

# **Administering socio-economic instruments in crises situations – Examples from Sri Lankan Muslims’ practices**

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## **Abstract**

Crises have become the new normal in today’s world. Social security systems assist individuals, families, and societies in handling conflicts, natural disasters, displacement, and other incidents in a society where crises are happening. It is handled through a range of institutional structures that are suited to each society's needs and are governed by socioeconomic means. This study takes on the conceptual and practical frameworks of institutional administration of social finance instruments in managing crises. Since this study is designed to explore and describe the status of social finance practices of Muslims in Sri Lanka to manage crises situations, it employs several techniques to gather apt data gathered through case studies, field observations, and structured and unstructured interviews to examine expert opinions and referring records related to the practices of Islamic socio-economic instruments such as Islamic crowdfunding, zakat, waqf, interest-free loans in reviving the economy during the crises. And, the gathered data were analyzed using a thematic analysis system to produce handy outcomes. The Islamic socioeconomic instruments comprise: (1) obligatory and charitable wealth redistributive drives like; zakat, sadaqa, waqf, slaughtering, aqeeqah, and crowdfunding, (2) corporate-based instruments like; Qard Hasan, kafala, and (3) trade based Islamic microfinance tools like; Murabaha, salam, ijarah, etc. Most of the above socioeconomic instruments are administered by mosques and some other volunteer organizations belong to Muslim societies. This study may provide some guidance for future planning, strategy, and implementation of appropriate relief measures in crises by Islamic social finance organizations. And, the common experience may encourage others for the common good.

**Keywords:** slaughtering, social protection, crowdfunding, zakat, crises

## **Introduction**

The wealth, education, and social status of an individual, society, or ethnic group may be significantly influenced by socioeconomic factors. This study has a strong emphasis on examining how far the Islamic social safety nets are currently in place and used by Muslims in Sri Lanka to handle crises and circumstances brought on by either natural or man-made disasters. The study could come out with many significant results which emphasize the positive approach of Sri Lankan Muslims towards risk-sharing characteristics. Especially the lockdown period of Covid- 19 followed by an economic crisis caused by the mishandling country's economy, flood, landslides, Tsunami and drought situations hitting the nation here and there. In this context, the study can encourage well-wishing people from other faiths.

## **Background:**

Economics has seriously warped human life. Additionally, it makes sense that the resources are dispersed extensively across the entire planet. On the other hand, due to dominant factors, the process of wealth distribution is typically influenced by prejudice. But fair and equitable wealth distribution is crucial, and it should be achieved by putting social justice into practice. Therefore, it is highly recommendable that the socioeconomic instruments should be maintained balanced among the public to overcome the economic crises and eradicate social transgressions.

Social economics is a branch of economics that focuses on the interconnectedness of *economics* and *social behavior*. It is otherwise called **socioeconomics**. These theories study how societal *beliefs*, *attitudes* and *customs* influence economic patterns of consumers and their purchase patterns (Gordon, J. 2022).

In developing countries such as Sri Lanka, many people are employed, directly or indirectly, in the agricultural sector which is highly vulnerable to natural disasters. Nearly 72% of the Sri Lankan population depends on the agricultural sector for its livelihood (De Costa, 2010).

According to the reports of disaster management center (DMC), Sri Lanka suffers from many natural hazards. Floods, droughts, cyclones, landslides and lightning strikes are common, and the country is also affected by coastal erosion, rising sea levels and environmental pollution. (Meehl et al., 2007).

In this regard, the religious sector, especially religious institutions, has made significant contributions to the management of crises. The recent examples of crises faced in Sri Lanka; The COVID-19 pandemic and the bankruptcy of the country's economy which have triggered one of the worst jobs crises since it has caused an increase in unemployment, loss of income and business. There is a danger that the crisis will increase poverty causing millions of people to have difficult times just to survive.

Islamic social finance mechanisms should address the massive socio-economic challenges caused by the COVID-19 pandemic. "In addition, Islamic social finance instruments should revive and stimulate socio-economic development. Among the instruments to achieve these objectives are zakat, waqf, and Islamic crowdfunding, which have been adopted and applied in Malaysia. The government and related institutions have used these instruments to provide education, healthcare, food, develop infrastructures and maintain social welfare provisions for those affected by COVID-19" (Othman et al., 2022).

## **Method and Materials**

A variety of techniques were utilized to gather and analyze the data to reach the study's objective. The qualitative research method is used as a fundamental strategy. Surveys comprising a variety of questions were used in this study to evaluate the use of Islamic social finance tools and how those mechanisms help manage crisis circumstances. The surveys were carried out in some specifically chosen areas in Colombo and its neighborhood.

Interviews; structured and unstructured were conducted as part of the data collection process to get expert viewpoints on how Islamic social finance instruments like zakat, sadaqah, waqf, and Islamic crowdfunding can be used to manage socioeconomic status among Muslims and adjacent populations of other faiths. To better understand the phenomenon of various proof forms, documentation is also used, such as annual reports, financial statements, and websites.

## **Results and discussion**

Islamic social finance has demonstrated an important role in ensuring that Muslims and non-Muslims alike are sufficiently covered, particularly in times of natural or man-made disaster.

Islamic crowdfunding sites that follow sharia law are utilized to fund a range of projects. This study anticipates that Islamic crowdfunding platforms will be able to meet the founding principle of the Islamic crowdfunding movement, which is to stimulate the economy during difficult times. Islamic crowdsourcing might help bring about constructive change in the world.

Furthermore, Islamic social finance instruments have the responsibility of determining the best ways to channel aid while following the right rules. As an important and easily applicable tool, Islamic crowdfunding might provide a variety of aid to individuals negatively impacted by catastrophes as a most accessible instrument, including food banks, dry rations, providing prepared meal packs, and so on. Therefore, the particular target group of people would benefit appropriately.

For instance, this study revealed that during the Covid-19 lockdown period, the social funding efforts of the mosque federation in the Colombo area had a significant role. The project aimed to distribute 100,000 packets of dry food ranging in price from 3,000 to 15,000 LKR to those in need, particularly those who depend on daily wage jobs. With the help of donors and the crowdfunding platform, this project was completed for an estimated cost of 150 million Sri Lankan Rupees. In addition to this, several Muslim individuals and organizations carried out numerous humanitarian initiatives regardless of caste and religion.

Also, at the peak of Covid -19 crisis, there was a shortage of oxygen cylinders to care for suspicious patients and a lack and high cost of coffins to cremate dead bodies of Covid victims. During this crucial situation, the volunteers of the mosque federation carried out multiple projects such as supplying oxygen cylinders to people in an emergency also providing medical and healthcare instruments for needy people as well as care centres and hospitals, and providing free ambulance services and coffins for forcible cremation.

Another example of social financing in the current economic crisis is a mosque in the city of Colombo providing regular livelihood and assistance for more than 200 selected households at the approximate cost of 500,000LKR monthly with the assistance of the mosque trustees. Furthermore, the same mosque conducts medical assistance for the area's senior citizens who require continuous medication.

The crises influence zakat collecting and distribution procedures since the majority of zakat payees have focused on providing immediate support for disaster victims. Additionally, the zakat fund's distribution procedures have undergone some substantial modifications as a result of the relief provided to a wide spectrum of beneficiaries, including the impoverished and in need, those who have lost their jobs, healthcare professionals, hospitals, and other relief workers.

Cash Waqf, which emphasizes charitable loans, is another strategy for resolving socioeconomic issues. Small and medium-sized enterprises (SMEs) and agricultural operations in rural areas may benefit significantly from its financing. “The cash waqf model aims to develop and enhance micro and medium-sized enterprises (SMEs). SMEs can face their financial challenges and obligation in business and commerce by using the financial infrastructure based on the cash waqf model. Cash waqf can improve domestic economic growth and play an important role in socio-economic development by allowing SMEs to access financial services” (Othman et al., 2022).

In the Sri Lankan Muslim context, the interest-free microloan system is used in many Muslim villages as part of social finance initiatives to make up the social economy that has been negatively impacted by various factors and to raise the living standards of those who are less fortunate in order to achieve affluence for all. Dedicated microloan services are funded by a variety of sources, including donations, cash waqf, and long-term voluntary (non-profit savings) deposits, according to case studies carried out in a couple of chosen sample institutions.

Other than the above activities there are a big number of projects under the social financing concept being conducted by the Muslims of Sri Lanka throughout the country to manage disaster-backed crises situations.

In the summary, the Muslims of Sri Lanka have a range of social financing activities to mitigate poverty influences and social discrimination within households and societies.

## **Conclusion**

This study explores the role of Islamic social finance such as zakat, waqf, Islamic crowdfunding, sadaqah and interest-free microcredit to assist and support those affected by disasters and to keep up the equity management in administering socioeconomic consequences. Islamic social finance tools play crucial roles in fulfilling the Islamic finance theory, which safeguards society's welfare

in the event of these ensuing catastrophes. The results of this study may shed light on how the Muslim community uses Islamic social finance instruments and how concerned it is with neighbouring societies.

Furthermore, this study shows that Islamic social finance institutions, particularly mosque-centred groups, have used the Islamic social finance tool to aid those afflicted by crises. In addition, Islamic social finance organizations can support the development of a society where risks are shared during natural or man-made disasters or other similar situations. Islamic social finance projects are committed to financial inclusion in these difficult times, ensuring the socioeconomic advancement of the underprivileged section of society.

Additionally, by utilizing Islamic social finance instruments such as zakat, sadaqah, and Islamic crowdfunding could help businesses, particularly medium and small enterprises (MSEs), by providing financial and commercial support. Islamic social finance tools could also protect people from interest-bearing loans trap by implementing fintech and microcredits through cash waqf.

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