

USING ISLAMIC SOCIAL FINANCIAL INSTRUMENTS TO ASSIST THE MSMEs IN POST COVID-19

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Abstract

The outbreak of Novel Corona virus has adversely impacted every corner of the global economy from every sole trader to the largest multinational company, either directly or indirectly. The objective of this paper is to identify the potential Islamic Social Financial Products to be used to overcome the challenges faced by MSMEs due to subsequent events of spreading COVID-19, and the Movement control orders due to the Pandemic in Malaysia. The paper was conducted based on a qualitative research approach of literature study where data were sourced from the primary and secondary sources. All literatures were analysed and reviewed to accomplish the objectives for this paper. As for the main finding of this paper a sustainable Shariah-compliant Islamic Social Financial model is developed to provide interest-free loan as financial assistance to the MSMEs to overcome with the adverse effects of COVID-19. In addition, this paper identified the major challenges faced by the Malaysian and global MSMEs due to COVID-19 and existing mechanisms in the country to provide financial support for MSMEs. This paper recommends conducting a further research on identifying the suitability of the model to be implemented to help people overseas. In addition to that, it is recommended to conduct a study on other risk free or less risky Shariah-compliant investment opportunities in the recreation of the funds to operate the model more sustainably.

Introduction

The global COVID-19 Pandemic has impacted the Micro, Small and Medium Enterprises (MSMEs) that play an essential role in the growth of every country's economy. Many of these enterprises had to shut down their operation

due to multiple reasons such as regulatory restrictions, supply chain disruption and demand reduction, regardless of the nature of business. According to Omar, Ishak and Jusoh (2020) 98.5% of aggregate business establishments in Malaysia are MSMEs, contributing 36.6% of the country's GDP and 65.3% employment in the year 2016. Malaysia is among the first country that got hit by the spread of COVID-19 where the MSMEs in the country lost their income sources because of the Movement Control Order (MCO) and other business restrictions.

The numerous financial supports were provided by the Malaysian Government, Private Organizations, NGO's and Zakat Institution. However, most of the supports are interest (riba) attached loans or "one-off" payments that have the potential to fulfill the individual needs rather than business support. For instance, Musaadah Programme conducted by PPZ-MWAIP, the Zakat institution, provided "one-off" RM 300 payment to the small and micro enterprises by proving their income has been impacted due to a reason related to COVID-19 Pandemic (Jaafar, 2020). These one-off funds are significant in overcoming the social issues, and financial loans support businesses to continue, however most of them are interest-based loans that put an extra burden on the enterprises which are also not permissible in Islamic Shariah. Therefore, the economic sector needs to be strengthened with a more comprehensive mechanism to support the MSMEs affected by the COVID-19 Pandemic.

The financial challenges faced by MSMEs shall be addressed in a viable manner by the government and the financial institutions to maintain their existence in the long run. According to DESA (2020), the access to finance for MSMEs shall be improved, where it remains a serious challenge to the growth of MSMEs. They also suggested that to overcome this challenge; an innovative financial solution shall be derived by considering the ability of the MSMEs. For the solution, the Islamic Social Financial instrument could be utilized to provide financial support to MSMEs as a mechanism to overcome the issue in a Shariah-compliant manner and open rooms to turn the country back to the normal.

Research Objective

The primary objective of this research is to identify the potential Islamic Social Financial Products to be used to overcome the challenges faced by MSMEs due to subsequent events of spreading COVID-19, and the Movement control orders due to the Pandemic in Malaysia.

The specific objectives of this paper include:

1. To identify the major challenges faced by the Malaysian and global MSMEs due to COVID-19
2. To study existing mechanisms in Malaysia to provides financial support for MSMEs.

3. To provide a Shariah-compliant Islamic Social Financial product to the Malaysian Economy in financial support to MSMEs.

Research Questions

1. What are the major challenges faced by the MSMEs due to COVID-19?
2. What are the existing mechanisms in Malaysia to provide financial support for MSMEs?
3. What Shariah-compliant Islamic Social Financial product could be used to provide financial support to MSMEs affected by post-COVID 19 in Malaysia?

Research Methodology

This research is conducted based on a qualitative research approach of Literature study where data were sourced from sources such as websites, journal articles, news, government publications and reports were analysed and reviewed to accomplish the objectives for this paper. To identify the major challenges to MSMEs and existing financial supports, a literature study has been conducted with the latest journal articles published that encounter the COVID-19 pandemic aspect.

For developing a Shariah-compliant Social Financial Product, another literature study has been conducted in identifying the potential Islamic Social Financial instruments that can be used to provide financing to MSMEs. After reviewing all dimensions on the impact and restrictions of Pandemic, a model has been proposed to be implemented in practice for Malaysia in overcoming the post- COVID-19 impact to MSMEs. The model combination of Islamic Social Financial instruments and Shariah-compliant investments includes Qard Hassan (interest-free loan), Islamic crowd funding, Sadaqah (charity), Investment Account platform, and real estate investments.

Literature Review

Role of MSMEs in the Economy

MSMEs play a vital role in contributing to economic growth, employment creation and income generation to a large segment of society. According to a statement made by the Secretary-General of the United Nations Conference on Trade and Development, June 2020, globally MSMEs represent about 90% of businesses and more than 50% of employment and contributes 40% of GDP in emerging economies (UNCTAD, 2020). According to a report issued by the Department of Economic and Social Affairs (2020), MSMEs play

a significant role in sourcing income to the poor and marginalized people in society. However, these small enterprises are not legally registered (DESA, 2020). In addition to providing legal flexibility for operating MSMEs, extra attention shall be given to these enterprises due to this global pandemic situation.

These enterprises could be a small food truck or even a fruit seller that contributes to the economy from their little work. However, there are a lot of these short workers as we call Micro or small enterprises. Including medium enterprises such as barbershops and manufacturing firms, they also would potentially need help in paying their debts and to restart business again. The role of these MSMEs is visible demand-supply and price for foods and other necessities that have been served by those MSMEs. Everyone would not be affordable or time to cook every meal. These small food trucks provided food to people at a reasonable price, and the small barbershops cut our hair within a few minutes at an affordable price. Therefore, the significance of the presence of these enterprises is more visible to the public because of the Pandemic. Other than job creation and regional development through economic growth and exports, MSMEs also open doors for innovations in the products developed through the exposures and thrive to become successful.

Impact of COVID-19 on the Global MSMEs

According to a recent study conducted in identifying the implications of COVID-19 Movement Control Order to the survival of MSMEs in Malaysia, the researchers found that broadly most of the SMEs had (1) operational problems and (2) financial problems such as cash flow imbalance and (3) risk of bankruptcy as significant challenges. Moreover, the study also revealed that the major survival strategies are financial and marketing strategies (Che Omar et al., 2020).

Other impacts of COVID-19 identified in the study include cash flow problems such as unable to pay the business loans due to loss of income, supply chain disruption due to travel restrictions (AMCHAM, 2020), and problems in foreseeing future business direction. The following table shows the results of a study in identifying the ranking of the challenges faced by MSMEs in Africa due to COVID-19 based on their size (COMESA, 2020).

Table 1

Challenge Faced due to COVID-19 Pandemic by Company Size

Ranking	Micro	Small	Medium	Large
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(1) Highest Concern	Lack of operational cash flow	Lack of operational cash flow	Business closed	Reduction of opportunity to meet new customers
(2) Medium Concern	Business closed	Drop in demand for products/ services	Drop in demand for products/ services	Issues with changing business strategies and offering alternatives product/ services
(3) Lowest Concern	Reduction of opportunity to meet new customers	Reduction of opportunity to meet new customers	Reduction of opportunity to meet new customers	Drop in demand for products/ services

Adapted from Source; COMESA Special Report (2020)

By referring to Table 1, it is noticeable that Micro, Small and Medium enterprises have almost the same impact ranking with a minor difference. Looking into the “Reduction of opportunity to meet new customers”, large companies were the highest concerned about it while all MSMEs ranked it as the lowest concern. Furthermore, from Table 1, for Micro and Small businesses, their highest concern was “Lack of operational cash flow” which anticipates that they expect to get financial help or assistance to continue their operation. The another study conducted on 184 MSMEs from Pakistan revealed that 83% of the enterprises were not prepared and did not have any plan to handle the current situation, and 67.93% are facing financial issues (Shafi et al., 2020). From the major challenges and issues faced by these MSMEs globally, financial constraints, supply chain disruption, and loss of market demand and revenue were highly noticeable.

Economic Impacts of Shutting down MSME Operations

According to a survey conducted by International Labour Organization (2020) to 1000 companies from eight countries, including Indonesia, Pakistan, and Ghana, 70% responded that they had to shut down their business operation, while 50% of them answered they had to close their business due to the instructions from authorities (ILO, 2020). To the economy, the major impact comes from the job loss to the people. The impact is similar to all unpaid workers and workers with reduced pay, where their usual standard of living shall be surely unmet.

Another significant impact due to COVID-19 pandemic is currency depreciation due to lack of economic activity and demand for the domestic currency over the foreign exchanged currency. In Malaysia, the value of the Ringgit depreciated against the US dollar during the pandemic due to lower crude palm oil prices resulted in world economic uncertainties (Aziz, 2020). Similarly, any reduction in the economic activities from MSMEs would also

contribute to weakening the exchange rate of the domestic currency due to less demand from the importers or tourists for the currency over foreign currencies. The following chart shows the impact of COVID-19 MCO on the exchange rate of the Malaysian Ringgit over the US Dollar (Hun & Idris, 2020).

Figure 1: Exhibit 1- Malaysian Ringgit against US Dollar over one year



Adapted from Source; *The Edge Markets* published an article by Hun & Idris, (2020)

As seen from Chart 1, the rate has been depreciated to 4.4028 is the firmest point against the US dollar. This macroeconomic impact would result imports to be expensive and threats to MSMEs as they rely imported goods. The same effect has also caused countries such as Thailand and many other countries around the world (Hun & Idris, 2020) that contributed to the shutting down of MSMEs for the currency value depreciation. In addition to this, other macro and micro economic impacts are anticipating due to the shutdown of businesses, especially inflation or increasing the price of goods and services due to lack of suppliers or competitors.

Islamic Social Finance

Social finance is defined as an approach in investigating and managing a certain fund with the purpose of solving societal challenges (Urban Matters, 2017). Islamic Social finance is defined as the provision of financial services to

the vulnerable members of the society to achieve socio-economic welfare that comprises three main sectors, Zakat/Sadaqah, Waqf and Islamic Microfinance (Lawal & Ajayi, 2019). From both definitions, it is understood that social finance is used to alleviate any hardship within the society by providing some financial aid or assistance. The current pandemic situation is a perfect example of a social challenge where MSMEs would potentially require financial aid and assistance in continuing their business operations in the future. The following are the Islamic Social Financial Instruments used in contemporary Islamic Financial Institutions (Lawal & Ajayi, 2019).

Zakat

Zakat is (a religious tax and) the third pillar of Islam which is obligatory to every Muslim to pay from their wealth upon meeting certain conditions stated by the Islamic law (Atah et al., 2018). Zakat is an Islamic Social finance instrument that is used to ensure the socioeconomic and distributive justice through preserving and circulation wealth. The circulation of wealth is achieved by distributing the collected Zakat funds accordingly among the eight recipients of Zakat (Rosman et al., 2020).

Sadaqah

Sadaqah is voluntary giving as a charity which has been advocated many times in both the Qur'an and Sunnah that is also a useful social financing tool in Islam (Zain and Ali, 2017). Sadaqah is an Islamic Social finance instrument because it can be used to help the people in need and to the business.

Waqf (Islamic Endowment)

Waqf, another form of voluntary charity, is “the confinement of property, movable or immovable, by the founder(s) and the dedication of its usufruct in perpetuity to the essential services of the society.” (Mohsin, 2010). The Waqf properties can be used in the form of investments and the profits can be channelled to the beneficiaries stipulated in the waqf. The beneficiaries could be poor or even the MSMEs in the society, which is given in a form of social support.

Qard-e-Hassan Loan

Qard-e-Hassan is a loan that is free from interest and given to charitable causes where the borrower does not have to pay more than the principal amount. (Yussofa and Ismail et.al., 2015).

In Qur'an Allah says “*Who is that would loan to God Qard Hasan so He may double (multiply) it for him many times over? And it is Allah who withholds*

and grants abundance, and to Him you will be returned.” (Surah Al-Baqara, Verse 245).

The lending could be beneficial for MSMEs to start their hopes and dreams into a reality that will surely be useful for creating jobs in society by reducing the gap between rich and poor people. Similarly, the funds have the potentiality to be used in any disaster situation in helping the individuals and business to overcome any adverse situation.

The Role of Islamic Social finance for Pandemic or Disaster Situations

As mentioned earlier, there are several Islamic Social Financial instruments that are already in practice. These instruments could be used directly to support small and micro businesses and households, that lost their sources of income (IMFN, 2020), by providing access to fundamental necessities including buying the safety measures during the pandemic. The zakat money can be used to assist the low-income groups by the Zakat institution or the responsible zakat distributor in the relevant jurisdiction. Sadaqah funds can be raised through Corporate Social Responsibility (CSR) funds of every potential organization similarly from the public. The waqf properties can also take an active role in helping the people who are in need for example, in providing quarantine facility in a donated waqf building.

In addition to Zakat, other instruments can also be used to provide financial assistance in boosting the economy such as interest-free loan or Qard-e-Hassan for the small business in restarting their business where the borrower is required only to pay the principal amount (IMFN, 2020). The creation of these funds before any unforeseen pandemic or disaster would aid to recover much faster than waiting until the recovery with the conventional approaches. Since all the Islamic social finance instruments are with an inherent nature of sustainability and promoting justice and fairness among the people, the importance of it is fully realized when ourselves experience any pressing need for financial support.

Existing mechanisms in Malaysia to Financial support MSMEs

Looking into Malaysia, the country is quite advanced and ahead in providing financial supports to assist MSMEs affected by COVID-19 pandemic. On the other hand, it was noticeable that almost all facilities were attached with an interest component that tantamount to Riba and the interest rates tied would surely put an extra burden to MSMEs in repaying.

According to Foundingbird (2020), in total, 14 stimulus packages are offered for Malaysian SMEs. They are as following:

1. Special Relief Facility (SRF)
2. All Economic Sectors (AES) Facility
3. Micro Credit Scheme
4. BizMula-i and BizWanita-i schemes
5. Government Guarantee Schemes by SJPP
6. Government Guarantee Scheme by Danajamin
7. Special Grant for micro-SMEs
8. Micro Sector Business Recovery Financing Scheme (CBRM)
9. Employer Advisory Services (EAS) programme
10. Employer COVID-19 Assistance Programme (e-CAP)
11. Human Resources Development (HRD) levy exemption
12. Postponement of income tax instalment payments
13. Wage Subsidy Programme
14. iTEKAD programme

Except for the CBRM package, all the other packages include interest rate or guarantee fee or financing rate as a percentage ranging from 0.5% to 7% per annum. On the other hand, the CBRM package only provides loan ranging from RM 1000 to RM 10,000 and only for three years period, while the company must be registered in the Companies Commission of Malaysia (Foundingbird, 2020). The package also required to have a specific businesses location that would not be applicable for Micro and some small business affected by the COVID-19 Pandemic. Nevertheless, in general, these schemes would boost the economy and provide an opportunity to reviving the economic sector.

Nonetheless, the Shariah compliance of these mechanisms and the creation of funds are significant since Malaysia is a majority Muslim nation, where any Shariah non-compliance in the Muamalat transaction is controversial. Furthermore, the existing packages shall also towards a social purpose, economic sustainability, and achieving the Maqasid al-Shariah when it comes to the elimination of harm and getting out of difficult situation in any Muslim community.

Proposed Model and Analysis

Proposed Model

The following model is proposed to provide sustainable financial assistance to MSMEs affected by COVID-19 Pandemic to restart or continue their business operations and allows new MSMEs to start up from the funding provided through the implementation of this model. The model is divided into

major three areas, which are Funds Creation, Funds Sustainability and Social Finance funding that can be implemented in any type of organization that has the potential to follow the Islamic Social finance or Shariah rules and principles.

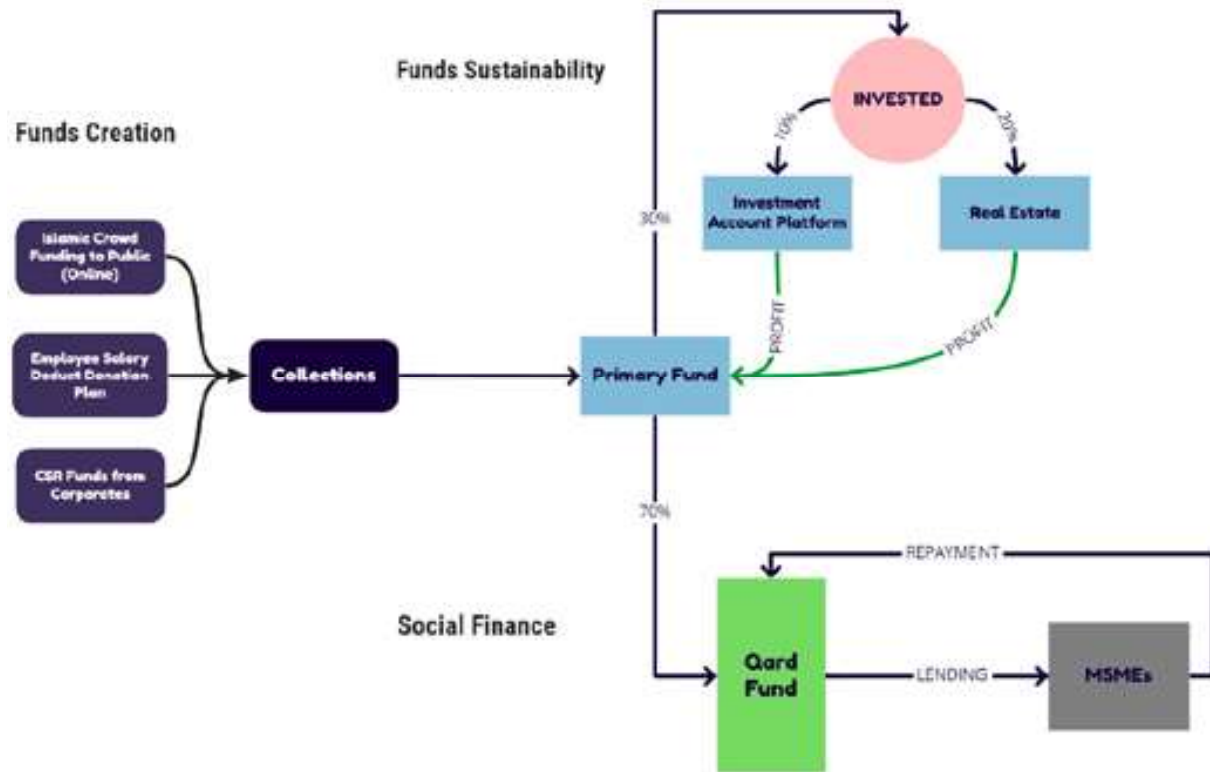


Figure 2 :The Flow of the model

1. Funds will be created by collecting money from all the potential sources and approaches during the COVID-19.
2. 30% of the collected fund will be invested into low risky (20%) and high risky (10%) risky investment in generating income for future sustainability of Qard fund and to recover the management expenses.
3. Another part (70%) of the collected fund will be channelled to provide financing facility to the MSMEs on Qard-e-Hasan basis (Interest-Free Lending).

Fund Creation

For this model, the funds are created from major three approaches as in Diagram 1. The first approach is through Islamic Crowdfunding through online platforms by appropriate marketing and promotional campaigns through the media. The promotion shall state as the funding to create social finance to MSMEs in a sustainable manner that is different from normal Sadaqah (charity). Therefore, the concept is more like a waqf (endowment) that gives perpetual rewards to the fund's providers in hereafter since the funds are being used to help the businesses. However, it is not considered as waqf because this model

gives flexibility to the organization to get released from the activity after the Pandemic or disaster situation is over. The online platform is more effective, reachable to the fund donors, and applicable to be collected in the Pandemic situations.

The next method is the Employee salary deduct donation plan. The approach shall mostly focus on the government employees in Malaysia who have a secured job and other potential donators in the economy. The amount should be a less amount but flexible upon the willingness and ability of the employee. A small amount as RM20 can be deducted from employees above M40 (Middle-income category). However, to implement this, support from the government side would also be significant in approving to allow funds to be channelled from the salaries of the employees through the Human resource department of each office/organization. Importantly, the employees would also realize the importance of supporting employees and has a high probability for implementing this approach of collecting funds.

The last method is collecting funds by approaching the large and potential organizations that allocate CSR funds. From these organizations, there is a high possibility of receiving an increased number of funds, especially MNCs that allocate budgets for CSR activities. The large organization would also realize the loss of demand for their business; however, their role in reviving the economy by helping MSMEs would be well comprehended by them as well. On the other hand, most of these organizations would also face financial constraints. However, there will some segments that has the potential to contribute such as telecommunication and fuel and gas providers within the country.

Funds Sustainability

According to the hybrid Islamic Microfinance Model of Mohsin and Alhabshi (2016), the part of the funds can be invested where the profit is generated from the investments can be channelled to cover management expenses and beneficiaries in any Islamic Microfinance model (Mohsin & Alhabshi, 2016).

Therefore, once the funds are received to the primary funds 30% of the funds will be channelled to investments side to generate income to cover unexpected costs and fees, together with a recreation of wealth to maintain the social finance (Qard) funds for the future. The likelihood of MSMEs would be medium to high, where the funds are required to be managed in a sustainable manner that covers up unreturned funds from the debtors in providing the funding for other MSMEs in the future. To achieve 20% out of 30% funds are channelled to real estate investments, it is primarily focused on generating rental income on a continue basis which is less risky. The remaining 10% will be

invested in Investment Accounting platforms of Islamic banks in Malaysia which is risky but may generate an adequate return through the equity-based contracts used by the banks. The percentages are allocated evenly by applying the mitigating risk concept that covers any losses from the Investment Account Platform by the real estate investments. The income generated would also be used to pay the administrative cost incurred in managing the funds, in addition to pumping to the Qard Fund as in the Figure 2.

Social Finance (Qard Based Lending)

The subject matter of this model is the part where the funds are being lent to MSMEs with no interest charged on the principal amount. Upon the expected recovery, the funds shall be returned by the entities for future lending to other MSMEs in need. A 6-month grace period can also be stipulated in giving time to recover the impact to the enterprise. Furthermore, in approving the applications, the ability of MSME to payback shall also be considered, such as their business plans, past entity performance, any criminal records and collateral if possible. The gist is that the funds shall be given to the potential MSMEs that can create economic growth and those who can pay back by driving their business into a successful position.

This model is structured to continue after the reviving since the model is designed for future sustainability in helping MSMEs regardless of any disaster situation. When the funds are created and managed sustainably in the future, the occurrence of any new pandemic and disaster situations can also be tackled by the help of the funds collected from this model. However, there is a right to discontinue the operation of the model to NGO or private organization with the condition that shall channel all the funds to Zakat institution or any other charitable organization that follows Islamic Shariah. Furthermore, the whole operation of the model shall be independent of any other business or charitable funds operated within the organization that also should ensure Shariah governance.

The Potential Issues, Risks and Challenges in Implementing the Model and Proposed solutions

Challenges in Creation of Funds

The funds may be difficult to collect since the collected funds are more like a charity where the givers are not entitled to receive it back. To overcome this issue, the fund's collection mechanisms will be adequately examined in terms of identifying the potential donators when it comes to CSR funds from business entities and crowd funding from the public. However, the issue would not trigger in employment scheme as much since the amount would be very small.

At the same time, only upon consent of the employee, the model intends to carry forward the collection of funds from the private or government employees. Furthermore, the model is not limited in the collection of funds from the above three approaches, where any form of charity from channelled from NGOs and funds from overseas can also be included in the sustainable model.

Risk of default by MSMEs

Since the whole model is designed with Shariah complaint procedures with the best knowledge of the researcher, the occurrence of any non shariah compliant event may trigger the Shariah validity status of the whole operation. To overcome, a Shariah review function may be incorporated by the operator of the fund. Therefore, proper mechanisms to overcome any such issue can be easily tackled with the process.

Non-Shariah Compliance Risk

Since the whole model is designed in with Shariah complaint procedures with the best Knowledge of the researcher, the occurrence of any non-Shari'ah-compliant event may trigger the Shariah validity status of the whole operation. To overcome a Shariah review function may be incorporated by the operator of the fund. Therefore, proper mechanisms to overcome any such issue can be easily tackled with the process.

The Significance of the Proposed Model

In short, the proposed model provides interest-free lending to MSMEs in a sustainable manner that creates opportunities to MSMEs to restart their businesses or new MSMEs to start a business after any disaster situation. As a result of the successful implementation of the model, it would help to create jobs and income sources to the individuals and enterprises affected by the Pandemic or any disaster situation. Therefore, the impact is anticipated to improve the standard of living of the citizens in the country while offering Shariah compliant social finance assistance. Looking into Malaysia, the majority of the people are Muslims. Therefore, the Shariah compliance of the model is essential. In addition to that, the investment side of the model would also contribute to Islamic finance by investing part of the funds to the Investment Account platform of Islamic banks and contributes to the housing sector. The overall model is benefiting to different aspects, with a superior priority in providing financial assistance in the development of MSMEs.

Recommendation and Way Forward

As a significant recommendation, the proposed model is proposed to be implemented by any potential NGO of Malaysia, such as UNICEF Malaysia and MERCY Malaysia, which are publicly trusted and well known. Therefore, it would be more comfortable to implement the fund collection through the government/private employee salary deduct donation plan. Moreover, the model is also recommended to implement this model by any existing stimulus packages providers in Malaysia, where the funds could be managed in a more sustainable manner, which will benefit the society in the long run. Since most of these providers have to administer the loans, the model would help to recover the cost incurred in the management and administration through the return from the investments made from the portion of money channelled for funds sustainability.

The model is also recommended to be implemented in any Muslim nation especially with Islamic finance and Islamic financial knowledge and expertise, such as Pakistan, Turkey and Indonesia, that would create a sustainable mechanism in helping MSMEs affected by any disaster situation.

Conclusion

This paper has successfully identified the major challenges faced by the Malaysian and global MSMEs due to COVID-19 broadly as (1) operational challenges and (2) financial challenges such as cash flow imbalance and (3) risk of bankruptcy. The subcategories of the challenges includes cash flow problems, such as unable to pay the business loans due to loss of income, supply chain disruption due to travel restrictions, loss of market demand and revenue and, problems in foreseeing future business direction. Looking into Malaysia, the value of the nation's currency, Malaysian Ringgit depreciated to 4.4028 the firmest point against the US dollar during the pandemic due to lower crude palm oil prices resulted in world economic uncertainties (Aziz, 2020). This macroeconomic impact resulted imports to be expensive than before that threats to MSMEs as they rely imported goods and took over the reason for shutting down MSMEs in the country. In addition to that, travel and business restrictions imposed by the government is also key factor for shutting down the business in Malaysia (AMCHAM, 2020). As for the existing mechanisms in Malaysia provides financial support for MSMEs, 14 stimulus packages (5.6) are offered for Malaysian SMEs in the jurisdiction (Foundingbird, 2020). On the other hand, except for one package (CBRM package), all the packages include interest rate (or guarantee fee or financing rate as a percentage), that tantamount Riba (usury) to considered as non-shariah complaint. All the packages also require having a specific businesses location that would not be applicable for micro and several small businesses which are operated as shadow businesses. For these several limitations, a comprehensive approach was deemed significant to be developed

towards helping MSMEs by eliminating the Shariah non-compliance for the Muslim nation.

As the foremost finding of this paper, the proposed model (6.1.0) provides an interest-free loan as financial assistance to MSMEs to overcome the adverse effects of COVID-19 in the light of Islamic Social Finance, where the funds are collected with respect to the practicability of pandemic or disaster situations. As in the Diagram 1 and analysis of the model (6.0), first the funds are created by three major approaches which are (1) Islamic Crowdfunding: through online platforms (which are reachable during pandemic/disaster situations) with a complementary marketing and promotional campaigns through the media in the form of raising Sadaqah (charity) for the economy. (2) Employee salary deduct donation plan: focusing on the government employees, employees with a secured job and other potential employees in the economy. (3) Collection of funds by approaching the large and potential organizations (prudent/sustainable in disaster situations) that allocate CSR funds to exercise their role in reviving the economy.

Second, for the sustainability of the funds generated, 30% of funds will be invested into low risky (real estate) (20%) and high risky (Investment account platform of Islamic banks) (10%) investment in generating income to pay the management expenses and to inject in future sustainability of Qard fund.

Third, to provide social finance to the beneficiaries of the model, remaining 70% of the collected fund will be channelled to provide financing facility to the MSMEs on Qard-e-Hasan basis (Interest-Free Lending).

Providing financial assistance is the subject matter of the model where the funds are being lent to MSMEs on interest free basis to revive from the adverse impact of COVID-19 and the pandemic restrictions. The model is designed with the flexibility that any private, government or non-profit organization can exercise the model that has potential to implement the model, segregate the funds and manage the funds in line with Shariah compliance. The proposed model (6.1.0) allows any additional source of funds to be created as long as the funds are received from Shariah-compliant activities.

The beauty of the model is similar to waqf or endowment, however depending on the ability of the organization that administers the funds created. The main reason that the model is not referred to as a waqf is that the model is suitable for any organization that intends to help MSMEs in a disaster situation where they have the right to discontinue. On the other hand, the model also requires distributing or channelling the funds to the zakat institution or any charitable organization up on terminatory decision for the model.

Further research and Research Limitation

Further research can be conducted on identifying other potential risk free or less risky Shariah-compliant investment opportunities in the recreation of the funds to operate the model more sustainably.

As a significant research limitation, no physical interview or questionnaire survey was being able to conduct with MSMEs due to spread of COVID-19. A study on demand for the proposed social instrument can be identified more accurately with proper research on them. Though the needs are generally understood, therefore, the limitation is considered as a minor challenge in conducting this research.

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