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The Role of Islamic Finance in Mitigating the Economic Impact of the Coronavirus Pandemic

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Abstract : The spiral of economic losses felt around the world from the coronavirus continues to deepen. From a health crisis to an economic pandemic affecting billions of people, the coronavirus has brought the global economy to a screeching halt by disrupting supply chains, declining investment and consumption, causing damage colossal to VSEs and SMEs, not to mention the spectacular increase in the unemployment rate due to the slowdown in economic activity.

Deemed to be low risk and based on the sharing of benefits but also losses in the event of a crisis, Islamic finance could have a determining role in countering the power of the pandemic in order to minimize its socio-economic impact on households and small and medium-sized companies thanks to a range of well-adapted financing instruments.

The objective of our article is to highlight the pioneering role that Islamic finance can play in combating the pandemic power COVID 19 for the case of Morocco. In this regard, the present work explores the potential of Islamic finance instruments in mitigating the economic and social effects of the pandemic on both businesses and households.

Keywords: COVID-19, Islamic finance, Financing instruments, pandemic**,** economic conditions.

Résumé: La spirale des pertes économiques ressenties dans le monde à cause du coronavirus continue de s'approfondir. D'une crise sanitaire à une pandémie économique touchant des milliards de personnes, le coronavirus a mis l'économie mondiale à l'arrêt brutal en bouleversant les chaînes d'approvisionnement, en baissant l'investissement et la consommation, causant des dégâts colossaux aux TPE et PME, sans compter l'augmentation spectaculaire du taux de chômage en raison du ralentissement de l'activité économique. Réputée à faible risque et basée sur le partage des bénéfices, mais aussi des pertes en cas de crise, la finance islamique pourrait avoir un rôle déterminant pour contrer la puissance de la pandémie afin de minimiser son impact socio-économique sur les ménages et les petites et moyennes entreprises. Moyennes entreprises grâce à une gamme d'instruments de financement adaptés.

L'objectif de notre article est de mettre en lumière le rôle pionnier que peut jouer la finance islamique dans la lutte contre la puissance pandémique COVID 19 pour le cas du Maroc. À cet égard, le présent travail explore le potentiel des instruments de la finance islamique pour atténuer les effets économiques et sociaux de la pandémie sur les entreprises et les ménages.

Mots-clés: COVID-19, finance islamique, instruments de financement, pandémie, conditions économiques.

Introduction

In an already very complicated global context, marked by trade and social tensions, all that was missing from such a collapse was the advent of the Coronavirus or COVID-19. The epidemic developing into a pandemic has disrupted all countries without exception, even more of those with thousands of deaths.

In fact, the coronavirus first appeared in the Chinese city of Wuhan in December 2019 in the form of a viral pneumonia newly detected in this industrial metropolis of 11 million inhabitants (Vuichard et al., 2020). The disease spread across the world to officially become a pandemic on March 11, 2020, according to the World Health Organization (WHO). Having already killed thousands of people around the world, this disease has become a global health emergency involving all countries.

With the number of deaths rising inexorably, most countries have taken emergency measures such as travel restrictions, suspending classes in schools and universities, closing cafes, shops, restaurants, cinemas. ... However, the most important measure remains the closure of borders and the suspension of flights to and from the most contaminated areas (Fernandes, 2020)to minimize the reach of the epidemic's chain of contamination.

Thus, the combined effect of the weakening of the Chinese economy and the disruption of global production chains for a myriad of large companies around the world quickly turned the health pandemic into an unprecedented economic crisis (Gopinath, 2020).

To be sure, the brutal impact on growth and markets brought on by the coronavirus is reminiscent of the one that plunged the world into the "great recession" in 2008, but the resemblance is misleading. The 2008 recession had a so-called financial origin "the collapse of the subprime", these mortgage loans granted lightly by American banks(Erkens et al., 2012)while the current crisis comes from an external shock affecting the real economy and spreads as countries get cautious.

The epidemic that began in China and which has gradually reached other continents has faced policy-makers around the world with a difficult choice: to confine the economy and see production and employment collapse instead , or open up and deal with an upsurge in infections and deaths from COVID 19 that are overwhelming the medical system? The choice between the two options is particularly difficult, especially in developing countries (Anzai et al., 2020), where confinement and teleworking are privileges beyond reach and where the medical system is not at all equipped to deal with the virus. (Chopra, 2020).

Faced with the COVID-19 pandemic, Morocco has established an action plan around three axes: health, economy and social order. On the economic front, which is our main focus, the battery of measures adopted by the authorities aims to support the purchasing power of households in a precarious situation as well as aid given to the small and medium-sized enterprises most damaged by the slowdown in the economic activity which requires very significant financial resources. The banking sector must therefore be mobilized more than ever to face this pandemic, especially in terms of supporting the economic sectors most affected (Jordà et al., 2020). Thus, by raising the challenges during the 2008 financial crisis, Islamic finance, the object of all attention in recent decades, in particular, in view of its capacity for resilience which it has demonstrated so far, could it provide solutions more adequate to get the Moroccan economy seriously impacted?

1. Coronavirus, the impact on the international and Moroccan economic situation

1.1. The impact of the coronavirus on the world economy

The COVID 19 coronavirus broke out in China in December 2019, especially in the city of WUHAN in the province of HUBEI in the center of this gigantic country. Its spread is accelerating across the world to officially become a pandemic on March 11, 2020, according to the World Health Organization (WHO)(Fernandes, 2020).However, the actual number of infections is likely to be much higher, as the number of tests performed is low in many countries and many asymptomatic people are likely not diagnosed.

With globalization making it easier for people and goods to travel, China's one-month delay in implementing the necessary measures and communicating information to the international community has resulted in the spread of the virus across the country world. That said, the lack of transparency in the management of the first cases detected which are a health emergency constitutes a serious error and the consequences of which are multiplied by ten at the international level(Van Der Werf and Peltékian, 2020). Every day, new cases are reported and new countries are on the list of contaminated areas where the virus has been reported by the World Health Organization (WHO). As for the reactions of countries to fight the coronavirus, it seems that they are far from uniform(Kabaka, 2020). Some impose draconian containment measures like those put in Italy when others act in a less radical way like those applied in France. Thus and in order to raise awareness and force all states and governments of the world to take steps to deal with the arrival of the COVID 19 coronavirus on their territory, the WHO has been obliged to declare the COVID 19 coronavirus a global health emergency.

Numerous studies have shown that public health, measured by life expectancy, infant and child mortality and maternal mortality, is positively correlated with economic well-being and growth (Alsan et al., 2006, Pritchett and Summers, 1996, Robalino et al., 2002). Indeed, the approach most used to measure the impact of an infectious disease on economic activity is the collection of information on deaths (mortality rate) and diseases that prevent work (morbidity) to estimate the loss of future income due to death and disability (McKibbin and Fernando, 2020). However, this approach remains insufficient to estimate the true economic costs of infectious diseases of epidemic proportions that are highly transmissible like the one we are experiencing today.

Since the start of 2020, the coronavirus epidemic, after hitting China, has spread to the rest of the world and the measures taken to contain this health crisis have had serious consequences for the functioning of the Global economy.

Although it is still too early to measure the full economic fallout from the coronavirus epidemic, the OECD has already lowered its global growth forecasts due to the virus spread outside of China. In a report published by The Organization for Economic Co-operation and Development (OECD) in late May, the organization indicates that after the introduction of COVID-19 containment measures on a global scale, the gross domestic product (OECD real GDP fell by 1.8% in the first quarter of 2020.

Unsurprisingly, China is expected to be the most impacted economy this year and the OECD has revised its growth forecast for the country from 5.7% to 4.9% (Priyadarshini, 2020). The rest of the world is not immune to the impact of the virus, however, as business travel and tourism are affected, the global revenue of the travel and tourism industry will be estimated at 447.4 billion US dollars in 2020, a decrease of about 34.7% from the previous year. In addition, this figure is significantly lower than the initial forecast for 2020 of around $ 712 billion and many companies are facing disruptions in their supply chain due to their dependence on China.

The impact of this economic crisis is the result of both a negative supply shock (drop in industrial production, closure of factories, stoppage of construction and infrastructure projects, serious disruptions in supply chains of firms, etc.) and a negative demand shock (slowdown in household consumption due to containment measures and postponement of investment plans) which triggered a violent economic recession, resulting in a sharp slowdown in the pace of production growth(Yang et al., 2020). Regardless of the uncertainty associated with the health crisis itself and its dramatic human consequences, the world economy was, however, already weakened.

In addition, if the devastating effects of the pandemic were felt, first of all, in the real economic sphere (industrial production, household consumption, international trade…) because of the slowdown in global economic activity, the financial sphere could not escape the scourge. The spread of the virus on a global scale has plunged financial markets into turmoil by generating extreme price volatility unprecedented since the great financial crisis of 2007-2008 as well as a panic that affected all classes of financial assets at like the stock and bond markets, gold, crypto-assets and commodities. (Albulescu, 2020).

Despite the arsenal deployed by central banks, regulatory authorities and public authorities, the financial market crisis subsequently reverberated through the banking system (McKibbin and Fernando, 2020). Of course, up to this stage, banking institutions have been able to manage the ephemeral effects of the pandemic thanks to the increased capital requirements that were imposed after the 2008 crisis. However, the financial market crisis can indeed have repercussions on the banking system and cause credit rationing which further amplifies the fall in aggregate demand and further accentuates mistrust in financial markets.

To avoid the harmful effects of this vicious circle, where the crisis of the "real" economy amplifies financial instability, the countries' major central banks have announced strong monetary support measures. The leading central banks (IMF, European Central Bank) have thus clearly amplified the accommodative nature of their monetary policies with a fall in key interest rates, massive repurchases of assets and sovereign debt to support the bond market. And avoid a surge in risk premiums on the debts of the States most weakened by the crisis(Taskinsoy, 2020).

1.2. The Impact of the Coronavirus on the Moroccan Economy

The world is currently experiencing an unprecedented situation. The COVID-19 epidemic has plunged many countries into containment dictated by the state of health emergency. The economies are now virtually at a standstill and it is difficult to predict when and how the end of the crisis will come. Morocco has unfortunately not escaped the coronavirus. However, thanks to the responsiveness of the authorities, the epidemic remains under control for the moment and the number of victims contained.

N fact, the spread of the COVID-19 epidemic has triggered a number of radical and preventive measures to counter the progress of the virus such as the closure of land and sea borders, the suspension of all international passenger flights or even confinement of the population(Raga and te Velde, 2020). Other measures have also been adopted, such as the establishment of an economic watch committee, chaired by the Minister of the Economy, have been put in place to assess the impact of COVID-19 on the economy and adopt mitigation measures to support the segments of the economy concerned and the creation of a 10 billion dirhams ($ 1 billion) fund under the orders of King Mohammed VI to modernize health infrastructure, support vulnerable households and help economic sectors in crisis. Remarkable efforts have been made in record time to increase hospital reception capacity or to secure the supply of essential drugs and medical equipment (Ali et al., 2020).

Nevertheless, the global economic slowdown has already had an impact on the Moroccan economy. Along with the decline in economic activity, major trading partners like Europe and China are also facing economic headwinds. Forced to face simultaneously health and economic crisis, Morocco, like so many other economies, is facing a major challenge of crisis management and economic recovery.

Thus, since the outbreak of the virus, the economy has been experiencing a full-blown recession, with contagion from Europe. It has been estimated, by a first analysis of the World Bank (WB) and the United Nations, that the recession in Morocco risks impacting the GDP by a decline of 1.5% this year(Gentilini et al., 2020). Knowing that the International Monetary Fund (IMF) published forecasts on April 14, 2020, showing a recession for Morocco of -3.7% and across the world an average therefore of -3%, due to the spread of the COVID-19; thus confirming a much greater impact than that of the financial crisis of 2008. Moreover, Morocco has not experienced a similar situation for more than 20 years, even 25 years, during the great drought in 1995 (Hammoumi and Qesmi, 2020). The coronavirus has primarily affected the tourism, transport, hotel and leisure sectors. To be honest, the spread of COVID-19 has caused widespread panic nationally and internationally.

Thus, according to the estimates of the National Confederation of Tourism (CNT) of the Kingdom, the losses can reach 34.1 billion dirhams in terms of tourism turnover in 2020 and 14 billion dirhams of lost turnover for the hotel industry (Ait Addi et al., 2020). The same source estimates that up to 500,000 jobs and 8,500 businesses are at risk, including accommodation companies, catering companies, travel agencies, tourist transport companies and car rental companies. At the same time, business services and commerce represent the sectors most affected by the new coronavirus (COVID-19), according to the first results of a survey carried out by the Moroccan Confederation of Small and Medium Enterprises. They are followed by the sectors of industry, construction, communication and events, agriculture, and crafts with respectively 13.5%, 12.7%, 10.5%, 5.7%, 5.2% and 4.3%, notes the qualitative study carried out among organized companies whose main objective is to assess the immediate impact of this crisis on the situation of companies in Morocco.

Regarding the structures most impacted by this health crisis, the survey indicates that nearly 142,000 companies, or 57% of all companies, said they had permanently or temporarily stopped their activities. Of this total, more than 135,000 companies have had to temporarily suspend their activities while 6,300 have ceased their activities permanently.

This situation would have repercussions on employment. In fact, 27% of companies should have temporarily or permanently reduced their workforce. Thus, and according to the results of the survey, nearly 726,000 (excluding the financial and agricultural sectors) positions would have been reduced, or 20% of the workforce of organized companies. By category of business, this proportion is 21% for very small businesses, 22% for SMEs and 19% for large businesses. In addition, more than half of the reduced workforce (57%) are employees of SMEs (very small, small and medium enterprises).

The sectors most affected in terms of job cuts would mainly be services with 245,000 jobs, or 17.5% of total employment in this sector, followed by the industry sector with a reduction of 195,000 positions, which represents 22% of the workforce in this sector. The construction sector also reported a reduction of nearly 170,000 jobs during this period, or 24% of overall employment in this sector. For companies which continue their activities (43% of total companies) despite the health crisis, half of them should have reduced their production to adapt to the conditions imposed by this situation 81% of them would have reduced by 50% or more.

2. Islamic Finance to Revive the Moroccan Economy

The COVID-19 pandemic and economic lockdowns have severely affected global economic activity. In order to cushion the impact on households and businesses, especially particularly vulnerable to small and medium-sized enterprises, many of which are already on the verge of collapse, it is urgent to explore all possible options to mitigate the impact of the epidemic and restart economies after COVID-19. Islamic finance, with its inherent focus on supporting the real sector, will have a key role to play due to the nature of its products and instruments which offers a balanced solution for channeling funds to end users(Fajar, 2020). That said, and by virtue of its ethical principles, Islamic finance in fact represents a potential as a financial instrument to achieve social and economic well-being (Biancone and MOHAMED RADWAN AHMED SALEM, 2019, Biancone and Radwan, 2018).

2.1. Islamic Finance and SMEs

If the first decade of the 21st century saw the Moroccan economy show signs of good health and focus on sustainable development, new energies, the attraction of foreign capital, the increase in trade, the pandemic nature of this virus. And its strong propagation capacity has had disastrous effects, particularly on the activity of SMEs / SMIs, constituting the bulk of the national economic fabric (Ali et al., 2020, Adraoui et al., 2016).

Indeed, small and medium-sized enterprises are one of the main characteristics of a growing economy for both developed and emerging economies (Ziky and Daouah, 2019). However, this role is becoming more and more fundamental for developing countries like Morocco, which faces classic challenges in terms of job creation and income distribution. However, this category of business mainly finds it difficult to access financing that is adequate and sufficient for their needs, in particular from conventional banks which increasingly require guarantees that are sometimes unexplained and very restrictive because of insufficient capital. And the financial fragility of SMEs (Kadir and Abdullah, 2019).In addition, the personal and family nature of the business and the concentration of property rights do not work in their favor to access the essential financing in the start-up phase.

Moreover, the review of the literature review related to the difficulties encountered by small and medium-sized enterprises in accessing financing distinguish two essential constraints which explain the reluctance of credit institutions to finance these SMEs. (Zairani and Zaimah, 2013, Evans et al., 2005, Karadag, 2015).The first constraint is of an external nature linked mainly to the nature and characteristics of conventional banks. In general, banks always seek to minimize the risk of insolvency in the distribution of funds. This concern is, of course, accentuated when it comes to financing small and medium-sized enterprises. (Karadag, 2015, Tsai, 2015).To guard against this supposedly high risk, banks demand real guarantees that almost all of these SMEs are unable to provide. This puts psychological pressure on the company and quite naturally excludes them from conventional bank financing. As for the second constraint, it is more of an internal nature relating to the financial structure of these companies. The problems are also rooted in the companies themselves, the insufficiency of financial information, the unbalanced financial structure, the centralized and personalized organization, the lack of transparency, as well as the unreliability of the accounting documents that the companies presentto banks. This is a problem of information asymmetry and risk factor design between the banker and the entrepreneur. (Beck and Demirguc-Kunt, 2006, Olawale and Garwe, 2010).Therefore, Islamic finance, which is essentially entrepreneurial finance that values work and investment, could therefore be the alternative sought this category of business (Obaidullah and Latiff, 2008).

Indeed, Islamic financing represents for SMEs one more chance to ensure their development and the survival of their activities in a highly critical context, namely that of the pandemic. Deemed low risk and based on the sharing of profits but also losses in the event of a crisis, Islamic financial products were already attracting beyond the Muslim sphere and are now presented as suitable products to respond to the coronavirus crisis in because of their anchoring in the real economy (Baxter and Casady, 2020). Islamic finance has the capacity to therefore be part of the COVID-19 response through a range of well-adapted financing instruments.

Certainly, the contraction in economic activity resulting from the spread of COVID-19 has prompted all central banks in the countries concerned to take a number of monetary measures to encourage banks to support the private sector. In particular the injection of liquidity which has always been a spontaneous reaction of central banks and international organizations to economic disturbances (Atkeson, 2020). However, these measures do not include the solvency dimension of bank financing and thus remain insufficient to encourage banks to support the private sector (Binder, 2020).

These monetary and accounting measures are only relevant if it is anticipated that economic activity will resume identically at the end of this pandemic. However, nothing is less certain, because no one can know if this crisis will not lead to changes in consumption behaviour and therefore impact production in the future (Harari, 2020, Page et al., 2020). In addition, given the regulatory standards for the division of risks (commitment limit on the same signature), the internal sector concentration limits of banks, the volumes of existing commitments but above all the size of additional financing, required to ensure the survival of certain key economic sectors, such as catering for example, may exceed the capacity of the conventional banking sector to cope.

Or many, the pandemic has therefore highlighted the inefficiencies of the capitalist economic model in all countries without exception, even in developed countries. This model, marked by the domination of the financial sphere over the real economy, has always been a source of problems in the current economic system(Brinks and Ibert).

In this context, the performance and resilience of Islamic banks during the financial crisis of 2008, represent for these institutions an opportunity to test the almost insolent prosperity and profitability that it had until then displayed contrary to its classic colleague in mitigating the economic and social fallout from the health crisis caused by the coronavirus (Ashraf et al., 2020).

From the point of view of Islamic economics, at least three main characteristics could have provided solutions to the current pandemic. First, some economists have emphasized the role of built-in safety nets in the Islamic economic system as an effective tool to deal with the economic and social fallout from the epidemic. These safety nets include the Zakat, the Waqf, the Sadaqa, etc.(Haider Syed et al., 2020, Hasan and Ahmad, 2020). As a component of the non-profit sector, these safety nets represent an essential component of the Islamic economic system(Iftene and Boutemeur, 2019). More than that, this non-profit sector even represents an essential factor of stability and sustainability of the economy. Indeed, the balance between the profit and non-profit sectors is what distinguishes the Islamic economic system from a capitalist economy advocating the profit sector and the market economy, and from the socialist, on the other hand, who gave more weight to the general interest at the expense of private initiative(Zarqa, 2019).

Secondly, it turned out that the financial resources intended to deal with the negative impact of the 2008 global financial crisis were mainly invested in the financial sector without achieving the expected result. Moreover, the tax advantages adopted by the United States to reduce corporate income tax by 80% would have benefited the wealthier 1% of the American population (Sedlacek and Sterk, 2019).The rich are more inclined to invest these benefits in the financial market rather than in the real economy, which would increase inequality considerably. In the context of an Islamic economic system, the risk of this deviation of financial resources injected into the economy towards non-productive sectors can be avoided. Indeed, according to the principles of Islamic economics, any financial transaction must be supported by a transaction in the real economy (Ahmed, 2010, Marwan and Haneef, 2019, Farooq and Selim, 2019).

Lastly, economists agree that the new global economy after the pandemic would be different from what we had experienced before (Carlsson-Szlezak et al., 2020). Indeed, one of the radical changes in the new global economic landscape will be the creation of new value chains that could reduce the dependence of many countries on China in their production processes(Carlsson-Szlezak et al., 2020, Ayittey et al., 2020). The world is realizing that this over-reliance on the "*world factory*" risks breaking the supply chains of global trade, sometimes affecting essential products, as is the case with the current pandemic. This would represent an opportunity for emerging countries to constitute an alternative and to occupy a more important place in these value chains (Huang et al., 2020). However, this would require huge investments. Herein lies the role that Islamic finance can play in financing these investments by capitalizing on the wide range of Islamic financial instruments(SALEM and Salma, 2020).

However, the use of Islamic financial instruments will lead to the emergence of a more stable financial system, more resistant to economic shocks and more equitable. In any financial transaction, the different parties involved in this transaction are rewarded according to their participation in bearing the associated risk (Mirakhor and Zaidi, 2007, Ahmed, 2010).

2.2. Overview of Islamic finance products that can combat the effects of the coronavirus on the Moroccan economy

Although small and medium-sized enterprises are considered the pedestal for the growth of the economy of each country, they have always suffered from insufficient access to finance which restricts their development and the consolidation of its profits. A situation that is starting to worsen following the health crisis we have been experiencing in recent days(Jaelani and Hanim, 2020). As a result, many small and medium-sized enterprises will find themselves in very great difficulty to cope with even the maintenance of staff salaries.

In this context, Islamic finance could bring added value to small and medium-sized enterprises through appropriate financing instruments which can make the "bank-SME" relationship more equitable because the bank will be a true partner and not just a middleman. In addition, Islamic banking enables SMEs to diversify their sources of operating cycle and investment financing. Indeed, it can grant them liquidity in continuous mode, called short-medium-long term (SALAHDDINE and HACHIMI, 2016).

Small and medium-sized enterprises can therefore resort to structured financing in accordance with Sharia Compliant to meet various financing needs: short-term financing, real estate financing leasing and project financing. In this sense, the instruments of Islamic banking are based primarily on assets and not debt trading, that is to say on the two foundations of Asset-Backing and risk sharing(Abedifar et al., 2013).

Islamic banking also offers SMEs financial products suitable for every situation experienced throughout their life cycle. These products are adapted to the specific needs of this type of entrepreneurial structure, with the aim of countering the bad management which disrupts the financial system. When considering the use of Islamic finance, it is important to ensure that the instrument used is suitable for the economic objective of the company, which amounts to distinguishing three categories of products.

- Participatory instruments based on risk sharing (case of the Mousharaka) ;
- Debt instruments based on the transfer of assets (case of the Murabaha) ;
- Instruments based on charity (Case of Zakat)

a) Participatory instruments based on risk sharing (case of the Mousharaka)

As we pointed out earlier, Islamic finance does not blame the pursuit of profit so long as, of course, its acquisition and realization is in accordance with its precepts. Among the main products designed for the financing needs of SMEs, we can distinguish the Mousharaka.

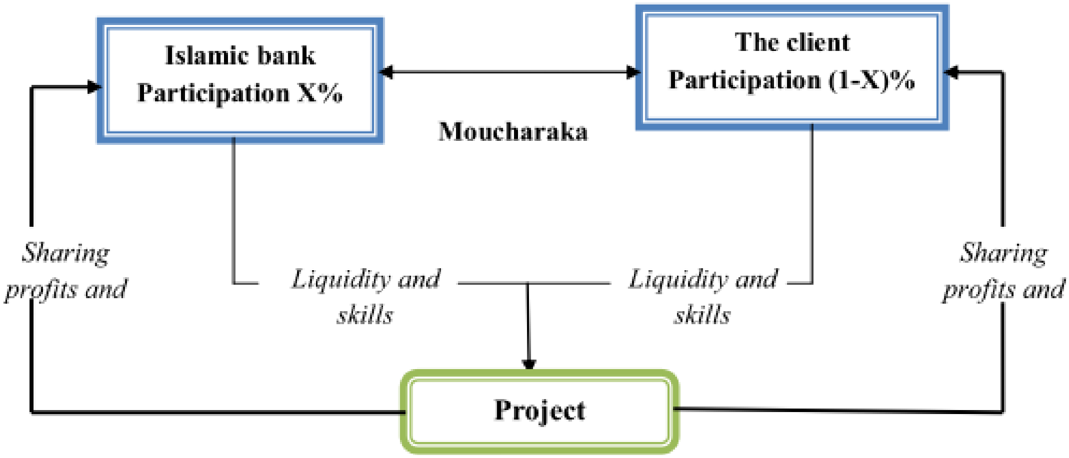
Mousharaka which means "association" is a contribution of goods granted by a bank to a client, in equal or different parts, for the purpose of carrying out a new project or participating in an existing project, with the aim of sharing the profits (Badaj and Radi, 2017, Ahmed, 2009).

In this case, each party (bank and client) owns a share of the share capital, in proportion to its contribution, and management is carried out by the "client". Its management is remunerated. The contribution of each party must be available at the time of the completion of the operation to be financed. However, the Shari'a authorizes the Mousharaka in operations benefiting from deferred payment provided that each of the two parties assumes part of the commitment to the supplier (*charikatwoudjouh*). The Bank's contribution in this form of Mousharaka generally consists of the issuance of a bank guarantee (downstream, documentary credit, letter of guarantees, market bond, etc.). It is the "risk capital" system that is used for medium- and long-term financing based on the sharing of profits and losses.

Faced with the COVID-19 pandemic, SMEs, which receive almost no state aid, must apply "barrier" health measures while ensuring their economic survival. To achieve this, they are getting into the "fashion" of teleworking. A required process in a context of unpreparedness. In addition, with very limited working capital, much longer payment terms (private and public), conventional banks are even more wary of financing these companies which are obliged to cease their activities(Smolo and Hassan, 2011).

The Mousharaka is therefore presented as a form of long- and medium-term credit adapted to the needs of the creation and development cycles of companies, both in terms of the constitution and / or increase of capital and the acquisition and / or renovation of equipment. Whether for economic operators (partners) or the bank, the principle of risk sharing made by Mousharaka is an attractive source of financing. The Bank's remuneration, far from constituting a fixed financial charge, is a variable contribution directly linked to operating income. In the event of a loss, not only can the Bank not claim any remuneration, but it is also required to assume its share of the loss in its capacity as a partner. That is to say the importance of studying the risk and profitability of the projects and operations proposed for this type of financing. The Mousharaka is therefore a very suitable mode of financing for these companies since it focuses on the benefit of the project, on the morality of the client and especially on the aspect of the relationship of trust see Figure 1.

Figure 1. Mousharaka contract operating mechanism



Source: Own

That said, the products presented by Islamic financial institutions are necessary due to their positive characteristics under all circumstances, whether in a pandemic, crisis or even in stable situations in international and domestic financial markets in developed countries and developing like Morocco, which has just started the experiment of introducing Islamic banks into its ecosystem.

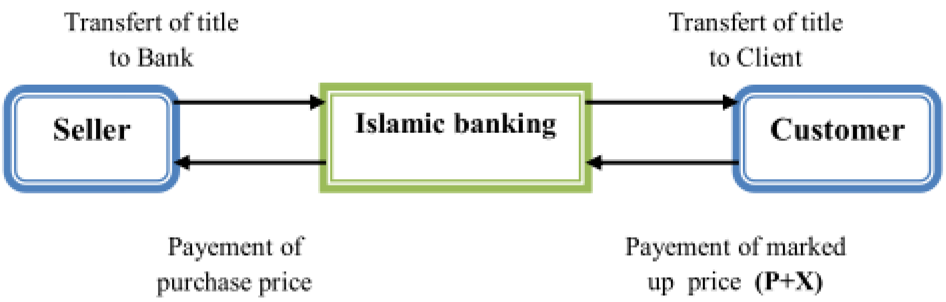
b) Islamic finance contracts based on profit margins (case of the Murabaha)

Supply chain disruptions have also had a detrimental effect on several categories of businesses that are particularly vulnerable to cash-flow problems attributable to the epidemic (Fernandes, 2020). These include companies that struggle to achieve a level of profitability, especially those with low cash reserves: organizations that operate in sectors such as tourism, hospitality and entertainment as well as consumer goods companies and retail, especially those that make for example seasonal clothing businesses(Ivanov and Das, 2020). Reducing the weight of the working capital needed is an objective which requires compliance with rigorous management of supplies to limit the amount of material stocks to the level of the tool stock. The use of the Murabaha contract is a good way to finance the purchase of raw materials and semi-products, especially when they need to be imported.

The beneficial effect on the company's cash-flow will be greater the more the repayment is split. This mechanical action on the need for financing stocks is amplified by the psychological effect of bank support: secure businesses no longer have any reason to overstock. They can therefore put in place a rational management of supplies.

By commercial products, we mean financial products that allow individuals and businesses to finance their projects as opposed to investment products. Among these products, we can cite the Murabaha (See figure 2).

Figure 2. Mourabaha contract operating mechanism



Source: Own

Indeed, through the Murabaha, the customer designates a good, and asks the Islamic Bank to acquire it. After studying the file, the financial institution acquires the designated asset and resells it to the customer for a profit margin. The Murabaha can relate to the acquisition of land, equipment or raw materials.

Faced with this health crisis which is also responsible for the global economic haemorrhage, the Murabaha can be very useful to small and medium-sized enterprises, which because of their financial and commercial weaknesses have difficulty accessing certain markets unlike the large companies(Yusufu and Oluwaseun). Thus, for this category of businesses, the Murabaha could be an excellent way to import goods, raw materials or industrial equipment and tools.

The simple Murabaha is an attractive instrument for companies. For the entrepreneur, it indeed has the same dynamics as the conventional loan in terms of credit. The credit takes the form of an unconditional sales contract, which means that the bank cannot change the price if it decides to grant a longer repayment period to the customer, nor can it apply a refund to the customer late penalty (Haider Syed et al., 2020).

c) Instruments of Islamic finance with a social vocation (case of Zakat)

The current health disaster has also had a very heavy social impact on all the affected countries. With even stronger consequences in areas where part of the population is often in a very precarious situation(Nicola et al., 2020).

Indeed, this situation (coronavirus pandemic), has disrupted the functioning of several services and reduced means of subsistence, caused by the conditions of total or partial confinement, particularly among categories who depend mainly on income from their daily work, to like trades and crafts.

Consequently, for development actors, it is essential to implement a rapid, concerted, multisectoral emergency response, which takes into account the community dimension and precise knowledge of the social context of the country so as not to “leavebehind” already marginalized or fragile populations and communities.

As mentioned earlier, Islamic financial activity has grown by reviving ancient products, including products based on the principle of charity(Sarea, 2019). This is how another product category of Islamic finance emerges, namely the fads based on the concept of charity not aimed at creating profit. Moreover, we choose to examine in this work the case of Zakat (Shinsuke, 2014).

This is a compulsory form of charity for any Muslim in a financial situation above a certain specified minimum which aims to purify accumulated wealth in the form of tax (Bari and Radi, 2011). Zakat is thus part of the principle of sharing wealth advocated by Islam. Moreover, Zakat was the first organized legislation which provided comprehensive social security, which stimulates the economy and helps to reduce the gap between social classes (Bakar and Abdghani, 2011).The aim of such a tax is to fight against poverty and exclusion by protecting the dignity of the individual in society as well as the achievement of social justice guaranteeing a dynamic and evolving economy(SAINT-PIERRE and BENNAMARA)

As a result of COVID 19, a large portion of the population has suffered loss of income or lives under the threat of imminent loss of income, while another is struggling with a large and unintentional increase in savings. Thus, Zakat can become an important financial lever to help the poorest people and the needy during this difficult time.

Traditionally, zakat is collected formally or informally. The formal way means that the zakat is collected by official establishments recognized by the State to be then allocated to several areas (Hassan and Ashraf, 2010). There are also other modern forms of zakat management which are not part of the public sector but which have the technical and administrative qualities necessary to invest well and make zakat bear fruit. In this context, it seems wise to mention the example of Morocco which has moved towards the creation of a special fund to counteract the negative effects linked to the coronavirus pandemic, the funds of which are initially made up of donations from public entities and private as well as personal initiatives of citizens(Ali and Bassou, 2020) . The endowment of the fund aims, on the one hand, to increase the capacities of the health system and to cover the health expenses caused by the pandemic and, on the other hand, to help support the economy in the face of the looming recession; the fund will also be used to save jobs and smooth out the social impact of the crisis through targeted transfers. Several countries with a Muslim majority (United Arab Emirates, Qatar, Saudi Arabia, Algeria, Jordan, etc.) have established zakat funds. These are religious and social institutions that work under the supervision of the government to guarantee their legal coverage (Doktoralina et al., 2018).

Conclusion

From all of the above, it can be concluded that it is very early to accurately estimate the human and material damage caused by the global COVID 19 pandemic. Historically, the onset of different financial crises could be overcome by sharing the risks between countries. However, this time around, the scale and scope of the COVID-19 crisis, comparable so far to that of the great financial crisis of 2007–09, is greater in a world that is becoming increasingly integrated.

At this critical juncture and in the face of uncertain economic and social conditions that have led to a humanitarian crisis, several strategic measures have been called for to overcome these social problems to mitigate the socio-economic consequences for struggling businesses and households. However, the gravity and extent of the said crisis, and for which the usual mechanisms and reactions are unsuitable, suggests thinking about other levers and short- and medium-term actions to revive economic activity and protect jobs and the purchasing power of households, in particular by using the instruments of Islamic finance, which has already shown resistance during the last financial crisis.

Thus, through this chapter, we have exposed the opportunities offered by Islamic finance to mitigate the socio-economic effects caused by the pandemic both for small and medium-sized enterprises as well as households in precarious situations due to the pandemic. . We therefore recommend the strategy based on using different Islamic financing tools, such as profit and loss sharing based product lines, profit margin based products and charity based products to manage economic and social impacts of COVID-19.

In this sense, and as part of the proposal for a new post-crisis development model, this reflection thus addresses certain structural measures for Morocco to build a new development model likely to strengthen the country's resilience to various shocks from now on which can be generated by this type of crisis with effects, often simultaneous and convergent, on the economic, social and even political system.

In this regard, this work explores the potential of the instruments of Islamic finance in mitigating the woes caused by the pandemic for Morocco where Islamic finance is not yet at its genesis stage and is experiencing several challenges, particularly in terms of diversification of products presented on the market.

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