused huge damages to these countries (Usman et al., 2020). Similarly, more than 3,000 employees were assigned to work on energy projects in Bangladesh and were declined reentry due to the situation (Nguyen, 2020). According to a study conducted by Al-Awadhi et al., (2020) a significant negative impact of coronavirus cases and deaths occurs on stock market. Their study also confirms that IT and medicine sectors proved to perform better during the COVID-19 crisis. Using a panel data analysis to measure the impact on stock markets due to increasing COVID-19 cases and deaths, stock markets portray a strong reaction with negative returns to growth in coronavirus cases (Ashraf, 2020). Bahrini and Filfilan (2020) found through their research on the impact of coronavirus on GCC stock market returns, that GCC stock markets significantly respond to the deaths due to COVID-19 and do not respond to the COVID-19 cases. A study conducted through interviews of international experts on GCC issues portrayed that the most crucial challenge for the region is to deal with labor market as the GCC region is heavily reliant on foreign labor (Kozhanov and Zaccara, 2020). Most of the coronavirus infected patients are among the foreign nationals in GCC states. For example, In Qatar 70 per cent of the COVID-19 patients are South Asians and in Saudi Arabia four-fifth cases are among foreigners as well (The Economist, 2020). In response to this, GCC states are imposing bailouts on many foreign country citizens and are naturally favoring the welfare of nationals and state entities first to prevent further spread of the virus. These policies are expected to decelerate the economic growth rate and increase expenses for GCC states as they are heavily dependent on foreign labor. However, this measure can also give rise to long-term sustainability and development of local workers. According to the IMF (2020) research, the GCC will likely face depletion in financial assets by 2034 and found it already challenging to maintain fiscal sustainability; the pandemic crisis has added to the burden as the region is forced to reduce economic activities from non-oil sector. Additionally, there is a rise in government dominance in GCC states triggered by economic diversification standstill, capital flight, deficits in global equity markets owned by governments, lack of FDI due to

unfavorable conditions, and increasing social welfare expenses. Naturally, the region will divert its focus from innovation to survival through reformed strategies. Among all GCC nations, Qatar is noticed to have a much stable future and smooth recovery as they have exceeded large capital outlays and have contained savings of USD 350 billion. Whereas UAE will face slow recovery as the country had bigger plans of diversifying the economy by placing the country as a regional air travel hub and the preparing extravagantly for the most awaited Expo2020. As stated, the emergence of this pandemic crisis can also be an opportunity for the GCC region to reconsider diversification strategies and cut down on lavish expenditures that can benefit a post-pandemic economy (Kozhanov and Zaccara, 2020).

Hence, coronavirus pandemic has proved to cause severe havoc in global economy that is triggered by reduced production, declining exports, labor immobility, inconsistent supply chain, and overall reduced globalization(Usman et al., 2020).

## **2.2 Impact of Coronavirus on MSME sector**

Through empirical findings from 184 MSMEs in Pakistan, a research was established to see coronavirus impacts on the industry (Shafi et al., 2020). As an evidence, the sector's businesses were experiencing huge adversities including disruption of finance and supply chain, reduction in demand and steeping revenues. 83% of these companies did not maintain contingencies for such emergency situations and lack reserves to survive the lockdown period.

Another study measured the impact of COVID-19 on the MSME sector of India (Roy et al., 2020). Many firms in this sector had closed either temporarily or permanently due to government policies or lack of business. The relief funds provided by government also proved to be insufficient to cover the damages caused to these entities which was found to be more than 50%. A 100% halt on MSMEs economic activities was noticed due to the lockdown measures and increasing cases. The most impacted firms in this industry were manufacturing, and service providing companies as they faced extreme difficulties in procuring raw materials at normal rates and insufficiency in supply chains. Moreover,

MSMEs that generated turnover of over USD three million suffered losses of more than -25.3%. Another major challenge for this industry was the mortality rate of the workers as health conditions were extremely deteriorated. The study recommended that a wide array of credit guarantees to be disbursed and to provide generous subsidies through government channels. It is also important that the government take necessary measures to protect this sector from foreign multinationals and big firms(Roy et al., 2020).

SMEs are in great disadvantage as many banks and financial institutions refuse to deal with them as it is classified to be risky. One of the first factors is because SME disclosures are minimum compared to large corporations and lack details. Secondly, SMEs are less formal and are more prone to sudden changes in revenues. Thirdly, SMEs are not as swift and immediate in sharing financial activity as large corporations (Torre et al., 2010). The pandemic has put the SME sector in more hardship as they lack access to easy and immediate finance during such emergencies.

The European region has also seen some adversities in the SME sector as explained in the study of Juergensen et al., (2020). Many SMEs are facing supply and logistics issues with the lockdowns implemented. Over and above that, the demand has also reduced substantially as these SMEs are mostly consumer oriented since a wide number of populations have lost jobs. In their study they categorize the impacts on SMEs as short and long term. In the short-term SMEs have been impacted through liquidity issues, logistics hindrance, operational disruptions, and higher reliance on governmental subsidies. Whereas in the long-term, SMEs including industrial sectors are forced to introduce digital channels and products to keep their products diversified. A higher investment is required by SMEs to enhance technologies, train employees to use these technologies and replace employees with technological resources. Papadopoulos et al., (2020) discover the implications for SMEs to use digital technologies in order to maintain continuous business operations during worldwide disasters such as the current pandemic. The study suggests SMEs to apply a socio-technical approach that maintains a balance between social and digital work life.

Gourinchas et al., (2020) also studied the impact of COVID-19 on SME sector in 17 countries. According to this study, the SME sector was seen to face high liquidity issues with low government support. The SME businesses have failed by 8.8% due to this current pandemic. Due to the rapid failures of SMEs about 3.1% of employment has been impacted. It was found through the study that SME failures will incur more costs to the economy in the long run and that government must rush at aid. Almost 2.96% of unemployment will be recovered through providing subsidies of only 15% that only costs 1.8% of GDP. They conclude that such a strategy will rescue the SME sector by 5.6%.

### **2.3 Islamic Finance and Economic Crisis**

Al Eid and Arnout (2020) researched the Islamic approach of managing economy during disasters. After an analysis into Islamic history of crisis, the Holy Quran and Sunnah were found that four main theoretical concepts correspond to this issue in Islam. The concepts include the stages of crisis management, Islamic strategies for crisis management, crisis manager's characteristics and crisis management leader's roles. The study suggests there are four steps to crisis management in the light of Islam: clearly defining the crisis and finding its root cause, defining the indicators, developing sound methods of combating it, and laying down a resolution plan to recovery. One of the most effective yet basic solution that has Islamic roots in resolving economic crisis is providing job opportunities to all capable workforce who are healthy. The strategies implement for crisis management according to Islamic history are patience, insulation, teamwork, immigration, confrontation, preventive measures, positive outlook and future planning. The study further recommends governments to train more leaders in crisis management and to adopt basic hygiene behaviors among citizens even after crisis.

An empirical study was conducted by Ashraf et al., (2020) to measure the performance of Islamic Equity Investments of eight Islamic Equity Indexes and their Benchmark Equity Indexes during the COVID-19 crisis and its comparison with conventional counterparts. It was found that Sharia governed Islamic Equity Investments which follows Market Value of Equity (MVE) approach have

performed significantly better than conventional counterparts during Q1 2020. They state that this outperformance is mainly attributed towards higher systematic risk and Sharia screening as these equities pick out low leverage non-financial stocks that engage in permissible activities. Additionally, during the first half of 2020, it was reported that despite adversities of COVID-19 on market movements Islamic indices in S&P and Dow Jones performed better than conventional indices (Welling, 2020). This can be explained by stating that Islamic investments are prone to better performance as sharia screening prevents investment in highly leveraged companies and low diversified Islamic portfolios (Boudt et al., 2019).

A significant study measured the stock performance of 426 Islamic banks and conventional banks from 48 countries to compare which one is more efficient (Mirzae et al., 2020). The study finds that Islamic banks are more resilient and have more capability to endure crisis and protect their profitability. The sector has also proven to generate higher stock returns and shareholder value better than conventional sector. According to the empirical findings, Islamic Banks stock returns have outperformed conventional banks by 10% to 13% in the first quarter of 2020. This is because Islamic banks have better efficiency which is adjusted for bank risk every year (even without crisis) that has helped them in obtaining better stock returns during crisis. Similarly, Kunt et al., (2020) studied the impact on conventional banks in 53 countries and the effect of policy changes on bank behavior. It was found that pandemic impacts on banking sector was much higher than non-banking sector. There was a sudden pressure from governments for banks to absorb most of the shock by supplying significant credit to the economy. A high depletion in stock returns was attributed to banks that had low liquidity and low oil sector exposure before the crisis. Large banks and government banks face intense crisis shocks due to the new policies on laxing borrower repayments. Overall, the conventional banking sector is in immense stress as they are expected to lend on countercyclical basis making them more vulnerable.

Previous occurrences of crisis such as the global financial crisis of 2008 had also experienced that Islamic financial sector performed much better than conventional sector and had greater endurance (Alam and Rajjaque, 2016). This result is due

to the attributes of Islamic finance such as dealing with real economy and avoiding interest bearing debt elements (Abedifar et al., 2015). These evidences can set a base to discover the same in current crisis of COVID-19.

Abdul-Rahman and Gholami (2020) explore the potential of Islamic finance mechanisms in aiding the recovery of COVID-19 impacts. They find that normalizing and wide adaptation of profit and loss sharing contracts (PLSC) will prove to solve many economic problems faced in such a situation compared to interest bearing contracts that shift risk. This can help businesses to spread risks among all parties and promote a 360-degree view of understanding of economic conditions instead of unfairly giving investors their returns. Profit and loss sharing contracts are an ideal tool to promote wealth creation and just income distribution instead of creating large gaps between the rich and the poor (Usmani and Zaubairi, 2002). Moreover, PLSC creates a direct bridge between real sector and money market. The study suggests that for organizations to combat COVID-19 impacts they must be willing to benefit each other and realign their strategies with common interests. They recommend conventional entities to initiate PLSC through using CSR funds and to monitor its success as compared to sudden heavy investments (Abdul-Rahman et al., 2020).

Through above all literatures mentioned, there has been plenty of research conducted on the impact of current pandemic in various economies and sectors. However, there is shortage of research conducted on the UAE and particularly on its MSME sector. Therefore, this research aims to bridge this gap by studying the impact of COVID-19 on UAE economy and its MSME sector. Furthermore, as this crisis is still in its early stages extensive research is found to be necessary.

### **3. RESEARCH METHODOLOGY**

In this research we firstly aim to establish the impacts caused by the COVID-19 pandemic on the UAE economy. This relationship will be established by measuring the amounts of COVID-19 cases in the region and the Purchase Manager's Index (PMI). As economic indicators such as GDP are not yet officially published, this research will measure the PMI instead. Secondly, this research aims at meas-

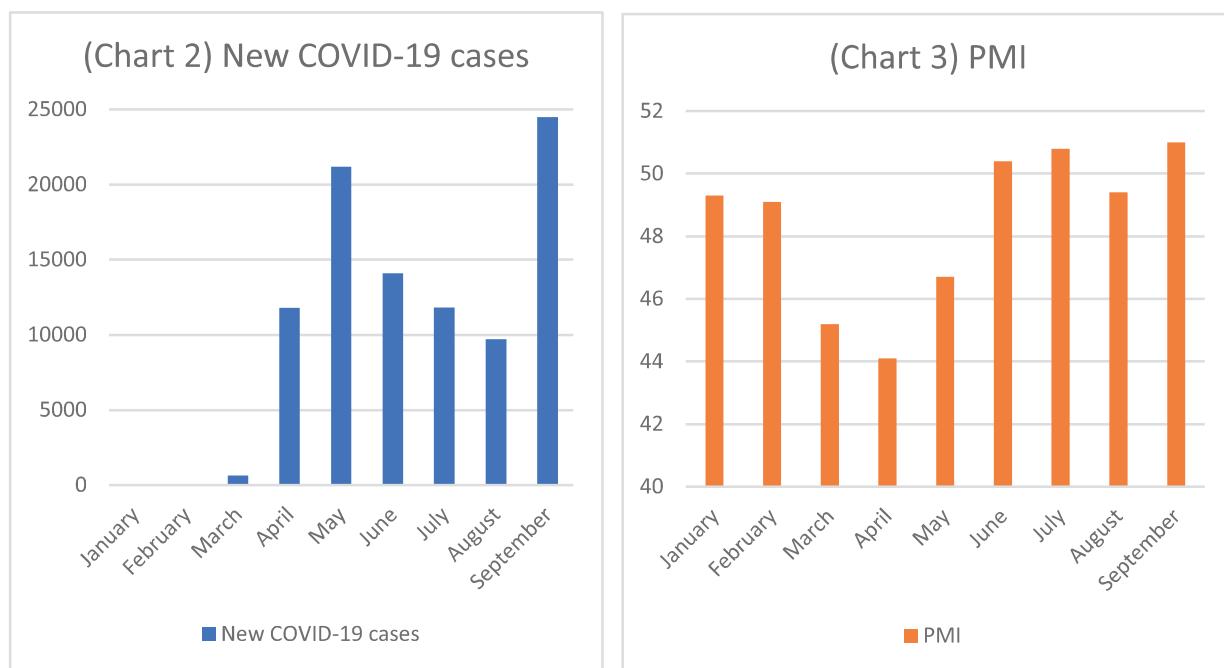
uring the impact of the COVID-19 crisis on the Micro, Small and Medium Enterprises (MSME). This objective will be established by distributing questionnaires to a sample of 50 MSME companies in UAE.

## 4. FINDINGS AND DISCUSSION

This section will discuss the results of the research on two aspects: i) impact of COVID on economy; and ii) impact of COVID on MSME sector. The following section also discusses the role of Islamic banking and finance sector in the economy's recovery.

### 4.1 Impact on the UAE economy

As overall economic data such as GDP is not yet available, monthly indexes like Purchasing Manager's Index (PMI), are elaborate about the economic market. The role of PMI as an economic indicator is to supply useful information to market analysts, business decisionmakers and investors. PMI is a crucial indicator that shows overall economic activity, conditions, and trends on monthly basis through surveying corporations in the industry. PMI also contributes significantly to the calculation of GDP, employment indicators and industrial production which conveys profitable foresight of the economy.



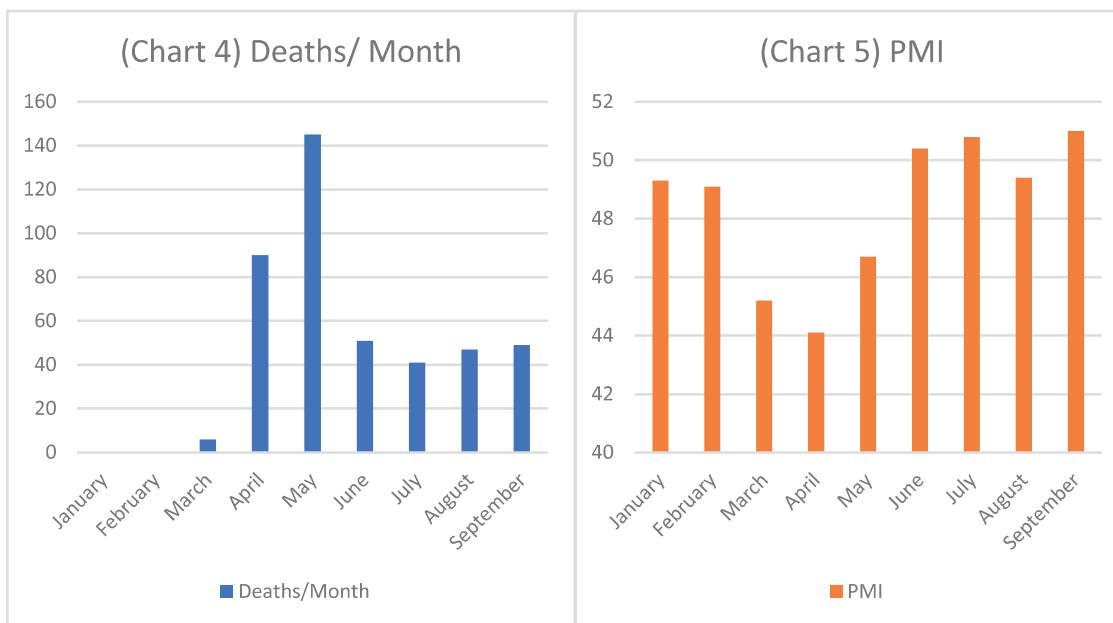
The above graphs (2&3) depict monthly data on new coronavirus cases in UAE and the Purchasing Manager's Index. Economic activity during the month of January was slow as PMI decreased to 49.3. There was a decline in new orders, output, and a high record of unemployment in the country. All companies had started implementing cost-cutting strategies and started encountering credit issues due to the coronavirus crisis faced in other nations. As COVID-19 cases kept multiplying rapidly from 16 cases in February to 643 in March there was also a corresponding decline in PMI from 49.1 to 45.2. February faced a slight drop in imports, exports, and even more reduced employment. With rapidly increasing COVID-19 cases, March faced the sharpest contraction in the non-oil sector of UAE. The country started implementing travel restrictions that contracted exports, FDI, tourism and consumer demand. With another sharp rise in coronavirus cases of 11,817 in April, the PMI hit another contraction point (44.1) which was the steepest to date. Many companies forced employees into leave, made redundant and/or cut salary that lead to a deeper employment reduction. Reduction in output, new orders,

#### **Purchasing Manager's Index:**

PMI is calculated through a monthly questionnaire distributed to supply chain managers across 19 industries, weighted by GDP contribution. It depicts if the market conditions will expand, contract or be stagnant. The PMI is represented as 1-100 and is in a state of expansion if above 50, contraction below 50, and no change occurs when it is equal to 50.

foreign trade and purchasing activities were recorded at the lowest till date. In May, coronavirus cases rose to double of prior month although PMI remained at the state of contraction with a slight increase to 46.7. However, in June the PMI (50.4) witnessed its first expansion amidst crisis as coronavirus cases reduced significantly by 7,093. This rise is mainly attributed to the gradual relaxation of restrictions on domestic movements, other measures, and improvement in health conditions. However, the job market encountered one of the worst reductions in history of UAE. PMI continued to rise by 0.4 as new COVID-19 cases drop further in July. As measures were taken to gradually open the economy, there were improvements in supply-chain. There was no improvement in employment conditions and a continuous decline for the seventh month in a row. The following

month of August encountered a contraction in PMI of 49.4 with a subsequent decline in new coronavirus cases. This can be attributed to the cause of businesses still adapting to new measures and preparing to reopen by fulfilling all governmental measures. Meanwhile, the unemployment rate assumed to reach a 3.50% was seen to be the highest in 100 years of UAE. There was a sharp increase of PMI in September to 51 with the highest record of COVID-19 cases in the period. The PMI was highest in eleven months considering the region mostly returned to normal operations with softer restrictions and lower health concerns among public. The employment rate has still not seen any improvement for the period.

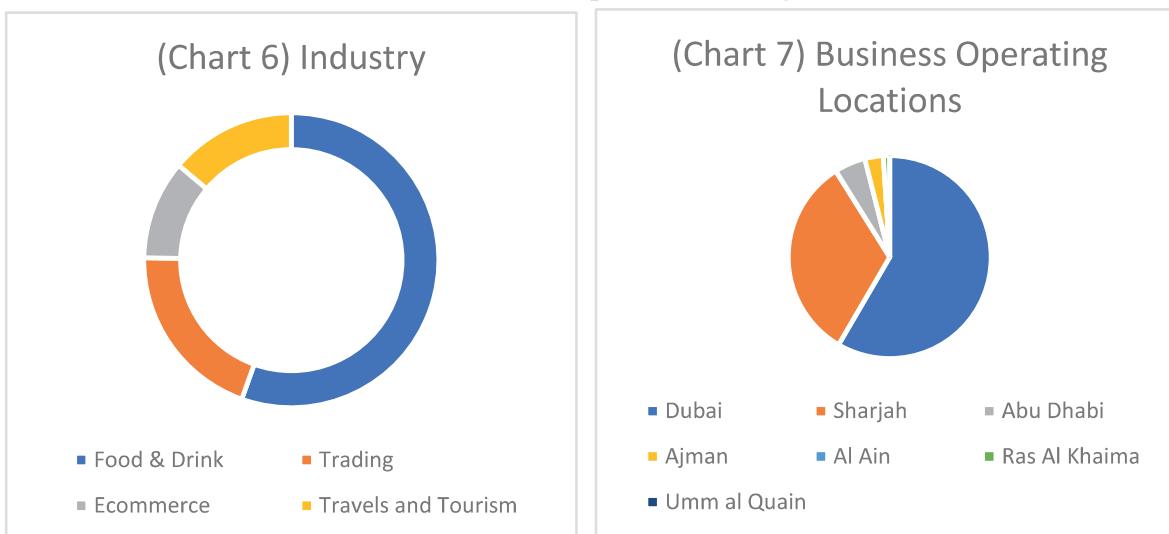


The above figures (4&5) depict a comparison between deaths due to coronavirus and the PMI for each month in 2020. As deaths resulting from the pandemic increase from March, the PMI also decreases until the month of April. However, the month of May faced the highest number of deaths in the given pandemic period and showed an increase in PMI at a decreased rate, although still in the stage of contraction. Deaths due to pandemic reduced three-fold in June and remained mostly stable with slight variations until September. Consequently, the PMI for these corresponding months were above 50 which is in the state of growth. Among last four months, August is an exception where PMI was just below 50 depicting a slight contraction. This portrays a negative relationship between deaths caused due to pandemic and PMI of the nation.

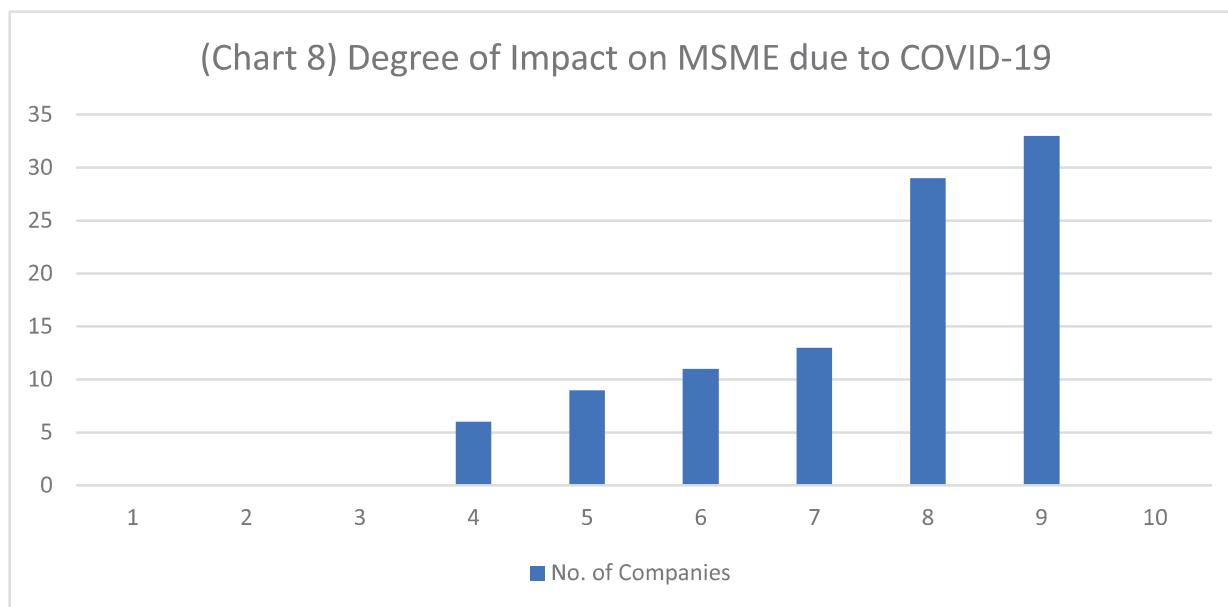
## 4.2 Impact on MSME sector

This section will discuss the results found through surveys conducted on various MSMEs in the UAE. A total of 101 SME responses were received. As MSMEs contribute towards 86% of employment and account for 94% of companies in the region, it is incredibly important to measure the impact of such a tragedy on this valuable sector. A high number of MSME respondents belong to the Food and Drink sector (56%), followed by Trading (20%), Ecommerce (11%) and Travel sector (14%).

Chart 6&7 shows the distributions of the response along with the UAE states.

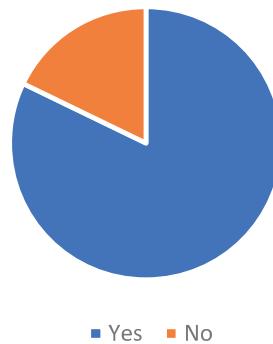


More than 50% of the MSME respondents operate in Dubai followed by Sharjah and no existing responses from Al Ain and Umm al Quwain. Chart 8 depicts the number of companies affected from COVID-19 on a rating scale. About 33 companies state that the impact on their operations was adverse with a rating of 9/10. These companies mainly belong to the travels sector as various travel agencies have to stop 100 per cent of operations due to border closure. Other MSMEs that are a part of Food and Drink and trading sector rated as 8/10. The least impact was seen on E-commerce sector that rated 7 and below as they incur low expenses on rent, labor, and licenses. Also, E-commerce sector was the most operational sector even during country wide lockdown as most of the population depended on online buying. Whereas other sectors have suffered significantly.



As mentioned previously about the intense impact caused to MSMEs, about 82% (Chart 9) of the firms has stopped operations mainly due to government restrictions on trade and movement. Many companies explain that even though there were customer orders and inquiries it was very difficult to fulfill them due to lack of supplies. Another major reason for stopping business operations were health reasons as most of unskilled labors had contracted the virus and were unable to work. Additionally, reduced demand for products and services was also a significant reason. However, since the ease of restrictions on various industries, business have started operating but are barely surviving in the market.

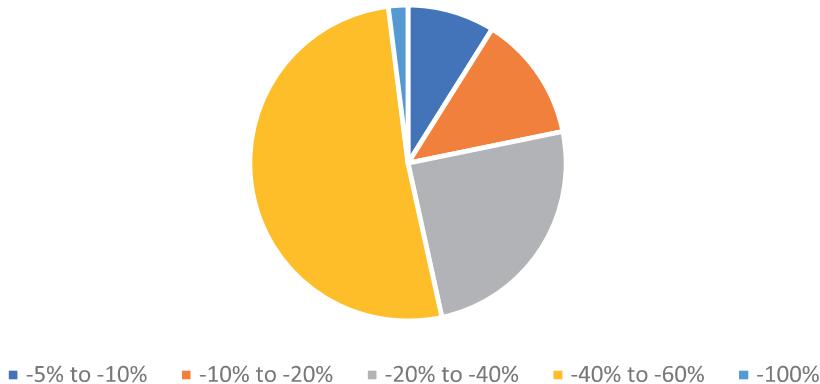
(Chart 9) Number of Business that Stopped Operations Due to restrictions like Lockdown.



Adding to all, the pandemic has also taken a huge toll on the MSME's revenues (Chart 10). About 51% of the firms claim that their revenue has been reduced by 40% - 60% which is a significant amount. While 25% of MSMEs encountered a revenue depletion by 20% - 40% and 13% witnessed 10% - 20% reduction. Due to such significant losses in MSMEs, they were forced to carry out redundancy strategies to reduce their expenses. Evidently, MSMEs reduced one of their most costly resources that is the human resource. About 70% of the MSME companies have dismissed a significant number of employees. Because of this, the overall employment rate of UAE has reduced crucially and is currently encountering one of the highest unemployment hits in 100 years.

To preserve the operations of MSMEs, the government of UAE has established the following various initiatives, campaigns and programs (UAE Government, 2020):

(Chart 10) Percentage of Reduction in Revenue



- **UAE Central Bank Economic Support Scheme:** As soon as the advent of a pandemic, the CBUAE launched a scheme to support the economy with AED 100 billion. The aim of this program is to reduce the burden of interest and loan payments for all impacted companies in the UAE with some documented proof. The scheme grants temporary relief for a period of six months.
- **Abu Dhabi Economic Stimulus Package:** This program aims at protecting the UAE through providing relief for companies in the emirate. The scheme mentions to continue all planned projects while giving priority to startups and MSMEs. To

prevent the Abu Dhabi economy from crashing, this scheme has developed various new rules and regulations that are more flexible. Financially, AED five billion has been allocated to provide subsidies on water and electricity for all enterprises and residents. Additionally, the government has allotted AED three billion solely for MSME sector as a part of the MSME Credit Guarantee Scheme and AED one billion for financial markets to maintain sustainable stocks and better liquidity. The government has also subsidized many administration costs and further reductions on rentals. All banks in Abu Dhabi are instructed to defer loan payments, reduce service fees, and reduce requirements for accessing immediate finance.

- **Dubai Economic Stimulus Package:** Meanwhile the Dubai government has allotted AED 1.5 billion towards this scheme. As a part of this scheme, the government has reduced all market fees for businesses to 2.5% and a 20% refund on all imports. As for banks in Dubai, all customers are given deferment options and lower service charges given they support with documents. The Dubai Free Zone Council and Dubai Airport Free Zone Authority have also taken initiatives to ease business operations and support by offering to defer rental payments of six months, providing flexible installment options, returning security deposits, refunding guarantees, and waiving penalties. Especially for the MSME sector, the government has launched a second scheme worth AED 3.3 billion.
- **Economic Support of Northern Emirates Governments:** Ras Al Khaimah has launched this scheme towards promoting and sustaining the emirate's economic activities. The Environment Protection and Development Authority has waived all fines for violations against environment by companies provided that the company plants trees of an equivalent amount. About 15,000 establishments in the emirate are supported by exempting license renewals, flexible installment plans, discounted commercial license by 50%, waiving insurance payments, 25% discount on residence visas of employees registered under RAK, and waiver of penalties.

Even with the development of various flexible schemes, a wide number of MSMEs are still unaware of many ways through which they can obtain relief.

Chart 11 shows that only 27% of the MSME respondents are aware of government campaigns and have benefitted from them. About 41% of the companies have not initiated to avail the benefits of these governmental schemes. While another 33% of companies chose “Maybe” as they only availed basic waivers of fees and penalties but could not obtain assistance in receiving immediate financing to fulfill liquidity requirements. A major problem of liquidity issues was within the travel sector where many small travel agencies had to refund huge amounts to customers due to cancellations of flights and border closures. These travel agencies also faced huge difficulties as banks had stopped providing loans for this sector due to deteriorating revenues and halted operations.

A series of questions were focused on asking MSMEs on the required assistance to recover business losses. About 60% of the MSME respondents conveyed that they require access to immediate short-term financing with lower pre-requisites in order to fulfill their previous credit needs. Another 20% of respondents need enough supplies of equipment for personal protection such as masks and thermometers in order to avoid penalties by municipality. Moreover, 70% of MSMEs require consultation advice on business continuity planning and training for staff during disasters and pandemics. 30% of companies request for consultation on health and safety measures to stop the spread of pandemic and prevent in stopping business operations.

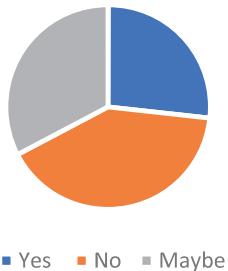
#### **4.3 A way forward to Islamic Finance**

Even though the globalized economic system claims to improve and uplift society, about 1.7 billion people remain financially excluded (Global Findex Database, 2017). Among these, women are most financially excluded with about 56% of the world's women being unbanked. Additionally, the World Bank 2020 estimates that due to the current pandemic crisis the poverty levels will be increased by 115 million people. All these issues have certainly arisen due to the unfair conventional based economic systems followed. The conventional system has proved nothing more than the fact that the rich get richer and poor get poorer each day. To address the current situation and above issues financially and responsibly Islamic finance can play a huge role. The basic principles that are held in Islamic finance

are the key towards a better economic system. Applying these principles of social justice, inclusion, and equal distribution of resources are highly crucial. In the religion of Islam, all humans are accountable for their actions and must act wisely with justice. If only every individual had such a consciousness, the system would have been less discriminative. Islam also mandates charity (Zakah) for people who can afford to support the weak society. If all economies around the world mandated for a percent of income towards charity, poverty levels would also become low. The global debt has reached to \$188 trillion as of 2018 and has not significantly reduced since many years (Badia and Dudine, 2019). Substituting interest mechanisms with profit and loss contracts would save individuals and companies in maintaining debt levels. Many individuals often get confused between interest and contracts and PLS contracts thinking them to be more or less of same nature. A very important point to be cleared is that PLS contracts are not at all like interest-based contracts. In PLS contracts the principal amount, profit and monthly installments are pre-agreed between parties and remains fixed throughout the contractual period until the amount is repaid regardless of deferments. However, interest keeps multiplying every month on the principal amount that may or may not vary according to market rates. According to literatures stated above, majority of researches show that Islamic Financial Institutions have much better potential to improve economic systems and have higher endurance to shocks as compare to conventional sectors (Ashraf et al., 2020; Welling, 2020; Boudt et al., 2019). With these facts being stated, the crisis of COVID-19 can also prove as an advantage of opportunities to the Islamic Financial sector. The growing industry of Islamic financial technologies (Islamic FinTech) and digital platform services of Islamic banks must be extensively promoted and highlighted at such times. There is a noticeable increase in Islamic FinTech demand since the start of this pandemic (Winosa, 2020). Islamic products such as Qard Al Hassan, Sukuk, Waqf and Zakat have proved to uplift many of the Muslim and non-Muslim economies. Many nations such as United Kingdom, Hong Kong and Ireland have recently started to heavily look into Islamic finance options due to its long-term benefits (Mohammed, 2014). Although, for these economies to significantly reap the benefits of Islamic finance especially during crisis it is important that they penetrate Islamic finance as a large segment in their economy. It is recommended

for Western and European economies to establish an independent and skilled Islamic finance development sectors as a part of their government department to look over IFIs in the country.

(Chart 11) Have you availed any relief from government campaigns and initiatives?



Even though the UAE has a strong Islamic banking and finance industry, the measures taken to promote Islamic finance services to resolve crisis is low. To tackle the situation of a pandemic in Islamic finance sector, it is recommended for IFIs to double their integrity and transparency of information towards shareholders. This strategy will help in improving the quality of disclosures and bring about a sense of confidence, reliability, and trust among the IFIs stakeholders and in particular investors. IFIs in the UAE must be true to their Islamic nature and face problems wisely instead of covering it up from shareholders.

## 5. CONCLUSION AND FUTURE RESEARCH

This study has contributed to figuring out the economic and MSME impacts in UAE due to the current COVID-19 pandemic. The UAE had been awaiting the year 2020 for five years only for all their grandiose Expo2020 plans to be hindered with a pandemic crisis. Nonetheless, it was found through this study that COVID-19 has taken a huge toll on UAE's overall economy just like most global nations. As the virus spread throughout the nation, the economic impacts deepened. The UAE has faced the worst case of unemployment in 100 years and is seeing a deteriorating MSME sector. Through distributed questionnaires among 100 MSMEs in UAE it was found that the worst hit industry was the travel & tourism industry leading to multiple business closures. Even with the UAE government initiatives, many MSMEs have not availed much relief due to unawareness.

The UAE must promote a higher use of Islamic financing options among the MSME sector and place extra benefits for selecting Islamic finance options as they plan to be an Islamic finance capital. Being a country with deep Islamic principles, the IFIs must highly support MSMEs during such a crisis in order to preserve the industry as they lack the resources compared to corporations. Additionally, the MSME sector of UAE has also immensely contributed towards the increasing employment rates and economic growth in previous years.

The limitation of this research is that firstly, it is too soon to draw relationships and conclusions on data related to the current pandemic as it is still in its early stages. Secondly, as the virus emerged in UAE just in the beginning of this year, there is a lack of literatures available particularly studying on this country. The UAE also does not issue official reports on disclosing information related to the MSME sector. Another lacking information was the unavailability of published economic indicators to support in the measurement of economic impacts of COVID-19. Hence, further research must be aimed at empirically studying the COVID-19 impacts on UAE economy through relating more important economic indicators such as GDP and unemployment rate. Furthermore, the importance of this study is to alert the UAE economy on the significance of MSME sector and the adverse impacts caused to their establishments. This study facilitates IFIs to tap on this sector and offer much better financing aids than conventional finance as a part of their corporate responsibility and as an opportunity to promote their Islamic FinTech products.

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