Leveraging Islamic Finance for Economic Resilience: The Case of Pakistan During the COVID-19 Pandemic

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Abstract

The COVID-19 pandemic triggered profound economic disruptions worldwide, with developing countries like Pakistan disproportionately affected. The crisis intensified inflation, unemployment, and supply chain breakdowns; particularly impacting small and medium enterprises (SMEs) and informal labour markets. This paper investigates how Islamic financial instruments; Zakat, Qarz-e-Hasana, Waqf, and Sukuk can be strategically leveraged to enhance economic resilience during and after such crises. Drawing on a conceptual framework, this study examines the role of these instruments in providing targeted, ethical, and sustainable financial relief to vulnerable populations. It argues that Islamic finance offers a robust alternative to conventional crisis-response mechanisms, rooted in principles of social justice, risk-sharing, and community solidarity. The findings suggest that integrating Islamic financial tools into national economic strategies can help address liquidity shortages, support SME survival, and fund public welfare initiatives during periods of economic stress. This paper offers practical insights for policymakers and development practitioners seeking to design inclusive financial responses to pandemic-induced economic shocks. By focusing on Pakistan's context, the paper contributes to the broader literature on Islamic finance and crisis management, offering a novel perspective on how faith-based financial mechanisms can support economic recovery and resilience in developing economies.

Keywords: Islamic finance, COVID-19, Economic resilience, Pakistan, Sukuk, Zakat, Qarz-e-Hasana, Waqf, Financial instruments, Crisis recovery

JEL Classification: G21, G28, O16, E62, I38

1. Introduction

The outbreak of the novel coronavirus (COVID-19) at the beginning of 2020 triggered an unprecedented global crisis, disrupting public health systems and economic structures worldwide. The pandemic posed a life-threatening challenge across all nations, irrespective of their development status, leading to widespread health, social, and economic repercussions (Baker et al., 2020). No demographic was spared—young and old, affluent and marginalized alike were vulnerable to its effects (Adams-Prassl et al., 2020).

Governments faced multifaceted challenges in containing the virus, providing healthcare, and mitigating economic fallout (IMF, 2021). Public health measures such as lockdowns, social distancing, and mask mandates became commonplace, prompting the shutdown of markets, industries, and borders (Paltiel & Zheng, 2021). Educational institutions and workplaces shifted to virtual formats, while economic activities slowed or came to a halt, with particularly severe implications for developing economies like Pakistan (Khalid et al., 2024).

The economic fallout included disrupted supply chains, rising unemployment, inflation, and a contraction in GDP (Chowdhury et al., 2022). The prolonged uncertainty further complicated recovery efforts, especially in developing nations where socio-economic vulnerabilities are more pronounced (Sarker et al., 2022; Long et al., 2022). Financial markets reflected these stresses, with significant stock market declines and risk-averse investor behavior amid fears of a broader global financial crisis (Baldwin & Mauro, 2020; Haji-Othman et al., 2020).

Households faced substantial income losses, while small businesses struggled with operational expenses and declining revenues. The loss of remittances due to returning migrant workers weakened economic stability further (IMF, 2021). In response, governments implemented monetary easing, relief packages, and credit support to vulnerable sectors in an effort to stabilize financial systems and promote long-term recovery (Guerrieri et al., 2022).

1.1 Adverse Effects of COVID-19 on the Global Economy

The COVID-19 pandemic has had a profound and enduring impact on national economies and the global financial system. According to the Global Financial Stability Report (2023), the global economy contracted by 3%, marking one of the most severe downturns in recent history. The pandemic disrupted financial planning, national budgets, and economic forecasts across countries, posing a critical threat to global financial stability (IMF, 2023). With the full extent of financial losses still uncertain, the situation underscores the importance of timely and effective policy responses (Iriani et al., 2024).

As nations grapple with recovery, the role of governments remains pivotal in mitigating long-term economic damage. Balanced, context-specific measures are essential to promote economic resilience and safeguard vulnerable segments of the population. Collaborative action involving public institutions, private sectors, civil society, and other stakeholders is vital, especially in supporting small and medium-sized enterprises (SMEs) and low-income households (Khan et al., 2021; Kaye et al., 2021). Such coordinated efforts not only address the immediate economic fallout but also strengthen preparedness for future global disruptions.

1.2 COVID-19 and Pakistan

The COVID-19 pandemic exposed and intensified Pakistan's long-standing socio-economic vulnerabilities. Beyond the public health emergency, the crisis revealed systemic weaknesses in healthcare delivery and social protection mechanisms (Khalid & Ali, 2020). Sectors such as manufacturing, retail, and hospitality experienced significant operational disruptions, triggering cascading effects across supply chains and consumer markets. Small and medium-sized enterprises (SMEs), which constitute a major portion of Pakistan's economic backbone, were especially vulnerable to sudden demand shocks and mobility restrictions (Aftab et al., 2021).

While the government introduced lockdowns and travel bans to limit virus transmission, these measures had far-reaching economic repercussions. Informal workers and microenterprises many of whom lack access to social safety nets, bore the brunt of business shutdowns and income losses (Emmanuel et al., 2023). In response, authorities attempted to stabilize the situation through targeted financial aid and policy adjustments aimed at cushioning the most at-risk communities (Pakistan Economic Survey, 2020–2021).

This paper explores the economic fallout of COVID-19 on individuals and SMEs in Pakistan, with a particular emphasis on their struggle for business continuity and financial resilience. It further examines how Islamic finance tools, such as Zakat, Qarz-e-Hasana, Waqf, and Sukuk can be mobilized to provide sustainable relief and foster long-term recovery. These instruments offer contextually relevant solutions aligned with ethical finance principles and have the potential to fill critical gaps left by conventional support mechanisms.

1.3 Adverse Effects of COVID-19 on Pakistan's Economy

The first confirmed case of COVID-19 in Pakistan was reported on February 26, 2020, marking the beginning of a public health crisis that quickly evolved into a full-scale economic emergency. One of the key economic transmission channels has been a sharp reduction in aggregate demand, as lockdowns and preventive health measures significantly curtailed mobility and business activity. This contraction led to a surge in the unemployment rate to 8.1%, with estimates projecting job losses between 12.3 million and 18.53 million (Saad Zaidi, 2023). Declining household incomes have subsequently suppressed private consumption, while a projected 10% to 50% drop in remittances has further strained spending and economic resilience (Pakistan Economic Survey, 2023–24).

Pakistan's GDP growth projections were revised downward to a contraction of -0.4%, and the national income loss exceeded Rs 3 trillion, with the most severe setbacks recorded in the manufacturing, retail, and service sectors (Pakistan Bureau of Statistics, 2022). Continued restrictions are expected to further depress trade and employment, aggravating the economic slowdown (Kiani, 2020).

In response, the Government of Pakistan launched the Ehsaas Emergency Cash Program, allocating Rs 144 billion in direct financial assistance to 12 million households (Pakistan Economic Survey, 2020–2021). This initiative was supplemented by a Rs 1.2 trillion economic relief package, including Rs 200 billion earmarked for daily wage earners, small businesses, and priority sectors such as agriculture and exports. Additional relief measures included reductions in fuel prices and flexible utility bill payments (Board of Investment, Government of Pakistan, 2020). To support business continuity among small and medium-sized enterprises (SMEs), which form a critical part of Pakistan's economic fabric, the State Bank of Pakistan introduced liquidity-enhancing subsidy programs to ease credit access and operational pressure (Kiani, 2020). These initiatives aim to stabilize the economy by supporting consumption, safeguarding jobs, and facilitating recovery in the most affected sectors.

2. Islamic Finance and COVID-19

Islamic finance, characterized by its ethical principles, risk-sharing mechanisms, and prohibition of interest (Riba), offers a resilient alternative to conventional finance, particularly in times of economic or financial instability. Its inherent stability, evidenced during the 2007-2008 Global Financial Crisis, stems from its reliance on tangible assets and shared risk, ensuring that financial activities do not exacerbate debt burdens (Ahmed, 2010; Kayed & Hassan, 2011). This makes Islamic finance a viable solution in times of financial uncertainty, such as the COVID-19 pandemic.

Among the diverse instruments within Islamic finance, social finance tools, such as Zakat, Qarz-e-Hasana, Waqf, and social Sukuk are particularly impactful during crises. These instruments can help alleviate financial pressures on vulnerable populations and small businesses, providing immediate liquidity and long-term support for recovery (Hassan & Lewis, 2009; Mobin & Ahmad, 2017). By leveraging these tools, Islamic finance can support economic stabilization and facilitate recovery, especially in developing countries like Pakistan, which have been hit hardest by the pandemic (Haider Syed et al., 2020).

The COVID-19 crisis presents a unique opportunity for Islamic finance to demonstrate its capacity to address both short-term liquidity needs and long-term resilience. Its socially responsible principles, rooted in Shariah law, prioritize the protection of life, dignity, and wealth, making Islamic finance particularly well-suited for addressing the socio-economic disruptions caused by the pandemic (IMFN, 2020). These instruments: Zakat, Qarz-e-Hasana, Waqf, and Sukuk can provide immediate relief, particularly to SMEs and individuals, while contributing to sustained economic recovery efforts. This paper will explore the roles these instruments can play in mitigating the financial fallout from the COVID-19 crisis, categorizing them into short-term, medium-term, and long-term solutions.

2.1 Short-term Financing: Zakat

Zakat, one of the Five Pillars of Islam, is an obligatory form of charitable giving designed to purify wealth and promote social welfare. The term "Zakat" literally translates to "that which purifies," reflecting its purpose of cleansing both the wealth of the giver and the society at large. Every Muslim who possesses a certain level of wealth—defined as a minimum of 52.5 tola of silver or 7.5 tola of gold—is required to pay 2.5% of their wealth annually to those in need, thus redistributing wealth within the community (Hassan & Ashraf, 2010).

Zakat is a fundamental act of worship in Islam, and it serves as a key tool for poverty alleviation. The Qur'an mentions Zakat more than 30 times, emphasizing its importance in achieving social justice. In Surah Al-Ma'idah, Allah promises His support and forgiveness to those who engage in prayer, pay Zakat, and follow the teachings of His Messenger, further stating that these actions will lead to the forgiveness of sins and a reward in paradise (Quran 5:12).

In the context of the COVID-19 pandemic, Zakat has emerged as a vital instrument for addressing the immediate financial challenges faced by vulnerable populations, especially those who have lost their sources of income due to lockdowns and social distancing measures. Unlike loans or other forms of financial assistance that require repayment, Zakat is a voluntary and unconditional act of charity, providing immediate relief without the burden of debt. Scholars argue that Zakat could play a significant role in compensating for the income losses experienced by households during the pandemic (IMFN, 2020). Its direct and unconditional transfer of funds to the underprivileged helps alleviate economic hardship, contributing to the social stability needed during such a crisis.

Recent studies highlight the potential for expanding the role of Zakat in response to emergencies, with calls for more organized and systemic distribution mechanisms to ensure that it reaches those most in need during global crises (Al-Daihani et al., 2025; Alam, 2020). Islamic financial institutions, governments, and community organizations can work together to mobilize Zakat effectively, ensuring that it reaches those in distress during the ongoing pandemic and beyond.

2.1.1 Implications of Zakat for Individuals

Zakat, being one of the fundamental pillars of Islam, serves as a powerful tool for poverty alleviation and social welfare. During the Covid-19 pandemic in Pakistan, many individuals, especially daily wage earners and low-income groups, faced severe financial distress due to lockdowns, job losses, and income disruptions. The Ehsaas Program in Pakistan, launched by the government, is an excellent example of how Zakat principles can be applied for direct financial aid to the most vulnerable. Through this program, the government distributed financial assistance to millions of Pakistani households, with a significant portion coming from Zakat funds collected and allocated through government and charitable institutions (Government of Pakistan, 2020).

Furthermore, private Zakat donors and organizations, aligned with the teachings of Islam, contributed to relief efforts by providing direct cash transfers to struggling individuals and households. These contributions not only helped meet the immediate needs of the poor but also provided a sustainable way to manage economic hardship. As a result, Zakat in Pakistan has proven to be an effective tool for empowering vulnerable populations, particularly in the face of a global health crisis (IMFN, 2020). This mechanism can significantly support low-income households by alleviating financial pressure, especially when government support measures like Ehsaas are integrated with community-driven Zakat initiatives (Elbanna, 2024)).

2.1.2 Implications of Zakat for SMEs

The importance of Zakat in assisting small and medium-sized enterprises (SMEs) in Pakistan during the Covid-19 pandemic cannot be understated. SMEs, which make up a significant portion of the economy, have been disproportionately affected by lockdowns, reduced demand, and disruptions in supply chains. Zakat, when directed towards SMEs, could provide crucial support in the form of interest-free loans or grants, enabling them to maintain operations and avoid financial ruin. The State Bank of Pakistan's (SBP) relief measures, such as subsidized financing for SMEs, could be combined with Zakat resources to offer more comprehensive support to businesses struggling with liquidity shortages (SBP, 2020).

Pakistan's government has also made efforts to ensure that SMEs are included in the formal response to Covid-19 through financial packages that encourage businesses to retain employees and meet operational costs. (Aftab et al., 2021)By leveraging Zakat funds for SMEs, Islamic finance can create a unique solution that not only helps businesses but also aligns with the broader goal of social justice and equity in the Islamic tradition. This collaborative approach could provide SMEs with the financial backing they need while promoting social welfare and community development (Zaheer, 2023).

2.2 Medium-Term Financing: Qarz-e-Hasana

Qarz-e-Hasana, often referred to as a benevolent loan or interest-free loan, is a fundamental concept in Islamic finance that has been practiced since the time of the Holy Prophet Muhammad (PBUH) and continues to hold relevance in contemporary financial systems. This form of financing involves providing a loan to an individual or entity in need, without any expectation of interest or profit on the principal amount. The primary objective of Qarz-e-Hasana is to offer financial support to those facing temporary financial hardships, promoting social welfare without burdening the borrower with additional financial costs (Hannanong, 2018).

The concept of Qarz-e-Hasana is deeply embedded in Islamic teachings and is mentioned multiple times in the Holy Quran. In Surah Al-Baqarah, verse 245, Allah invites believers to lend a "goodly loan," promising manifold rewards in return for such acts of charity:

> *"Who is it that would loan Allah a goodly loan so He may multiply it for him many times over? And it is Allah who withholds and grants abundance, and to Him you will be returned." (Quran, 2:245)*

This verse encapsulates the core principles of Qarz-e-Hasana, emphasizing that lending without interest is not only a philanthropic act but also a means of seeking Allah's blessings and rewards in the hereafter. The importance of this benevolent loan is highlighted in several other Quranic verses, reinforcing its significance in the financial practices of a just and ethical society (Al- Quran 5:12; 57:11; 57:18; 64:17; 73:20).

In modern contexts, Qarz-e-Hasana has proven to be a viable financing option for individuals and businesses facing short-term financial distress, especially during times of crisis such as the ongoing COVID-19 pandemic. Its potential to alleviate liquidity shortages without creating additional debt burdens makes it an attractive alternative for both individuals and small businesses (Haider Syed et al., 2020). The implementation of Qarz-e-Hasana by financial institutions, particularly in Islamic financial systems, can play a significant role in supporting economic recovery during periods of financial instability, thus aligning with broader social welfare objectives.

Furthermore, recent studies highlight the growing interest in Qarz-e-Hasana as a tool for medium-term financing, not just for personal needs but also for business continuity. By offering interest-free loans, this instrument helps businesses maintain their operations without the added burden of high-interest rates, which can be particularly debilitating for small and medium enterprises (SMEs) during economic downturns (Rajper et al., 2021; Qadoos et al., 2023).

2.2.1 Implications of Qarz-e-Hasana for Individuals

Qarz-e-Hasana, or benevolent loans, is an essential Islamic financial tool that plays a critical role in providing short-term relief without the burden of interest or repayment penalties. During the Covid-19 crisis in Pakistan, individuals who were not eligible for Zakat or government cash transfers could benefit from Qarz-e-Hasana. The Ehsaas Emergency Cash Program, which was implemented by the government, can be viewed as a form of Qarz-e-Hasana as it provided interest-free financial assistance to individuals affected by the pandemic (Government of Pakistan, 2020).

Moreover, various charitable organizations and financial institutions in Pakistan adopted the Qarz-e-Hasana model to provide interest-free loans to low-income individuals and households, especially those in rural areas. These loans helped individuals meet essential needs such as healthcare, food, and shelter without falling into the cycle of debt that typically accompanies traditional loans. This model could also be extended to support individuals who lost their jobs or faced income disruptions, ensuring that they have access to capital to rebuild their livelihoods post-pandemic (Yousaf & Dogar, 2025).

2.2.2 Implications of Qarz-e-Hasana for SMEs

SMEs in Pakistan faced severe liquidity issues during the Covid-19 pandemic. Many were unable to access conventional financing due to the economic slowdown and uncertain market conditions. Qarz-e-Hasana, as a form of interest-free loan, could serve as a vital instrument for supporting SMEs. The SBP's refinancing schemes for SMEs, which were introduced during the pandemic, are a good example of how Qarz-e-Hasana principles can be applied to help businesses recover (SBP, 2020).

Islamic banks and financial institutions can contribute to this model by offering Qarz-e-Hasana to SMEs, allowing businesses to survive economic downturns without the added burden of interest. This form of financing can support a wide range of SME activities, from maintaining operations to facilitating business expansion, while also promoting ethical financial practices in line with Islamic principles. Moreover, leveraging charitable funds or Islamic social finance initiatives can help SMEs secure the liquidity they need without resorting to conventional loans with high-interest rates (Khan & Bedi, 2022).

2.3 Long Term Financing: Sukuk

Sukuk represents a cornerstone of Islamic finance, offering a resilient and innovative alternative to conventional debt instruments. Defined as "certificates of equal value that represent undivided shares in the ownership of tangible assets, usufructs, or services, or in the ownership of real assets related to specific projects or investment activities" (AAOIFI, 2008), Sukuk enables investors to participate in the ownership and benefits derived from physical assets or services. This structure ensures that Sukuk adheres to the principles of Islamic finance, particularly the prohibition of Riba (interest), by tying the investment to real, tangible assets.

In recent years, Sukuk has gained widespread attention for its potential to provide long-term financing solutions that align with both the needs of investors and the ethical standards of Islamic law. The resilience of Sukuk, particularly during financial crises, underscores its attractiveness as a secure and viable investment vehicle (Iqbal & Mirakhor, 2017; Naz & Gulzar, 2022). Its application spans a variety of sectors, including infrastructure development, energy projects, and governmental financing, offering an effective means for raising capital while adhering to the principles of shared risk and asset-backed securities (Hassan & Muneeza, 2022).

As global economies continue to seek alternative and sustainable financing options, the role of Sukuk is expected to expand further establishing it as a key instrument in long-term funding strategies, particularly for large-scale projects that require stable and ethical financing solutions (Affandi et al., 2023).

2.3.1 Implications of Sukuk for Individuals

Sukuk, as an ethical and Shariah-compliant financial instrument, offers tangible benefits to individuals in Pakistan, particularly during times of economic crisis, such as the Covid-19 pandemic. The issuance of Sukuk provides a means for individuals to invest in assets that are tied to real economic activities rather than speculative financial products, ensuring a safer and more ethical form of financial participation.

In Pakistan, the government has used Sukuk to raise capital for critical projects, including infrastructure development and financial relief programs. For instance, the Government of Pakistan's issuance of Sukuk in 2020 helped raise funds for economic recovery efforts, such as emergency healthcare and direct financial assistance programs aimed at supporting low-income groups (SBP, 2020). By issuing Sukuk, the government can create a sustainable means of funding its economic recovery while adhering to Islamic finance principles of risk-sharing and equity.

Furthermore, Sukuk can serve as an income-generating instrument for low-income individuals and pensioners, who have been disproportionately affected by the economic impacts of the pandemic. As Sukuk returns are tied to tangible assets, such as infrastructure or property, they provide a more stable and ethical source of income, unlike traditional interest-based investments. This aligns with the needs of individuals looking for safe, non-speculative ways to safeguard their finances during the crisis (Omer, 2023).

2.3.2 Implications of Sukuk for SMEs

Sukuk has considerable potential to provide the necessary financial support to SMEs in Pakistan, particularly in light of the challenges posed by the Covid-19 pandemic. The SME sector, which is crucial to Pakistan's economic growth and employment, has faced significant difficulties accessing traditional financing due to the economic fallout of the pandemic. Sukuk offers a promising alternative to support SMEs in this regard (Khanfar & Khanfar, 2022).

The government of Pakistan, recognizing the importance of SMEs, has utilized Sukuk to raise funds for development and relief efforts, with a portion of the funds being directed toward supporting SMEs. The 2020 issuance of Sukuk bonds by the Government of Pakistan enabled the government to raise capital to support relief packages, including loans to SMEs affected by the pandemic (SBP, 2020). These funds can be used to offer interest-free loans or grants to SMEs, helping them maintain their operations, retain employees, and continue contributing to the economy.

In addition to these measures, social Sukuk can be employed to finance projects with social impacts, such as healthcare and education, which directly benefit SMEs by fostering a healthier and more educated workforce. These projects can also create business opportunities and help SMEs access new markets (Afrina, 2024). Moreover, by issuing social Sukuk to raise capital for community-based infrastructure, SMEs can benefit from enhanced access to business spaces and resources, promoting long-term growth (Hasan et al., 2022).

As Islamic finance becomes increasingly integrated with global sustainable finance trends, Sukuk can also attract ESG-conscious investors, providing SMEs with access to a broader pool of funding (Raimi & Bamiro, 2025). The growing demand for socially responsible investments, especially during a global crisis, ensures that Sukuk can be a viable tool to secure the capital needed for the recovery and development of SMEs in Pakistan (Marwan et al., 2024; Ayaz et al., 2022).

2.4 Long-Term Financing: Waqf

Waqf refers to the donation of physical assets or monetary resources for religious or charitable purposes, with the key characteristic that no repayment or financial return is expected. This endowment can take the form of either tangible or intangible assets, such as land, buildings, or financial capital, which are irrevocably dedicated to serving social and community needs.

The concept of Waqf plays a significant role in financing social infrastructure, allowing stakeholders to make long-term contributions to the welfare of society. By ensuring that assets are preserved and used for public benefit, Waqf enables sustainable development in various sectors, including education, healthcare, and poverty alleviation (IMFN, 2020). This philanthropic model, rooted in Islamic tradition, provides an avenue for fostering social responsibility and promoting economic stability in times of crisis.

As the need for social investment grows, especially during the global pandemic, the utilization of Waqf assets has gained increased importance in addressing urgent societal needs. By leveraging these assets for sustainable projects, Waqf serves as a crucial instrument in building resilient communities and supporting the overall economic recovery (Iskandar, 2023).

2.4.1 Implication of Waqf for individuals

In Pakistan, the concept of Waqf has long been used for religious and charitable purposes, including the provision of social welfare services. During the Covid-19 pandemic, Waqf could have played a significant role in providing sustainable financing solutions for individuals who lost their income due to the lockdowns. Waqf funds could be directed towards helping those in need, such as by providing cash assistance, funding healthcare initiatives, or offering support for education and housing (IMFN, 2020).

Furthermore, Waqf properties in Pakistan could be utilized to provide affordable housing and healthcare services to those most affected by the pandemic. Charitable organizations, in collaboration with local authorities, could leverage Waqf assets to set up medical centers, temporary shelters, and food distribution networks. The Waqf governance model, which is still under review by the AAOIFI, could potentially enhance the efficacy of these efforts, ensuring that resources are utilized optimally for community welfare (IMFN, 2020).

2.4.2 Implications of Waqf for SMEs

For SMEs in Pakistan, Waqf could provide a long-term, sustainable financing mechanism. Waqf resources could be allocated to support SMEs in various sectors, particularly those that are essential for economic recovery, such as healthcare, agriculture, and manufacturing. By providing interest-free loans or grants to SMEs, Waqf could help businesses recover from the financial impacts of the pandemic (Azim, 2024).

Moreover, Waqf funds could be used to establish business parks, training centres, and co-working spaces, offering SMEs affordable infrastructure to support their operations. This would be especially beneficial for SMEs that struggle to afford high operating costs. By aligning with the principles of social justice and mutual cooperation, Waqf can promote a more equitable economic environment, where SMEs are able to thrive while contributing to broader societal welfare (Afifi,2024).

3. Conclusion

The Covid-19 pandemic has undeniably exacerbated the vulnerabilities of various segments of society, with Pakistan's economy facing significant challenges, particularly among low-income individuals and Small and Medium Enterprises (SMEs). However, Islamic finance, with its foundational principles of equity, social justice, and community welfare, has proven to be an effective tool in addressing the economic distress caused by the crisis. Through the strategic use of Islamic financial instruments—specifically Zakat, Qarz-e-Hasana, Waqf, and Sukuk—Pakistan has been able to mitigate the adverse economic impact and foster recovery, particularly for its most vulnerable populations.

Zakat, as a fundamental pillar of Islam, played a crucial role in providing immediate relief to those affected by the pandemic. The Pakistani government, alongside religious and community organizations, channeled Zakat funds into initiatives like the Ehsaas Program, which provided direct financial support to low-income households, helping them cope with income loss due to lockdowns and business closures. This targeted approach to poverty alleviation highlighted the effectiveness of Zakat in enhancing social welfare during economic crises (IMFN, 2020)

Similarly, Qarz-e-Hasana, or interest-free loans, became a vital instrument for addressing the liquidity challenges faced by individuals and SMEs during the pandemic. In response to the economic downturn, Pakistan's government, through programs such as the SBP's financing schemes, provided Qarz-e-Hasana to support the financial needs of SMEs that were struggling to access conventional financing options. This approach not only helped businesses sustain their operations but also contributed to the preservation of jobs and the broader economic fabric of the country (Basri & Hushmat, 2023)).

The role of Waqf in providing long-term financial stability and social welfare was also evident during the pandemic. Waqf assets, including educational and healthcare properties, played a crucial role in supporting community-based initiatives. In Pakistan, the use of Waqf properties to address healthcare needs, particularly in the form of temporary health facilities or quarantine centres, helped alleviate some of the strain on the national healthcare system (Damak, 2020). Additionally, Waqf funds were leveraged to provide support for those in need of affordable housing or education, particularly in regions severely impacted by the pandemic (IMFN, 2020).

Finally, Sukuk, as an innovative Islamic finance instrument, provided a viable solution for long-term financing in Pakistan. The issuance of social and infrastructure Sukuk during the pandemic enabled the government to fund critical sectors such as healthcare and education, while ensuring compliance with Shariah principles. The success of Sukuk in raising funds for the government’s response to the pandemic demonstrated its potential as a sustainable and ethical financing tool, capable of supporting both the public and private sectors during times of crisis (Naz & Gulzar, 2022).

In conclusion, the strategic deployment of Islamic finance instruments, particularly Zakat, Qarz-e-Hasana, Waqf, and Sukuk, has significantly contributed to Pakistan's economic recovery in the wake of the Covid-19 pandemic. These instruments have not only provided immediate relief but also facilitated long-term resilience by addressing both immediate needs and structural challenges. Moving forward, it is imperative for the Pakistani government, financial institutions, and civil society to continue harnessing the power of these instruments to promote economic stability, social justice, and inclusive growth, ensuring that the nation is better prepared to face future challenges.

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