

# The Contribution of Islamic Social Finance to Economic Recovery and SDGs: Saudi Vision 2030 Analysis, Malaysia's Experience Assessment, and Lessons for Algeria

<sup>[1]</sup> Abderrahmane Nadja, <sup>[2]</sup> Fethi Hafid, <sup>[3]</sup> Nassima Kaid, <sup>[4]</sup> Zoulikha Bekhti

<sup>[1]</sup> Faculty of Economics, Business and Management, Djillali Liabes University, Algeria., <sup>[2]</sup> Faculty of Economics, Business and Management, Djillali Liabes University, Algeria., <sup>[3]</sup> Faculty of Economics, Business and Management, Djillali Liabes University, Algeria, <sup>[4]</sup> Faculty of Economics, Business and Management, Djillali Liabes University, Algeria.

<sup>[1]</sup> [nadjabderrahmane@live.fr](mailto:nadjabderrahmane@live.fr), <sup>[2]</sup> [hafidfethi@hotmail.fr](mailto:hafidfethi@hotmail.fr), <sup>[3]</sup> [k.nassima@gmail.com](mailto:k.nassima@gmail.com), <sup>[4]</sup> [zoulikhabekhti@gmail.com](mailto:zoulikhabekhti@gmail.com)

## Abstract

The study examines the role of Islamic Social Finance (ISF) in achieving economic recovery in line with the SDGs, particularly in the aftermath of the COVID-19 pandemic. Based on an analytical approach, the Saudi Vision 2030 and the Malaysian experience with ISF were analyzed as useful lessons for the Algerian economy. The results indicated the success of the Saudi Vision 2030 experience utilizing ISF resources to create over 113 thousand Waqf institutions as non-profit infrastructure organizations (SDG9), contributing to 5% of GDP by 2030 (SDG8), and creating 29 investment funds during 2023, with total Awqaf assets of SAR 637 billion distributed for philanthropic purposes in accordance with the 2030 Vision and the SDGs, including Sustainable Cities (SDG11), creating 737 Awqaf products (SDG12), and providing excellent education (SDG4). Similarly, The Malaysian experience proved successful in distributing ISF elements such as Zakat, Sadaqah, and Waqf, and cooperation like Qard Hassan and Takaful, effectively helping customers, producers, and governments during the COVID-19 crisis. The study recommends leveraging the Saudi and Malaysian experiences to revive the Algerian economy through mobilizing ISF resources, such as Zakat, Waqf, and Social Investments through Sukuk and Crowdfunding. These elements would play significant roles in increasing economic activity and diversifying the economy.

**Index Terms**— Algerian Economy, Economic Recovery, Islamic Social Finance, Saudi Vision 2030, Malaysia.

## I. INTRODUCTION

The global economy has been unstable since the 2008 financial crisis and the recession in 2020, causing unprecedented global repercussions. Many countries are gradually recovering from these crises at different paces, creating uncertainty about global economic stability. Most countries focus on revitalizing and rebuilding their economies, especially after the COVID-19 pandemic by promoting sustainable economic growth. As the global economy is interconnected, Saudi Arabia, Malaysia, and Algeria have also been affected by this crisis with millions losing their jobs, limited resource access, and governments implementing austerity measures.

Unlike previous crises, the pandemic was met with a significant economic policy response that effectively helped lessen its immediate negative impact on people. Nonetheless, after the collapse of some banks and financial institutions worldwide, Muslim countries resorted to Islamic finance as an alternative financial system to address the economic consequences of recessions. Actually, Islam promotes an independent and self-reliant economy for the Muslim Ummah by encouraging risk-sharing and prohibiting riba-based transactions which are detrimental to the poor and the needy. To achieve this, it is necessary to leverage the available capabilities and resources to secure a decent livelihood. Nevertheless, the Muslim community encounters numerous obstacles and uncertainties in today's global economic environment which are disruptive to the economy and the welfare of the Ummah.

However, it is debatable whether Islamic Social Finance instruments will provide better services than conventional financial systems, due to the lack of comprehensive empirical analysis on their relative efficiency [28]. Nonetheless, [37], and [4] suggest that Islamic Social Finance (ISF) products could play a crucial role in accelerating the economic recovery process by promoting economic activities, increasing investment, and government expenditure to stimulate economic growth. In response to the COVID-19 pandemic, ISF should support job and income security for those affected, help prevent poverty and unemployment, and contribute to economic and social stability and peace as powerful economic and social stabilizers [16].

This paper explores the potential and challenges of ISF in contributing to social outcomes and achieving economic recovery in line with the SDGs, especially in the current economic climate. Based on an analytical approach, the paper focuses on the economic recovery in the Saudi Vision 2030 and the Malaysian experience with ISF after COVID-19, highlighting the role of economic recovery in socio-political stability as valuable lessons for the Algerian economy.

The study aims to analyze the role of Islamic Social Finance (ISF) in reviving the economy. It is important to investigate this subject as Islamic Social Finance can serve as a potential solution for economic recovery. Currently, the global economy is experiencing a decline primarily due to the impact of Covid-19, especially in the past three years. The COVID-19 pandemic has resulted in a worldwide healthcare crisis, and its consequences on the global economy are proving to be devastating. Governments and communities are implementing drastic measures to mitigate the negative health effects of the virus. Unfortunately, these actions are also having significant economic repercussions. Small and medium-sized enterprises (SMEs), in particular, are facing the brunt of these circumstances. The bankruptcy of businesses due to social distancing measures and restricted movements has resulted in significant challenges for the Saudi, Malaysian, and Algerian economies. With businesses facing revenue losses and high unemployment rates, it is crucial to provide support to affected businesses and communities. This study focuses on exploring how Islamic Social Financing, such as Zakat, Waqf, or Sadaqah, can contribute to economic recovery in alignment with the Sustainable Development Goals (SDGs).

## II. LITERATURE REVIEW AND RESEARCH FRAMEWORK

### II.1. The Significance of Islamic Social Finance

To overcome social injustice and make sure that wealth does not benefit the rich only, Islam strongly encourages charitable donations. The field of Islamic Social Finance involves the advancement of new perspectives in Islamic economics to achieve a balance between wealthy and underprivileged populations. Islamic Social Finance is implemented within religious frameworks through obligatory practices such as Qard Hassan and Takaful, obligatory Zakat, obligatory infaq and Sadaqah (voluntary donations), Waqf (endowments), and other good deeds [1]. Nevertheless, the Islamic social-financial sector has remained underdeveloped in many countries around the world despite Islamic teachings' commitment to fairness and justice as stated in the Quran: ﴿ كَيْ لَا يَكُونَ دُولَةً بَيْنَ الْأَغْنِيَاءِ مِنْكُمْ ﴾ translated as **{ so that wealth may not merely circulate among your rich }** (Quran 59:7).

According to Islamic principles, the state has a moral and ethical obligation to protect and enhance the resilience of its citizens by providing Zakat, Sadaqah, Waqf, and Qard Hassan. As preemptive measures, various legal, institutional, and regulatory actions were taken, and a comprehensive strategy linked with the broader financial ecosystem was devised [23].

The growth and the increasing impact of Islamic Social Finance respond to a global awareness of the need to improve social justice. Islamic social finance emphasizes even distribution of wealth and the provision of public goods and services. Zakat, as the third pillar of Islam, is a compulsory charity tax of 2.5% on a Muslim's total wealth and earnings. Islamic banks operate by collecting and allocating Zakat, focusing on the principles of Islamic economics that promote the well-being and prosperity of the community. They also operate Waqf, which is a charity endowment that uses the revenue generated from donated assets such as real estate, cash, or assets to fund long-term benefits. According to [20], Waqf is considered an important tool of social finance because it provides a sustainable means for financing community and social development projects.

The contribution of these Islamic Social Finance activities to sustainable development can be seen through the provision of social protection, the creation of social infrastructure, the growth of entrepreneurial and business activities, and the creation of environmental impact and consciousness. Islamic Social Finance also supports other components of the sustainable development system by providing access to healthcare services and facilitating the building of sustainable and modern Islamic educational institutions. For instance, children's schools will modernize their physical facilities, curricula, and teaching tools. Furthermore, low-income groups will be supported to increase their income generation, thereby contributing to the building of sustainable and stable communities. Besides, Islamic social finance activities will support countries in achieving their short and long-term socioeconomic, institutional, socio-political, and socio-technological goals and outcomes embedded in their mid-term development framework and long-term land and spatial enforcement policy and regulations [9].

### II.2. The Importance of Economic Recovery

According to [15], "Economic recovery is a process where resources are mobilized and allocated in a manner to revitalize the economy to enhance the living standard of the people." This process is necessary to overcome the country's economic downturn as several countries have experienced various economic crises, resulting in high unemployment rates, bankruptcy, and an increase in poverty. To restore the economy to its former state, efforts must be made to ensure that the economic conditions are conducive to alleviating people's suffering and enhancing the overall quality of life [22].

Economic recovery is not merely an effort to restore the economy to its former state but rather a process aimed at improving living standards [7]. Efforts in economic rehabilitation include an increase in national income, full employment, maintaining stable commodity prices, and achieving a trade balance with other nations. It is a lengthy process that requires various measures to enhance the well-being of the population [34]. Usually, this is done through a series of development plans and policies in which the government plays a primary role in mobilizing and allocating resources to different sectors. Although "economic recovery" is a broad qualitative term, it can be defined as the restoration of economic growth to a previous period of trend growth (or the "catching up" to a previous trend path), a decline in the unemployment rate, and the re-establishment of full capacity utilization [33].

Even though Islamic Finance has substantially contributed to economic growth and development, it is a valuable instrument for fostering positive social and environmental transformation within local communities to achieve economic recovery, particularly in the aftermath of the COVID-19 pandemic.

The mission of ISF goes beyond supporting social entrepreneurship; instead, it prioritizes the welfare of community members and the dedicated distribution of surplus funds for community development in line with the SDGs. Although a comprehensive overview of ISF was provided in the preceding section, the objective of this study is to scientifically evaluate ISF's significant contribution to the advancement of the Sustainable Development Goals (SDGs). Based on an analytical approach, the Saudi Vision 2030 and the Malaysian experience with Islamic Social Finance (ISF) were analyzed as valuable insights for the Algerian economy.

### **II.3. Research Framework**

The current research emphasized content analysis to underline the importance of Islamic Social Finance in lessening income inequalities and ensuring social justice by providing better services for individuals and institutions. The study focuses on the importance of Islamic Social Finance in addressing the repercussions of economic crises and achieving economic recovery, particularly after the COVID-19 pandemic.

The analysis started with analyzing the experiences of Saudi Arabia and Malaysia in utilizing various Islamic Social Finance instruments as an alternative financial crisis management strategy in reviving the economy and ensuring economic recovery through philanthropic purposes. After acquiring an adequate amount of research papers from Online Databases, the authors analyzed the content and extracted relevant information to suggest solutions for Algeria in its struggle to diversify the national economy.

## **III. ANALYSIS OF SAUDI VISION 2030: ECONOMIC REVIVAL AND SDG**

The Kingdom of Saudi Arabia is a pioneer in consolidating Islamic social finance activities to boost the economy and achieve the Sustainable Development Goals (SDGs), in alignment with the strategies outlined in Vision 2030. This is embedded in the government's long-term socio-economic agenda and will help Islamic social finance achieve collective acceptance alongside other financial programs. Furthermore, it is expected that the legal, institutional, and regulatory infrastructure supporting the country's Islamic social economy will also be improved and strengthened, thereby enabling and facilitating collaboration and coordination with financial and non-financial agencies. According to the National Transformation Plan (NTP) initiative, the agencies will be part of a larger system, thereby ensuring the integration of Zakat, Waqf, Sadaqah, and Qard Hassan under the Islamic social infrastructure.

### **III.1. Overview of Saudi Vision 2030 Pillars and the National Transformation Plan (NTP)**

National development projects provide scope for change and improvement in all aspects. Saudi Vision 2030 is an example of a development project that benefits all citizens and stakeholders with its positive objectives. The Kingdom of Saudi Arabia (KSA) launched Vision 2030 in 2015 to reduce its dependence on oil, diversify and sustain its economy, and enhance public well-being. Vision 2030 has three pillars: A Vibrant Society, A Thriving Economy, and an Ambitious Society.

- a) A Vibrant Society: The first pillar provides the basis for economic prosperity based on Islamic principles of moderation, national identity, and cultural heritage. A Vibrant Society would foster a good life in a beautiful environment that is 'protected by caring families' and 'supported by the expanding social and healthcare system [10].
- b) A Thriving Economy: The second pillar aims to develop promising economic sectors, diversify the economy, and develop investment avenues to create jobs. This will be achieved among other things, "by aligning the education system with market demands and generating economic opportunities for entrepreneurs, small enterprises, and large companies" [11].
- c) An Ambitious Society: The third pillar aims to promote efficiency and accountability at all levels. This pillar envisions an accountable, enabling, effective, transparent, and high-performing government that fosters an environment where the private sector and non-profit sector can proactively seize opportunities and face challenges [12].

Vision 2030 is based on three pillars, and each pillar contains two levels which are in turn divided into branches as shown in Table 1. Level 1 "overarching goals," represents the fundamental objectives of the Vision, Level 2 "Strategic Objectives," represents specific sub-targets that can be translated into the National Transformation Plan (NTP) established on June 06, 2016.

**Table 1.** KSA Vision 2030 Pillars, Levels 1 and 2 Objectives within (NTP) Action

Vision 2030 Pillars	Vision 2030 Objectives	
A Vibrant Society	Level 1 Overarching Objectives	Level 2 Branch Objectives
	1. Strengthen Islamic & National Identity	1.1. Foster Islamic Values. 1.2. Serve more Umrah visitors better. 1.3. Strengthen the national identity
	2. Offer a Fulfilling and Healthy Life	2.1. Improve healthcare service. 2.2. Promote a healthy lifestyle. 2.3. Improve livability in Saudi cities. 2.4. Ensure environmental sustainability. 2.5. Promote culture & entertainment. 2.6. Create an empowering environment for Saudis
A Thriving Economy	3. Grow and Diversify the Economy	3.1. Grow contribution of Private sector to the economy 3.2. Maximize value captured from the energy sector 3.3. Unlock potential of non-oil sectors 3.4. Grow the Public Investment Fund's assets and role as growth engine 3.5. Position KSA as global logistic hub 3.6. Further integrate Saudi economy regionally and globally 3.7. Grow non-oil exports
	4. Increase Employment	4.1. Develop human capital in line with labor market needs. 4.2. Ensuring equal access to job opportunities 4.3. Enable job creation through SMEs and micro-enterprises. 4.4. Attract relevant foreign talents for the economy
An Ambitious Nation	5. Enhance Government Effectiveness	5.1. Balance public budget. 5.2. Improve performance of government apparatus. 5.3. Engage effectively with citizens. 5.4. Protect vital resources of the nation
	6. Enable Social Responsibility	6.1. Enable citizen responsibility. 6.2. Enable social contribution of businesses. 6.3. Enable larger impact of non-profit sector

Note. Reprinted from (GSA, Vision 2030: Overview, 2023a).

### III.2. The Role of Islamic Social Finance in Saudi Vision 2030 and SDGs

Vision 2030 is a roadmap that provides guidelines and policies to diversify Saudi Arabia's economy and reduce its dependency on oil. By doing so, it aims to improve transparency and efficiency in the public sector and government spending. This provides an opportunity for ISF to participate because of the nature of its contracts and its focus on social welfare. Increased government efficiency would result in more funds and resources being allocated to ISF and an increase in Shariah-compliant transactions within society. Regarding healthcare and social well-being, which is a central aspect of our essay, Saudi Vision 2030 aims to improve the quality of healthcare services and increase their lifespan by adopting preventive measures and other cost-effective quality treatments. This would include healthcare finance in the Islamic Social Finance (ISF) mode, leading to an increase in Sadaqah and Waqf contracts. This is due to the preventive measures' nature and their contribution to social welfare. Real estate and housing is another key sector where the majority of ISF contracts are structured around home finance and equity-based modes, such as Mudarabah.

Vision 2030 aims to increase homeownership rates by promoting a sustainable housing environment and reducing the average waiting time for people to purchase a home. A sustainable and viable real estate environment will encourage more Islamic banks to come up with ISF home finance schemes. This will greatly benefit society through access to affordable and interest-free home financing. With more ISF home finance schemes and shorter waiting times, an increase in homeownership can be achieved, benefiting society economically and socially. With the rising elderly population, there will also be a rise in ISF home finance schemes for senior care facilities and Islamic private retirement plans. All these

factors contribute to enhancing the quality of life in Saudi Arabia and increasing the happiness of its citizens in all aspects of life.

### III.2.1. Waqf as an effective tool of ISF: Meaning and Shariah Ruling

Waqf (plural: waqfs) Awqaf is a voluntary act of charity that has certain distinctive qualities. Its literal meaning is “to stand still, hold still, not to let go.” Waqf is referred to as "Habs" (pl. Hobous) in Algeria and other North African countries that adhere to the Maliki School of Jurisprudence. Awqaf are sustainable endowments that provide benefits to their beneficiaries. Because they are associated with the sayings of Prophet Muhammed (PBUH) that promote ongoing charity (Sadaqah Jariyah), they have great religious value. The significance of this statement is clarified and made more explicit in a narration recorded in Saheeh Muslim, on the authority of Abu Hurayrah (may Allah be pleased with him), where Prophet Mohammed (Peace Be upon Him) said: **“When a man dies, all his good deeds come to an end except three: ongoing charity, beneficial knowledge, and a righteous son who prays for him”** (Muslim, Hadith 1631).

Prophet Muhammed (PBUH) urged people to establish Waqf and did so himself. A founding donor, or Waqif, establishes a Waqf by donating assets dedicated to a specific purpose through a Waqf deed. The assets that constitute the corpus are identified by the Waqf deed.

### III.2.2. Analyzing the Overall Size of the Awqaf Segment in KSA

The conflict between maintaining transparency and freedom to do good is one of the major obstacles facing data collection initiatives regarding Awqaf in the KSA. The challenge of accurately estimating the number of Awqaf in Saudi Arabia is acknowledged by several specialists in Awqaf affairs. However, they affirm that the Kingdom has the largest Awqaf compared to other Muslim-majority countries because of the seclusion it enjoys and the two holy mosques (Haramayn: Mecca & Medina), which have attracted pilgrims from all over the world to the Kingdom. The purpose of this section is the overall scale of the Awqaf sector on numbers, assets, and income in KSA

The significant discrepancies in the data reported on Awqaf size in the Kingdom of Saudi Arabia necessitate a more comprehensive investigation into the quantity, assets, and income of Awqaf in the country. Our methodology involved requesting and analyzing primary data from government authorities, including the Supreme Judicial Council, GAA, and the Ministry of Human Resources and Social Development, as well as secondary data from sample-based studies on Awqaf in Saudi Arabia. Based on this primary data and the findings of previous sample-based studies discussed in the previous section, we estimated the aggregate total number, assets, and income of Awqaf institutions in Saudi Arabia.

#### III.2.2.1. The Overall Size of Awqaf Segment in KSA

To enable and encourage individuals and Awqaf (Endowments) entities to expand the implementation of projects in various investment fields, the General Authority of Awqaf (GAA) is working on developing the Awqaf sector and enhancing the licensing process for endowment investment products and their specific procedures. In 2023, 18 endowment investment funds were approved according to the funds’ instructions, increasing the total number of licensed investment funds to 29 divided into 22 public funds and 7 private funds [5]. The outcomes of the data collection process for various endowment types are shown in Table A2 below.

**Table 2.** Investment Awqaf Funds Profile in KSA

Awqaf types	Number Of Funds	Assets (SAR Billions)	Income (Given ROI 3.28%) (SAR Billions)
Investment Public Funds (Licensed in 2023)	22	625	20.5
Investment Private Funds (Licensed in 2023)	07	12	0.4
Total Awqaf Funds (Licensed in 2023)	29	///	///
The Cumulative Total within (2015-2023)	113489	637	20.9

Note. Reprinted from (Awqaf, 2023).

As shown in Table 2, there were over 113 thousand Awqaf institutions in Saudi Arabia in 2023, with SAR 637 billion in Awqaf assets allocated to fields aligned with the SDGs and Vision 2030. Most revenues from Awqaf assets (SAR 20.5 billion) came from government investment funds, representing 98% of the total Awqaf assets. In contrast, 07 private funds managed by the civil “Ahli” association accounted for 2 % of the total value of Awqaf assets.

### III.3. Opportunities in Implementing Awqaf

#### III.3.1. Opportunity for Alignment with the SDGs

The section aims to assess the potential financial contribution of Saudi Waqaf to fund the Sustainable Development Goals (SDGs). Based on sample studies on Awqaf fields of labor and the overall social Awqaf size calculated in the preceding section, a process was carried out to leverage the potential of aligning WAQFs with the (SDGs). In Saudi Arabia,

There are over SAR 192 billion worth of Awqaf assets, and the sector spends SAR 7 billion a year on projects that are either directly or indirectly related to the SDGs [29]. The total assets, expenditures, and number of wakfs by Sustainable Development Goal are shown in Table 3.

**Table 3.** Awqaf Contribution Alignment with the SDGs

Alignment with the SDGs	N°. of Awqaf	Awqaf's Assets in Million SAR	Spending in Million SAR
<b>SDG 1 No Poverty</b>	10.014	15,385	1,263
<b>SDG 2 Zero Hunger</b>	7.687	5,128	168
<b>SDG 3 Good Health and Well-Being</b>	4.381	27,200	892
<b>SDG 4 Quality Education</b>	34.846	95,203	3,122
<b>SDG 5 Gender Equality</b>	4.937	4,940	162
<b>SDG 6 Clean Water and Sanitation</b>	8	1,162	38
<b>SDG 7 Affordable and Clean Energy</b>	7	186	6
<b>SDG 8 Decent Work and Economic Growth</b>	33	933	30
<b>SDG 9 Industry, Innovation and Infrastructure</b>	35	991	32
<b>SDG 10 Reduced Inequalities</b>	6.065	13,101	429
<b>SDG 11 Sustainable Cities and Communities</b>	224	6,800	223
<b>SDG 12 Responsible Consumption &amp; Production</b>	6	155	5
<b>SDG 13 Climate Action</b>	2	232	7
<b>SDG 14 Life Below Water</b>	2	290	9
<b>SDG 15 Life on Land</b>	4	581	19
<b>SDG 16 Peace, Justice and Strong Institutions</b>	2.763	9,677	317
<b>SDG 17 Partnerships for the Goals</b>	1.531	10,723	315
<b>Totals</b>	<b>72.545</b>	<b>192,687</b>	<b>7,037</b>

Note. Reprinted from (UN, 2020).

### III.3.2. Opportunity for Alignment with Vision 2030

The purpose of this section is to estimate Awqaf's potential financial contribution to the goals of Saudi Arabia's Vision 2030. The alignment of Awqaf with Vision 2030 was carried out through a sample-based study on Awqaf's fields of work and the overall size of the social Awqaf calculated in the previous section. The total value of Awqaf assets in Saudi Arabia is about SAR 637 billion. The income from the assets, derived from investments in Awqaf funds is about SAR 21

billion. These funds can be used for initiatives that are either directly or indirectly related to the Kingdom's Vision 2030 branch objectives. Here are some examples of Awqaf consistent with Vision 2030:

### **III.3.2.1. Awqaf in Support for Economic Development**

To increase the contribution of SMEs to GDP from 20% to 35%, Saudi Vision 2030 has demonstrated a keen interest in the SME sector as one of the key drivers of economic growth. Al-Munawara Waqf and its implementing body, Namaa Al-Munawara, a non-profit organization, have assets worth SR 1 billion. They aim to empower small and medium-sized enterprises (SMEs) in the Madinah region through several initiatives and projects, including:

A.1. Al-Ayniah Market and Factories: The project was created to attract both residents and visitors to the city. It aims to increase the localization percentage of the souvenir industry by offering 265 creative and well-designed products from local brands, training 429 productive families with designs inspired by Islamic history and art, providing commercial services, business development, and improving the quality of household products produced. This initiative enables competition that reaches 74 markets both domestically and internationally [2].

A.2. Al-Munawara Service Center: An integrated forum that brings together officials from various government departments involved in the business sector and also provides advisory services to entrepreneurs to assist them in launching their projects more effectively [3].

A.3. Namaa Entrepreneurship: An integrated system for expanding entrepreneurs' abilities and support through programs in the Madina region. Its purpose is to introduce promising sectors and promote economic diversity in the region, encourage and assist the local population in realizing their potential, create employment opportunities, form fruitful partnerships, and reduce the risk of small business failures. With the development and installation of 68 locations with over 900 employees, about 55 million finances were approved to reach the total goal of SAR 2.3 million [3].

### **III.3.2.2. Awqaf for Housing Solutions**

One of the main goals of Vision 2030 is to enable Saudi families to own suitable homes; however, providing housing to the poor and needy is a fundamental function of many Awqaf in Saudi Arabia. Some Awqaf, such as Awqaf Al Majed and Hayat Charitable Foundation, along with 161 non-profit organizations, have contributed to helping the neediest families purchase ready-to-move apartments through the Jood Eskin platform. This platform is a crowdfunding effort of the National Housing Development Association aimed at raising charitable funds for housing services. The Jood Eskin Charity subscription closed after achieving its goal of over SAR 1.5 billion. Many renowned partners have contributed to the donation campaign, including the National Group for Housing, the General Awqaf Authority (GAA), Al-Rajhi Bank, STC Group, Ajlan and Brothers, Sumou Real Estate, Khuzam Real Estate, and the advertising partner Al Arabia Outdoor Advertising. Up to 5,250 families, including 26,250 individuals nationwide, have found homes; this unprecedented outcome in charitable fundraising has been acknowledged by Guinness World Records.

### **III.3.2.3. Awqaf for Good Health and Well-being**

A member of the ZMVM Society for Voluntary and Charitable Health Services stated that the total value of the society's Waqf assets was estimated to be SAR 70 million in real estate. The asset sale proceeds finance the free-of-charge health services it provides. One example is the ZMVM Society for Voluntary and Charitable Health Services, which has been developing innovative solutions to address everyday healthcare challenges for 15 years. Awqaf in Saudi Arabia offers great opportunities to achieve the National Transformation Program (NTP) Vision 2030 goals related to healthcare; these include "Easing access to health services" and "Promoting prevention against health risks" [12].

## **IV. ASSESSMENT OF MALAYSIA'S EXPERIENCE**

### **IV.1. The Impact of Islamic Social Finance on Malaysia's Economic Recovery**

In response to the COVID-19 pandemic, ISF has emerged as an alternative financial system to provide secure jobs for those affected by the crisis, prevent poverty and unemployment, strengthen economic and social stability, promote peace, and act as a powerful economic and social stabilizer [16].

COVID-19 has caused numerous crises, including health, economic, social, and lifestyle problems. To accelerate the economic recovery process in the post-COVID-19 pandemic, Islamic Social Finance Products can be used to boost economic activities such as consumption, investment, and government expenditure. This can aid in economic growth and the attainment of sustainable economic development goals (SDGs).

### **IV.2. The Role of Zakat in Enhancing the Malaysian Economy**

Zakat is another concept in Islamic Finance and is the fourth pillar of Islam after the two testimonies of faith (Shahadatayn), Prayer (Salah), and fasting (Saum). Zakat, as one of the most fundamental elements of Islamic Social Finance, promotes a more equitable distribution of wealth while also fostering a sense of charity and solidarity among Muslim communities. The role of zakat has become increasingly important during the COVID-19 pandemic. Zakat institutions are non-profit organizations that collect and distribute Alms (Sadaqat). To aid the country in overcoming the pandemic, zakat institutions should optimize the zakat fund to ensure the survival of communities [13].

There is an ongoing debate on the role of Islamic Social Finance in boosting the economy during and after the COVID-19 pandemic. As a result, Zakat, as an Islamic social fund, can help overcome the crisis by directly aiding the

communities affected by it. Zakat distribution programs, conducted by Baitulmal-MAIWP for zakat beneficiaries affected by COVID-19, were designed to alleviate the burden on the general public following the government's implementation of a Movement Control Order (MCO) in the post-COVID-19 period. This initiative is known as “Bantuan Zakat Kecemasan Covid-19” (Zakat Emergency Aid Covid-19).

[30] used primary data to examine the practical implications of Zakat as a short-term emergency support system for the vulnerable community of Dhaka North City Corporation in Bangladesh. The study employed a quantitative method due to limited mobility resulting from the COVID-19 lockdown. The findings suggest that Zakat has practical implications, especially as a short-term emergency support system during the COVID-19 crisis. [36] explained the role of zakat, waqf, sukuk, and crowdfunding in Malaysia. These financial mechanisms support customers, producers, and governments in assisting those affected by the crisis. They also help increase economic activities, which can reduce unemployment and aid in the recovery from the recession experienced by many countries worldwide during the pandemic. However, [19] contend that the Zakat program in Indonesia has played a crucial role in economic recovery. It can serve as a source of funds to enhance welfare and reduce the poverty rate by 0.14 percent in Mustahik households. Nonetheless, [25] explained the role of Islamic social finance through ZISWAF (Zakat, Infaq, Sukuk, Alms, and Waqf) and BMT programs as solutions to overcome economic challenges during the pandemic in Indonesia. The findings indicate that the presence of ZISWAF stands can help alleviate poverty resulting from COVID-19. Furthermore, the presence of BMTs can stimulate businesses with limited capital and assist the Indonesian government in addressing current issues. In the same vein, the digitization of social fund payments has led to a significant increase in the collection of Islamic social funds during the first half of 2020, with a rise of approximately 70% compared to 2019. Additionally, in Indonesia, the social sector ranks highest among the various SDG programs, with the prosperity and peace sectors following in second and third place [35].

#### IV.2.1. Analyzing the Zakat distribution policy in Malaysia.

According to [29], the Movement Control Order (MCO) impacted significantly the Malaysian economy. Zakat institutions in Malaysia are assisting the government in overcoming the COVID-19 pandemic. As demonstrated in Table 4, Kisah Zakat Malaysia (2020) reported a total of RM 171,92 million zakat paid and distributed to zakat beneficiaries (Asnaf) who were affected by the crisis, across the fourteen (14) Malaysian zakat organizations during the Movement Control Order (MCO). This conforms to the Malaysian government’s economic stimulus package named “Prihatin” which will help households and businesses.

**Table 4.** Zakat Distribution by Malaysian’ States during the COVID-19 crisis.

No	Zakat Institutions	Zakat Distributions (RM Million)	Zakat (% of Total Distributions)
1	Federal Territory Islamic Council (MAIWP) & Center for Zakat Collection (PPZ)	34,41	20,02
2	Zakat Pulau Pinang	14,52	8,45
3	Pahang Islamic Council and Malay Heritage & Center for Zakat Collection of Pahang	12,20	7,10
4	Kelantan Islamic Council	12,60	7,33
5	Perak Islamic Council and Malay Heritage	14,35	8,35
6	Terengganu Islamic Council and Malay Heritage	20,20	11,75
7	Selangor Zakat Board (LZS)	15,00	8,72
8	Johor Islamic Council	7,40	4,30
9	Kedah Zakat Board	16,70	9,71



10	Negeri Sembilan Islamic Council (MAINS)	4,30	2,50
11	Zakat Melaka & Melaka Islamic Council	4,26	2,48
12	Perlis Islamic Council and Malay Heritage	3,98	2,32
13	Sabah Islamic Council	6,00	3,49
14	Baitulmal Sarawak	6,00	3,49
	<b>Total</b>	<b>171,92</b>	<b>100</b>

Note. Reprinted from Kisah Zakat Malaysia (12 April 2020).

Table 4 demonstrates the total percentage of zakat funds distributed (% of Total Distribution) to support Asnaf impacted by the COVID-19 pandemic in Malaysia. The Federal Territory Islamic Council (MAIWP) and the Center for Zakat Collection (PPZ) recorded the highest percentage (20%) with RM 34,41 million, followed by the Terengganu Islamic Council and Malay Heritage (11,75 %) and Kedah Zakat Board (9,71%), with RM 20,2 and 16,70 million respectively. In contrast, other states had lower values and scores.

#### IV.2.2. The Role of Waqf (Endowment)

Waqf holds a significant place as one of the Islamic Social Finance solutions that can help the government in resolving social and economic issues during the pandemic. It is worth noting that this Islamic social fund should be enhanced to assist individuals with needs that are challenging or impossible to fulfill on their own. Waqf institutions, such as mosques and Islamic boarding schools are a means of creating productive spaces. Furthermore, monetary waqf has been initiated to reduce socioeconomic inequality [25] arguing that Cash Waqf is one of the alternatives to eradicate poverty in Malaysia.

According to the World Giving Index (2021) annual report, classified as the world's most generous country in 140 countries. With an improved score of 69% in the top 2 of the 3 categories or indicators that make up WGI's measurement—donating to foreigners/unknown with 65%, donating money (83%), and volunteering/volunteer activities (60%)—Indonesia is ranked first in the world according to the same report (CAF, June 2021).

In Malaysia, the rapid growth and implementation of Cash Waqf are noticeable. Cash waqf has great potential to improve the country's economy and develop the community. During the COVID-19 crisis, the funds raised through a cash waqf certificate program can be directed toward social initiatives such as infrastructure, health, education, agriculture, and poverty alleviation. Cash Waqf plays a significant role in boosting the economy and improving social status. Waqf also promotes mutual help and assistance among Muslims. We encourage affluent individuals to consistently remember the less fortunate, as this motivates them to contribute funds to the Waqf. Waqf could also help individuals affected by the COVID-19 pandemic [36].

Cash Waqf can also play a significant role in financing small and medium-sized enterprises (SMEs). The Cash Waqf model aims to improve and broaden the financial services accessible to small and medium-sized enterprises (SMEs). By adopting the financial infrastructure based on the Cash Waqf model, SMEs can address their financial challenges and overcome obstacles in their business operations. By providing Small and Medium Enterprises (SMEs) with access to banking services, Cash Waqf can boost domestic economic growth and make a substantial contribution to socio-economic development.

##### IV.2.2.1. Analyzing the Cash Waqf Schemes (CWS)

Six cash waqf schemes have been implemented worldwide, including the waqf shares scheme, deposit cash waqf scheme, compulsory cash waqf scheme, corporate waqf scheme, deposit product waqf scheme, and cooperative waqf scheme, as shown in Table 5.

**Table 5.** The types of Cash Waqf Schemes (CWS)

N°	Cash Waqf Schemes (CWS)	Adopted Country
01	Waqf Shares Scheme (WSS)	Malaysia, Indonesia, Kuwait, and the UK
02	Deposit Cash Waqf Scheme (DCWS)	Singapore, Bahrain and South Africa
03	Compulsory Cash Waqf Scheme (CCWS)	Singapore
04	Corporate Waqf Scheme (CWS)	Malaysia, Turkey, India, Pakistan and Bangladesh
05	Deposit Product Waqf Scheme (DPWS)	Bangladesh

**06 Co-Operative Waqf Scheme (COWS) Uzbekistan**

Note. Reprinted from (Yusuf, Mohd, Mohd, & Ridhal, 2020).

Table 5 demonstrates that the Waqf Shares Scheme (WSS), created to finance the demand for halal goods and services in diverse cultures, was implemented in Malaysia, Indonesia, Kuwait, and the UK. In addition, Singapore, Bahrain, and South Africa developed the Deposit Cash Waqf Scheme (DCWS). While Singapore has established a public waqf known as the Compulsory Cash Waqf Scheme (CCWS), the Corporate Waqf Scheme (CWS) has also been implemented in Bangladesh, Malaysia, India, Pakistan, and Turkey. Furthermore, two Bangladeshi banks, the Islamic Bank Bangladesh Limited (IBBL) and the Social Investment Bank Limited (SIBL), have established the Deposit Product Waqf Scheme (DPWS), a public waqf. Ultimately, Uzbekistan has established the Co-Operative Waqf Scheme (COWS).

#### IV.2.3. The Role of Sukuk

Sukuk is a useful tool for obtaining large-scale funding because it is designed to share risk and promote social benefits. The profits generated from the Sukuk could be used to fund socially beneficial initiatives such as affordable housing, immunization campaigns, renewable energy projects, and educational initiatives (Dewandaru, Hanifa, Isa, & Rahman, 2020). According to [36], Sukuk can be used in conjunction with other Islamic financial products. This combination consists of Waqf Sukuk, Murabahah Sukuk, and Retakaful Sukuk (Reinsurance) as explained below.

**IV.2.3.1. Retakaful Sukuk:** is a type of insurance securitization designed for a short maturity period (three to five years). It is usually purchased by institutions rather than individuals. These institutions include mutual funds, pension funds, and sovereign wealth funds.

**IV.2.3.2. Waqf Sukuk:** Also referred to as Cash Waqf-Linked Sukuk (CWLS). Cash waqf is invested in Sukuk as a form of social investment. Waqfs are distinct from other endowment or philanthropic funds because they are governed by the going concern principle, which safeguards the assets and redistributes the profits.

**IV.2.3.3. Murabahah Sukuk:** This sale and purchase agreement is based on Shariah principles. In the Murabahah sukuk, the specified cost and profit margin are both disclosed because Murabahah is a contract for sales at a fixed price plus profit.

#### IV.2.4. The Role of Crowdfunding as a Response to the COVID-19 Pandemic

##### IV.2.4.1. Defining Crowdfunding

The term “Crowdfunding” derives from “Crowdsourcing.” It refers to the process of using the ‘crowd’ to generate ideas, feedback, and solutions for new projects. Crowdfunding aims to raise capital from individuals who often have the authority to vote in a company or even participate in strategic decision-making. The use of crowdfunding has increased dramatically in recent years due to developments in Financial Technology (FinTech) and the expansion of social media, which have greatly facilitated entrepreneurs' ability to reach a wider audience at a relatively low cost.

##### IV.2.4.2. Crowdfunding as a Response to COVID-19

According to [16], charitable crowdfunding proved popular in COVID-19 pandemic-related campaigns. This suggests that platform usage may change, as evidenced by the number of demands users have presented to the site during a severe economic, social, and epidemiological catastrophe.

More than 175,000 crowdfunding campaigns (CCF) for coronavirus-related needs were created in the US during the first seven months of the COVID-19 epidemic using the GoFundMe website. Table 2 demonstrates considerable variations in campaign results based on Categories. More than 4,750,000 individual donations were made, raising more than \$416 million. 12,250 of these campaigns were made by GoFundMe specifically for its small business effort, and as previously said, they were excluded from further study. Table 6 shows the average donation amount raised from 164,311 donations, which was \$825.

**Table 6.** Campaigns by GoFundMe Categories contribution during the Pandemic

N°	Category	Campaigns	Donation Count in (%)	Average Donation In US \$
1	Dreams, Hopes & Wishes	5 631	3,43	70
2	Animals & Pets	7 589	4,62	55
3	Education & Learning	9 336	5,68	85
4	Funerals & Memorials	10 202	6,21	80
5	Business & Entrepreneur s	10 689	6,51	87

<b>6</b>	Babies, Kids & Family	12 278	7,47	70
<b>7</b>	Other	22 401	13,63	78
<b>8</b>	Community/ Volunteer/Faith	23 791	14,48	137
<b>9</b>	Medical, Illness & Healing	30 002	18,26	82
<b>10</b>	Accidents & Emergencies	32 392	19,71	81
<b>Totals</b>		<b>164 311</b>	<b>100</b>	<b>825</b>

Note. Reprinted from (Igra. M, et al., 2021).

The data presented in Table 6 indicates that the campaigns with the highest percentage of donations (14.5%) were related to Community / Volunteer / Faith, with an average of \$137. These campaigns were followed by Medical, Illness & Healing (18.26%), Accidents and Emergencies (19.71%), Dreams, Hopes and Wishes, Education & Learning, Other, and Babies, Kids, and Families, which received \$82 and \$81 in donations respectively.

## V. LESSONS FOR ALGERIA

The traditional financial system still dominates today's financial industry. However, the pandemic unveiled the inability and inadequacy of the traditional system to withstand the economic crisis. In addition, traditional financial institutions struggled to meet their societal objectives. Financial institutions, whether debt-based or equity-based and operating within traditional or Islamic frameworks, have recently encountered numerous challenges. Economic crises, excessive debt, poverty, economic downturns, political instability, environmental issues, rising portfolio returns, and restrictions on public spending, have harmed this industry [8]. Based on an analytical approach, the Saudi Vision 2030 and the Malaysian experience with ISF were examined as valuable insights for the Algerian economy.

### V.1. Algerian Use of Islamic Social Finance

Zakat is the main instrument used in Algeria. The Zakat Fund was established to eradicate social ills such as poverty and unemployment on the one hand and to manage the collection and distribution of Zakat to the needy on the other hand. The Algerian Zakat Fund, established in 2003 in the cities of Annaba and Sidi Bel Abbes before expanding nationwide in 2004 under Ministerial Circular No. 139/2004, is relatively new compared to similar institutions in other Islamic nations.

The Zakat fund in Algeria is supervised by the Ministry of Religious Affairs and Wakfs. The Zakat fund finances youth employment and support projects, projects of the National Unemployment Insurance Fund, Small and Medium enterprises, and assists solvent enterprises that have the potential to recover [27].

**Table 7.** Distribution of Zakat fund's earnings in Algeria

	Disbursement rates of Zakat	
	Proceeds of less than 5 million DZD	Proceeds of more than 5 million DZD
The poor and the needy	87.5%	50%
Qard Hassan		37.5%
Zakat fund's operating expenses	<b>12.5% distributed as follows:</b> *4.5% to cover state committee costs. *6% to cover grassroots committee activities. *2% 2% to cover the costs of the Fund's operations at the national level.	

Note. Adapted from The Ministry of Religious Affairs and Wakfs of Algeria, 2003.

As shown in Table 7, The fund's earnings are distributed to (1) help the poor and the needy; (2) cover the Zakat Fund's expenses; and (3) loan distribution in the form of Qard Hassan. If the zakat funds exceed five million Algerian Dinars, fifty percent is allocated to assist the poor, and 37.5% of the zakat collected is allocated to unemployed youth as loans (Qard Hassan) to start microprojects, while 87% goes to the poor if it is under 5 million DZD, with no provision for loans.

Despite its recent creation, the Algerian Zakat Fund has financed about 6.945 micro-projects with a total of 1.38 billion DZD from 2003 to 2012. Nonetheless, Algeria is seeking to improve these outcomes and is taking advantage of new reforms to manage future funds [14].

#### **V.2. Zakat Collection and Distribution in the Time of COVID-19**

In 2018 the official global amount of Zakat collection reached more than a billion DZD. This was mainly due to the increase in the number of Zakat donors, and the improved performance of the Zakat Fund in organizing the Zakat collection. However, in 2020 the national zakat fund's earnings dropped to under 730 million DZD, compared to 1.54 billion DZD in 2019 [38]. This decrease is often associated with the closure of mosques during the pandemic as the country's measures control the spread of the virus.

#### **V.3. Potential Benefits of Islamic Social Finance for Algeria**

As mentioned earlier, the Covid-19 pandemic has led to numerous social issues. Unemployment, poverty, and constrained public spending are all indicators of economic crises. These factors have pushed Algeria to consider innovative Islamic Social Finance strategies as a means to promote economic recovery and attain sustainable development goals.

Businesses often face challenges in obtaining financing because of the high risk in generating profits, issues with their governance structure, and a lack of performance evaluations, especially in assessing social value. Thus, it is important to support businesses that prioritize financial impact, which requires the use of innovative financing options and strengthening existing funding sources. Islamic finance offers unique and diverse products that can provide creative financing solutions. The article explores the growing interest in Islamic finance and social impact finance, both of which prioritize risk sharing and social benefit through new mechanisms. The nontraditional financing options, with their variety of instruments for supporting the growth of social enterprises, have the potential to positively impact global economies. The study examines the various nontraditional funding options and the requirements for obtaining them. The experience of Malaysia and Saudi Arabia provides practitioners, researchers, and decision-makers in Algeria with valuable information on the feasibility of using Islamic Social Finance (ISF) as a financing source for social impact enterprises.

#### **V.4. Strategies for Implementing Islamic Social Finance in Algeria**

To ensure the effectiveness of ISF in achieving economic recovery in Algeria, it is crucial to take into account various obstacles present in the current Algerian financial ecosystem.

**V.4.1. Restoring to Social Trust:** Social trust, which is derived from the words 'society' and 'trust,' is the cornerstone of a community's general sustainability. When individuals have faith in one another and their fellow citizens, social trust is established [18]. According to the Pew Research Centre (2007), social trust is defined as a "belief in the honesty, integrity, and reliability of others, equating to faith in people."

#### **V.4.2. Stabilizing Social Disorder and Unrest**

Social disorder and conflict often arise when wealthy people refuse to provide financial assistance to the underprivileged. ISF can solve various types of disruption, unrest, and criminal behavior by collecting both mandatory charity (Zakat) and voluntary charity (Sadaqah, Qard Hassan) from the wealthy, and then distributing it to those in need. [18].

**V.4.3. The Independence of the Shariah Supervisory Board Challenge:** The execution of ISF initiatives requires a Shariah governance structure. For this reason, the Shariah governance structure must be well-defined and predetermined. Financial Institutions and Banks ensure adherence to Shariah principles in their financial operations and methods through a Shariah supervisory board. The Shariah Supervisory Board must function independently and include members who reflect academic integrity and honesty as crucial requirements for Shariah supervisory governance guidelines. The National Shariah Authority for Fatwa for the Islamic Financial Industry (NSAFIFI) was established by the Supreme Islamic Council of Algeria (HCI) following Regulation No. 20-02 of March 15, 2020. This regulation outlines the guidelines for Islamic banking operations and the standards that banks and other financial organizations must follow [6].

**IV.4.4. Risk Management Framework:** Risk management is crucial in the financial system, particularly in the Islamic Financial Industry, due to the potential impact of uncertain future events on the goals of financial organizations. These risks may stem from fraud, the institution's low profitability, the insolvency of debtors, exchange rate fluctuations, or violation of Shariah rules. Islamic finance faces specific risks related to the industry as well as inherent risks like credit, market, operational, liquidity, equity investment, rate of return, displaced commercial, and Shariah non-compliance hazards. To ensure sustainable operations, all financial institutions - including ISF - must implement a risk management system [18].

## **CONCLUSION**

The 2008 financial crisis and the recession in 2020 have had a profound global impact on individuals and countries leading to widespread distress. Many are still struggling to recover from these events, which have created a sense of uncertainty about economic stability worldwide. Given that a significant portion of the global population is still suffering from the aftermath of previous crises, it is likely that any future disruptions to the economy will further increase poverty levels.

Though Islam advocates for an independent and self-sufficient economy for the Muslim Ummah through the use of the available capabilities and resources to earn a respectable livelihood, the current economic environment obliges the Muslim Ummah to establish strong and united communities that can withstand these unfavorable conditions and safeguard the Ummah from further impoverishment while enhancing the economic situation.

The traditional Islamic economic system is not unique in terms of the sources and methods of economic activities but also in its philosophy and underlying moral values shaping the activities. This is manifested in the emphasis on developing a just and equitable society in the temporal world, which is constructed on the foundations of good moral and ethical values. The main objective of reviving the economy is to ensure the well-being of the entire society and fulfill the collective interest.

One way to prevent the upcoming economic downturn is the adoption of Islamic Social Finance to stimulate the economy per the SDGs. ISF has the potential to contribute significantly to global welfare. It can provide funding for the less fortunate and improve their social and economic status. This shift in the welfare paradigm can bring about positive changes in societies that require development and have a lasting impact on economic stability, ultimately helping to achieve the Sustainable Development Goals (SDGs). In this sense, ISF refers to the mobilization of funds (Zakat, Awqaf, and Qard Hassan) for welfare or development through Shariah-compliant financial methods. It involves using the principles of Shariah to undertake social and economic activities for the well-being of the population (SDG3). It is a way of generating funds for marginalized individuals who are affected by poverty (SDG1) to improve their standard of living and income. These modes of financing are rooted in the belief that every individual is entitled to necessities regardless of faith or religion (SDG16).

During the COVID-19 pandemic, Islamic Social Finance has been used alongside government expenditure to revive the economy. Thus, it is crucial to mobilize Islamic Social Finance products to speed the economic recovery in the post-COVID-19 period. Both the Malaysian and Saudi governments have faced economic problems, exacerbated by the Covid-19 outbreak which has made these emergent economies level decline. This is evident by the increasing poverty rate and the bankruptcy of numerous entrepreneurs due to insufficient capital.

The findings revealed that the Saudi Vision 2030 experience has proved successful in using ISF resources to establish over 113 thousand non-profit infrastructure organizations (SDG9) known as Waqf institutions. These institutions are expected to contribute to 5% of GDP by 2030 (SDG8) and create 29 investment funds by 2023. The total assets of these Waqf institutions amount to SAR 637 billion, which will be distributed for philanthropic purposes in line with the 2030 Vision and the SDGs. This includes initiatives related to Sustainable Cities (SDG11), the creation of 737 Awqaf products (SDG12), and the provision of quality education (SDG4). Similarly, the Malaysian experience has also been successful in distributing ISF elements such as Zakat, Sadaqah, Waqf, and cooperation in the form of Qard Hassan and Takaful. These initiatives have effectively supported customers, producers, and governments during the COVID-19 crisis.

Though Zakat plays a significant role in alleviating poverty and promoting job creation, Zakat collection should be managed by a well-structured organization with financial and management autonomy.

To revive the Algerian economy, the study recommends the adoption of the Malaysian and Saudi experiences by mobilizing ISF resources such as Zakat (Obligatory Charity), Sadaqah (Voluntary Charity), and Waqf (Endowment), cooperation, like Qard Hassan (interest-free loans) and Takaful (Insurance), and Social Investments through Sukuk and Crowdfunding. These measures would contribute to boosting economic activity and diversifying the Algerian economy, supporting investment mainly in education and the health system, generating sustainable employment opportunities for the youth, and enabling them to also contribute towards Zakat.

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