

CHALLENGES IN ECONOMIC ACTIVITIES DUE TO THE PANDEMIC &
ISLAMIC ECONOMIC AND SOCIAL FINANCE SOLUTIONS IN UZBEKISTAN

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Abstract: The COVID-19 pandemic brought about unprecedented disruptions to global economies, particularly affecting developing nations like Uzbekistan. Faced with rising unemployment, poverty, and public debt, Uzbekistan's recovery has been slow despite government interventions. This paper explores how Islamic economic principles and social finance instruments, such as zakah, waqf, qard al-hasan, and Islamic FinTech, could serve as viable solutions to help alleviate the socio-economic challenges posed by the pandemic. By examining the economic impacts of COVID-19 on Uzbekistan and applying the principles of Islamic finance, this paper provides a framework for sustainable recovery and resilience building.

Key words: pandemic, crisis, Uzbekistan economy, Islamic social finance, zakah, waqf, qard al-hasan, profit-loss sharing, Islamic fin-tech.

INTRODUCTION

The COVID-19 pandemic, originating in Wuhan, China, had a profound global impact, disrupting economies, societies, and healthcare systems across the world. For Uzbekistan, a developing country in Central Asia, the pandemic exacerbated long-standing economic challenges. The country faced rising unemployment, an increase in poverty rates, and surging public debt, which collectively threatened its socio-economic stability. By 2020, Uzbekistan's GDP growth had slowed to 1.6%, and public debt surged to nearly 38% of GDP (World Bank, 2021).

This study seeks to explore the challenges that Uzbekistan faced due to the COVID-19 pandemic and the potential role of Islamic economic and social finance mechanisms in addressing these issues. The research focuses on four key Islamic finance instruments: zakah (mandatory almsgiving), waqf (endowment), qard al-hasan (interest-free loans), and Islamic FinTech. Given that Uzbekistan's population is predominantly Muslim (88%) (World Population Review, 2021), applying these Islamic finance principles may provide a culturally relevant and sustainable means of mitigating the economic impacts of the pandemic.

Literature Review

Islamic Economics and Finance

Islamic economics is founded on Shariah principles, which dictate a moral and ethical framework for managing wealth and conducting economic activities. Unlike secular economic systems, which prioritize profit maximization, Islamic economics emphasizes socio-economic justice, equitable distribution of wealth, and community welfare (Ibrahim & Alam, 2017). The Qur'an and the traditions of the Prophet Muhammad (ﷺ) guide these principles, emphasizing that all wealth ultimately belongs to Allah, and humans are entrusted with its responsible management.

Islamic finance is a manifestation of Islamic economics in practice. It forbids practices such as *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling) to ensure fairness and prevent exploitation. Key characteristics of Islamic finance include risk-sharing, asset-backed transactions, and ethical investments (Habib, 2018). Unlike conventional finance, where financial gains often arise from interest-based lending, Islamic finance encourages profit-and-loss sharing contracts, making it a more socially responsible and equitable system.

Islamic Social Finance

Islamic social finance, a subfield of Islamic finance, is designed to promote socio-economic welfare through the fair redistribution of wealth. Instruments like *zakah* (mandatory alms), *sadaqah* (voluntary charity), *waqf* (endowment), and *qard al-hasan* (benevolent loans) form the backbone of Islamic social finance (Lawal & Ajayi, 2019). These instruments are specifically aimed at alleviating poverty, supporting the underprivileged, and enhancing social welfare.

The relevance of Islamic social finance has been highlighted during economic crises such as the global financial crisis of 2008 and the COVID-19 pandemic. Scholars like Ahmed (2009) and Mirakhor (2010) emphasize that Islamic finance, with its risk-sharing and ethical principles, provides a more resilient framework in times of crisis. The success of these systems lies in their ability to ensure social justice, equitable wealth distribution, and a safety net for the most vulnerable members of society.

METHODOLOGY

The study adopts a qualitative research methodology, relying on both primary and secondary data. Data from governmental reports, World Bank statistics, and academic studies are used to assess the economic impact of the COVID-19 pandemic on Uzbekistan. This analysis is complemented by a review of Islamic economic literature to identify potential solutions based on Islamic finance principles. The paper focuses on how Islamic social finance instruments — *zakah*, *waqf*, *qard al-hasan*, and Islamic FinTech — can be utilized to mitigate the socio-economic challenges posed by the pandemic and situations alike.

Results and Discussions

1. Economic challenges created by the pandemic

The COVID-19 pandemic severely impacted Uzbekistan's economy, aggravating existing socio-economic issues. The most immediate effect was the surge in unemployment, which rose from 9% in 2019 to over 11% in 2020. This increase in joblessness was accompanied by a rise in poverty, with approximately 9% of the population falling below the poverty line in 2020 (World Bank, 2021). The decline in economic activity affected households' ability to pay existing loans, leading to a slowdown in credit growth from 52% in 2019 to 34% in 2020.

Uzbekistan's trade balance was also significantly disrupted by the pandemic. Exports decreased by 15%, while imports fell by 17%, creating a substantial deficit. To finance its growing needs, Uzbekistan had to increase its public debt, which reached 37.9% of GDP by mid-2020 and surpassed 40% by the beginning of 2021 (Trading Economics, 2021). These

economic challenges underscored the need for more effective, long-term solutions beyond conventional fiscal and monetary policies.

The government's response to the COVID-19 pandemic in Uzbekistan included tax relief, financial assistance packages, and other stimulus measures aimed at supporting households and businesses. A phased approach was adopted:

1. Containment Phase: This phase focused on public health measures, including strict quarantine policies, as well as financial interventions. The Central Bank reduced the base interest rate from 16% to 15%, and commercial banks were granted additional liquidity to support businesses and households (Tulyakov, 2021). Financial assistance packages, including direct cash transfers and food aid, were provided to the most vulnerable populations.

2. Recovery Phase: To boost employment, the government initiated job creation schemes, particularly in rural areas. Financial support was extended to SMEs, and tax exemptions were granted to businesses hit hardest by the pandemic. However, while these measures provided short-term relief, the reliance on external borrowing raised concerns about long-term economic sustainability.

2. Islamic Economic and Social Finance Solutions

Zakah distribution system

Zakah is one of the five pillars of Islam and an essential tool for wealth redistribution. It obliges Muslims to give a portion (2.5%) of their wealth to those in need. This mechanism can be highly effective in addressing poverty and inequality, which have worsened due to the pandemic. The Islamic Development Bank (2021) reports that countries with zakah systems in place were more resilient during the pandemic.

For Uzbekistan, the implementation of a zakah distribution system could provide a long-term solution to poverty alleviation. Digital platforms powered by Islamic FinTech can streamline the collection and distribution of zakah to ensure transparency and efficient resource allocation (Muneeza & Nadwi, 2019). Such platforms would allow for real-time monitoring of zakah payments and ensure that they reach the intended beneficiaries.

Qard al-Hasan for Financing SMEs

Qard al-hasan refers to interest-free loans extended to those in need without any expectation of financial return. This Islamic finance instrument can be particularly useful in supporting SMEs, which were hit hardest by the economic slowdown caused by the pandemic.

While the Uzbek government introduced temporary interest-free measures during the pandemic, these were limited to tax deferrals. By institutionalizing qard al-hasan, Uzbekistan could provide interest-free financing options to SMEs and individuals facing financial distress. The concept of interest-free loans is rooted in Islamic principles, and its adoption would provide a more sustainable means of supporting businesses without increasing debt burdens (Benamraoui, 2021).

Profit-Loss Sharing Contracts (PLS)

Profit-loss sharing (PLS) contracts, such as mudarabah and musharakah, are key features of Islamic finance. These contracts involve sharing both the profits and losses of a

business venture, thereby encouraging risk-sharing and reducing the likelihood of speculative activities (Askari et al., 2014).

During the 2008 financial crisis, Islamic banks that employed PLS contracts were more resilient compared to their conventional counterparts (Bourkhis & Nabi, 2013). Applying PLS contracts in Uzbekistan would not only support SMEs but also provide a more stable financial framework by distributing risk more equitably.

Waqf and Sadaqah for social welfare

Waqf (endowment) and sadaqah (voluntary charity) are powerful tools for fostering social welfare in Islamic societies. Historically, waqf institutions have played a critical role in financing education, healthcare, and social infrastructure (Lawal & Ajayi, 2019).

In the context of Uzbekistan, reviving the institution of waqf could provide significant support for social services that were underfunded due to the pandemic. For example, waqf funds could be used to support healthcare facilities, education, and poverty alleviation programs. Furthermore, digital platforms could facilitate online waqf donations, allowing individuals and institutions to contribute easily and efficiently.

CONCLUSION

The COVID-19 pandemic has left an indelible mark on Uzbekistan's economy, exacerbating existing challenges such as rising unemployment, poverty, and a growing public debt burden. While the Uzbek government's short-term response to the crisis was effective in providing relief, these measures alone may not be sufficient to sustain long-term recovery. The reliance on external borrowing raises concerns about economic sustainability, making it imperative to explore alternative solutions that are both effective and aligned with the socio-economic realities of the country.

Islamic economic principles, which emphasize social justice, fairness, and risk-sharing, offer a viable pathway for Uzbekistan's post-pandemic recovery. Instruments such as zakah, waqf, qard al-hasan, and profit-loss sharing contracts are not only deeply rooted in the country's cultural and religious fabric but also provide practical, ethical solutions to the economic challenges Uzbekistan faces today. These mechanisms promote equitable wealth distribution, support SMEs, and provide a social safety net for the most vulnerable segments of society.

Moreover, the integration of Islamic FinTech solutions can enhance the efficiency and transparency of these instruments, allowing for better resource allocation and broader financial inclusion. Digital platforms for zakah collection and distribution, as well as online waqf donations, could significantly improve the reach and impact of Islamic social finance in Uzbekistan.

In conclusion, Islamic economic and social finance instruments present a promising opportunity for Uzbekistan to achieve a more equitable and resilient recovery from the aftermath of global crises. By embracing these principles, Uzbekistan can not only address its immediate economic challenges but also lay the groundwork for sustainable development that aligns with the principles of Islamic finance. This approach could serve as a blueprint for other developing nations seeking alternative pathways to recovery in the post-pandemic world.

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