Guest editorial: The impact of the COVID-19 pandemic on Islamic finance and environmental, social and corporate governance (ESG)

1. Introduction

This special issue of *Journal of Economics and Administrative Sciences* focuses on the impact of the COVID-19 on global economies, governments, institutions, firms and individuals. The editors shortlisted submitted papers that aligned trends, seen during or in the aftermath of the pandemic, with modern Islamic finance fundamentals and environmental, social and corporate governance (ESG). The papers ultimately grasp the contemporary application of Islamic economic systems and their efficacy in alleviating poverty, promoting equity, fostering growth in production from efficient utilization of inputs and emphasizing a greener economy. The background behind the scope of the special issue traces from the following two contemporary working projects: “Need to Redefine Islamic Finance in The Light of Maqasid Al-Shariah” (Hassan *et al.*, 2024) and “Environmental Sustainability and Islamic Finance” (Hassan and Muneeza, 2024).

Maqasid al-Shariah defines governance and jurisprudence in society and this extends into influencing economic and financial decisions taken by governments, firms and individuals (Auda, 2008, p. 7). The fundamental aspect within Islamic finance and the underlying Maqasid is how individuals, firms and governments should cooperate to allocate resources, risk and return for universal benefits. The given social guidelines intrinsically seek to bring equity among stakeholders, transparency in regulation and commerce and sustainable growth in aggregate wealth (RFI Foundation & Islamic Financial Services Board, 2019, p. 4). Experts and academics feel that Islamic finance needs repositioning in the light of Maqasid al-Shariah which can help it focus and contribute more extensively to the human well-being and drive economic development in the contemporary world. Hassan *et al*. highlight one such modern method that merges the Sustainable Development Goals, circular economy framework, impact and ethical investing and value-based intermediation. They call for disclosing annual comprehensive rubrics to determine levels of Maqasid al-Shariah within all statures of operations and governance as well as products and services. Additionally, they recommend the establishment of Shariah advisory boards that are tasked with developing, updating and then communicating procedures and robustness checks that reflect compliance and equity risk-sharing ideologies. Lastly, they emphasize the importance to revamp corporate governance as well as education immediately so that future workers and economies are then intuitively better aligned with the Maqasid.

A notable perspective of Maqasid al-Shariah and Islamic finance is the emphasis on environmentalism and sustainability. Numerous theological passages from the Quran and Hadith agree with the principles and initiatives of environmental sociology: humans are stewards of this Dunya and the environment they live in. The duty of stewardship in caring for the environment resembles caring for one’s soul. Hassan *et al*. illuminates how Islamic finance objectives align with environmental sustainability goals following a value-based intermediation approach, the adoption of environment sustainability policies within Takaful, and ESG screening and sustainable sukuk instruments in Islamic capital markets. Modern finance must shift away from the short-term profit seeking to a long-term value creation framework.

Ultimately, there is a continual need to conduct further research on innovation and efficacy of Maqasid al-Shariah and environmentalism in Islamic finance institutions and instruments.

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The next section provides a brief introduction to the key insights of the papers featured in this special issue along with providing conclusion.

2. This issue

This special issue contains nine papers that bridge economic trends in wake of the pandemic and their alignment with Islamic finance and environmental principles. Topics revolve around economic participation in rural India, health economics, analyzing distinctions in banking resilience between Islamic and conventional institutions, enhancing sukuk instruments to more explicitly align with sustainable goals, promoting gender equity in entrepreneurship, market timing and portfolio management, and outlook of foreign direct investment over differing horizons.

Sandeep Kumar's paper, "Impact of COVID-19 pandemic on rural migrants of Bihar: a cross-sectional study," found that migrant workers of Bihar, India saw heighted uncertainty coupled with increasing distrust of government and political representation. While similar to other demographics, public health concerns were the notable driver of the resulting sentiment. Migrant workers in Bihar showed reluctance to follow health guidelines beyond wearing a mask (i.e. sanitation) in certain samples. The results also showed that local and national governments should do more to connect with and develop less represented districts and demographics of which a significant economic boost may be seen from NGOs supporting entrepreneurship and small businesses.

Rahimi Rise and Ershadi's paper, "Socioeconomic analysis of infectious diseases based on different scenarios using uncertain SEIAR system dynamics with effective subsystems and ANFIS," forecasts social effects under various uncertain scenarios along with providing sensitivity analyses. The results show that transportation has the most significant and sensitive relationship with COVID-19 in terms of infection rates and sequential health resource demand. Due to unprecedented traits of the pandemic, production expectations saw significant volatility from uncertainty while also being tied to health resource efficacy within the sample. The study suggested that mitigating infection rates may ensure GDP expectations to be less volatile.

El-Chaarani *et al.*'s paper, "The impact of COVID-19 on financial structure and performance of islamic banks: a comparative study with conventional banks in the GCC countries," found that high levels of inflation, administrative costs and non-performing financing during the COVID-19 period affected the financial performance of Islamic banks in a negative way. Furthermore, the liquidity risk positively impacted performance of Islamic banks. But, the study noted that the impact falls sharply during the sample period. The study recommends banks in GCC countries to reallocate capital structure positions continually based on market conditions of the domestic country and then other GCC countries.

In Marwan *et al.*'s paper, "Critical success factors of implementing sustainable and responsible investment (SRI) Sukuk for economic recovery from COVID-19 pandemic", the five most crucial critical success factors to achieve the best investment in SRI sukuk are identified, i.e. (1) a good governance framework, (2) fulfilling ethical standards, (3) well-defined scope, (4) transparent process of selection and (5) viable feasibility study. The authors suggest to the regulators that sukuk issuers have to ensure and facilitate that these critical success factors are taken care of by investment managers in their investment policy, planning and management.

Aziz *et al.*'s paper, "Effect of COVID-19 pandemic on women entrepreneurial sustainability: the role of islamic microfinance institutions," highlights that women entrepreneurs have been affected more severely by business closures during the lock-down period forced by outbreak of pandemic. Nonetheless, those with digital platforms had higher survival rates due to the adoption and accelerated use of Fintech services during this period. Within the examined sample, the study finds that Islamic microfinance assistance helped many women survive their businesses during the pandemic period. Additionally, the assistance which focused on digitizing processes and updating current digital infrastructure proved to be most valuable to entrepreneurs.

Ben Khelifa and Arsi's paper, "Islamic equity funds and stock market: dynamic relation and market timing during the COVID-19 outbreak," reveal that the European stock market Granger-caused European Islamic funds which is not the case in Asia and North America. Furthermore, the COVID-19 pandemic also had a positive effect on European and Asian Islamic fund indices. Nonetheless, in contrast, the opposite results were seen in North America. Islamic fund managers in Asia and North America exhibit superior market timing ability and adjust their portfolios timely to benefit from the ebbs and flows of the market. Thus, market timing is an important fund management skill which can result in funds meeting their expected returns. The results suggest that fund managers need to consider market timing conditions while managing Islamic funds.

Bhutto *et al.*'s paper, "The impact of COVID-19 on conventional and islamic stocks: empirical evidence from Pakistan," finds that the COVID-19 pandemic had a negative effect on both Islamic and conventional stocks. However, it was noted that there was a more substantial impact on conventional stocks in Pakistan. When examining the pandemic shock in two waves during the period, conventional stocks experience greater dip and rebound in stock performance in the first and second wave, respectively. When observing impacts within sectors, findings suggest a negative effect of the crisis on all sectors except refinery; the highest impact was seen in oil and gas while pharmaceuticals and automobiles showed the lowest impact.

In their paper "Diversification benefits of Turkey-based investors: evidence from top trading partners based on a multivariate-GARCH approach," Kılıç *et al.* found that the COVID-19 outbreak and the 2008 global financial crisis caused the largest increases in conditional volatilities of both conventional and Islamic MSCI stock index returns. The ensuing high degree of convergence among global stock markets suggests a high degree of market integration, which could lessen the advantages of diversification for foreign investors. Furthermore, compared to Italy, Russia, the Netherlands, the UK, Spain, France and Germany, American conventional and Islamic MSCI indices offer greater diversification benefits to investors headquartered in Turkey.

Romdhane *et al.*'s paper, "Economic resilience to the FDI shock during the covid-19 pandemic: evidence from Asia," finds stability of foreign direct investment during the pandemic which can be explained by growing international trade flows that have existed prior to the pandemic and the capacity of Asian economies to reduce vulnerabilities and incorporate continuing FDI. Asian nations still could improve trade barriers and therefore improve long-term fiscal, tax and monetary measures to support foreign investors sustainably into the future. Simultaneously, investment into green economy and climate-minded businesses would further draw FDI in the short-run.

3. Conclusion and future research

While there are significant differences in resiliency and performance between Islamic banks and conventional banks – where Islamic financial institutions have shown positive results in some studies – there is evidence that these institutions must further develop instruments and governance that align themselves with sustainable development goals and greener economy. Trends in global economies and markets favor ESG screening and strict governance with relevant disclosure. If Islamic financial institutions can outpace conventional institutions in such regards, it can mitigate uncertainty risks in future shocks based on what we have seen in the aftermath of the COVID-19 shock.

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