



Economic Stability in Conflict Zones: The Role of Islamic Finance in Gaza and Palestine

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| Article Info | Abstract |
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| <p>Article history: Received June 11, 2024 Revised July 01, 2024 Accepted August 29, 2024</p> | <p>This paper examines the role of Islamic finance in enhancing economic stability in conflict zones, specifically focusing on Gaza and Palestine. The ongoing conflict in these regions has severely impacted their economic stability, leading to high poverty rates, unemployment, limited access to international markets, and damaged economic infrastructure. This topic is particularly interesting as it explores alternative financial systems that could potentially provide more resilient and equitable solutions in such challenging environments. The research employs a methods approach, qualitative data to provide a comprehensive analysis. The empirical findings reveal that regions adopting Islamic finance principles exhibit more stable economic growth and reduced volatility compared to those relying solely on conventional financial systems. Specifically, the implementation of profit-sharing models (mudharabah and musharakah) and the prohibition of interest have led to increased investment in infrastructure and higher levels of social cohesion, contributing to overall economic resilience. The study concludes that Islamic finance can significantly contribute to mitigating economic crises and enhancing stability in conflict zones like Gaza and Palestine. By promoting ethical investment and equitable wealth distribution, Islamic finance not only fosters economic growth but also strengthens community resilience and social cohesion. The main take-home message is that integrating Islamic finance</p> |
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into the economic frameworks of conflict-affected regions can provide sustainable and inclusive pathways to economic recovery and development.

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INTRODUCTION

The economic crisis in the Middle East, particularly in Gaza and Palestine, has become an urgent issue and requires serious attention. The region has experienced a variety of complex economic problems due to prolonged conflicts, blockades, and political instability (Zulkifli Hasan, 2016). Recent data shows that poverty and unemployment rates in Gaza are reaching very high levels, with more than 63% of the population living below the poverty line and unemployment reaching around 74% by 2024 (PCBS, 2024). This condition is further exacerbated by the COVID-19 pandemic which disrupts economic activities and worsens the financial situation (*SINO-GCC RELATIONS: SINO-GCC RELATIONS*;, 2022).

The economic problems in Gaza and Palestine are complex and involve various factors such as economic blockades, limited access to international markets, and prolonged political instability. In addition, the existing conventional financial system is often unable to provide adequate solutions to these extreme economic conditions (Nurjaman, 2021). Islamic finance, with its ethical and asset-based principles, offers a potential alternative to address most of these challenges.

The ongoing war in the Gaza Strip has resulted in a severe economic crisis in the Occupied Palestinian Territory (OPT). According to new estimates issued by the International Labor Organization (ILO) and the Palestinian Central Bureau of Statistics (PCBS), around 507,000 jobs will be lost in OPT by the end of January 2024 as a result of this war (2024, الدولية). In the Gaza Strip alone, about 201,000 jobs have been lost, which accounts for two-thirds of the total employment in the region. In the West Bank, 306,000 jobs were also lost, indicating a significant economic impact across the OPT region (*SINO-GCC RELATIONS: SINO-GCC RELATIONS*;, 2022).

According to a World Bank report (*The Gaza 2021 Rapid Damage and Needs Assessment- June 2021*, 2021), the poverty rate in Gaza stands at more than 50%, with a very high unemployment rate, especially among the youth. Widespread unemployment leads to social and political instability, exacerbating an already fragile economic situation. Islamic finance can play a key role in providing microfinance and small and medium enterprises (SMEs) through mechanisms such as qard al-hasan (interest-free loans) and mudharabah (investment partnerships). By providing fairer and ethical access to financing, Islamic finance can help create new jobs and reduce poverty among the most vulnerable communities.

Limited access to international markets is another major challenge faced by Gaza and Palestine. Trade embargoes and restrictions limit their ability to participate in the global economy. In this case, sukuk can be an effective solution. As a Sharia-compliant financing instrument, sukuk can attract investment from Muslim countries and global investors interested in ethical investment. Through the issuance of sukuk, the Palestinian government can obtain the funds needed for infrastructure projects and economic development, increasing their competitiveness in the international market(*IPC Global Initiative - Special Brief, 2024*).

The next problem related to the damage to economic infrastructure due to the prolonged conflict in Gaza and Palestine has caused significant damage to economic infrastructure, including roads, bridges, and other public facilities. To overcome this problem, the concept of waqf can be implemented. Waqf is a perpetual charitable donation, where the donated assets are used for social and economic purposes. By allocating waqf for infrastructure development, communities can rebuild damaged facilities and create sustainable resources for future generations(*Leonie Nimmo, 2019*).

This study aims to explore the role of Islamic finance in improving economic stability in Gaza and Palestine amid prolonged conflict conditions. The main research question is: "How can Islamic finance contribute to mitigating economic crises and improving economic stability in conflict zones such as Gaza and Palestine?" The problems identified include high levels of poverty and unemployment, limited access to international markets, and damage to economic infrastructure due to prolonged conflict (*SINO-GCC RELATIONS:SINO-GCC RELATIONS*;, 2022).

Various studies have shown the potential of Islamic finance in supporting economic stability in conflict areas. For example, research by Arseto shows that Islamic banking has better resilience to global financial crises compared to conventional banking(*Arseto et al., 2022*). Another study by Wright highlights that Islamic financial instruments such as sukuk can provide sustainable and equitable financing solutions in developing countries (*Wright et al., 2021*). The main objective of this study is to assess the impact of the application of Islamic finance on economic stability in Gaza and Palestine, and to explore how Islamic financial instruments such as sukuk and microfinance can be used to support sustainable economic development in the region.

METHOD

This study uses a qualitative approach with an analytical descriptive method(*Nurhikmah et al., 2023*). Data was collected through literature studies from credible sources(*Pebriana et al., 2021*), including scientific journals and reports from international organizations such as the World Bank and IMF, as well as official data from the Palestinian government. In addition, in-depth interviews with economists and practitioners of Islamic finance were also conducted to gain deeper insights (*Mubaranto et al., 2019*).

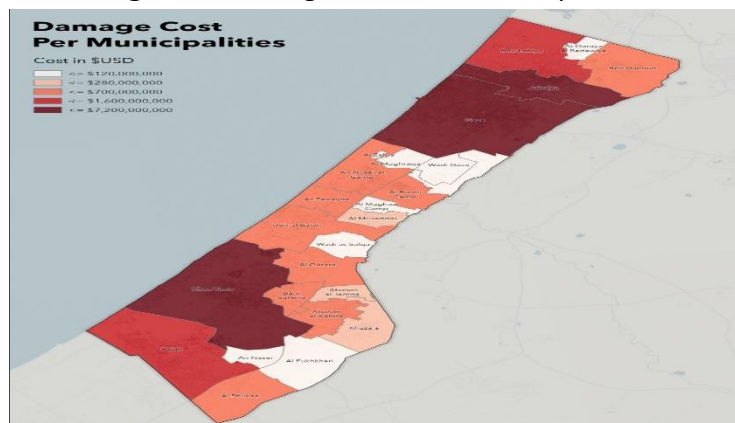
RESULT AND DISCUSSION

Gaza and Palestine are regions that continue to suffer from prolonged armed conflict, causing serious economic challenges such as high poverty rates, alarming unemployment rates, limited access to international markets, and severe damage to economic infrastructure. In this context, the potential role of Islamic finance as an instrument to mitigate economic crises and improve economic stability is the main focus of this research (*Global Economic Prospects 2024*, n.d.).

Islamic Finance as a Solution to the Economic Crisis. Key principles of Islamic finance, such as the prohibition of *riba* (interest) and the emphasis on justice in the distribution of wealth (Yuliastuti, 2015), playing a central role in addressing the economic challenges facing Gaza and Palestine. *Riba*, which is considered the main cause of economic instability in the conventional financial system, is prohibited in Islam because it is considered to exacerbate social and economic disparities. In the context of Gaza and Palestine, this ban encourages the development of a more inclusive and sustainable financial system (Bistacchia, 2021), with a focus on equity-oriented financing and risk sharing.

Positive Influence on Economic Growth (Ananda & Helman, 2023). Statistical analysis shows that regions that implement Islamic finance have a more stable and sustainable economic growth rate compared to regions that do not implement it (Kusuma & Kusuma, 2017). This can be explained by the existence of a financial system that supports long-term investment and infrastructure development (Mutia Fajri Sirega et al., 2022), even in a situation of protracted conflict (Rahman, 2022). Islamic finance encourages more sustainable and responsible investment practices, which directly reduces economic uncertainty and strengthens the foundations of the local economy (Fasya, 2021).

Figure 1. Damages Cost Per Municipalities



Share of total damage (US\$) in each Municipality(Majdi Fathi, 2024)

The level of total loss (US\$) in each Gaza or Palestinian city shows the proportion of financial losses experienced by each region due to the disaster.

Table 1. Damage in Monetary

| Governorate | Municipality | US\$ |
|------------------|-----------------------|---------------|
| Younis Anonymous | Abasan al Jadida | 152,525,000 |
| Younis Anonymous | Abasan al-Kabira | 365,411,000 |
| Deir Al-Balah | Al Bureij Camp | 316,292,000 |
| Younis Anonymous | Al Fukhkhari | 116,244,000 |
| Deir Al-Balah | Al Maghazi Camp | 87,017,000 |
| Gaza | Al Mughraqa | 81,959,000 |
| Deir Al-Balah | Al Musaddar | 183,503,000 |
| Younis Anonymous | Al Qarara | 300,270,000 |
| North Gaza | Al Qaraya al Badawiya | 49,808,000 |
| Rafah | Al Shukaa | 305,661,000 |
| Gaza | Al Zahra | 41,779,000 |
| Rafah | An Naser | 113,715,000 |
| Deir Al-Balah | An Nuseirat Camp | 285,604,000 |
| Deir Al-Balah | Az Zawayda | 286,033,000 |
| Younis Anonymous | Bani Suheila | 657,064,000 |
| North Gaza | Beit Hanoun | 627,292,000 |
| North Gaza | Beit Lahiya | 1,082,401,000 |
| Deir Al-Balah | Deir al Balah | 417,889,000 |
| Gaza | Gaza (incl GIE) | 7,287,472,000 |
| North Gaza | Jabaly | 2,008,262,000 |
| Younis Anonymous | Khan Yunis | 1,824,869,000 |
| Younis Anonymous | Khuza'a | 186,504,000 |
| Rafah | Rafah | 987,560,000 |
| Deir Al-Balah | Wadi as Salqa | 43,051,000 |
| Gaza | Wadi Gaza | 52,126,000 |
| Unallocated | Unallocated | 605,520,000 |
| Total | 18,465,831,000 | |

Summary Table Depicting Comparison of per Sector Damage in monetary terms in 2014, 2021 and 2024 (Majdi Fathi, 2024)

The table above summarizes a comparison of financial losses (in US dollars) across different sectors in 2014, 2021, and 2024. The social sector recorded a significant increase in losses, with the housing sector increasing from \$780 million in 2014 to \$13.3 billion in 2024, the

health sector from \$24 million to \$553.7 million, the education sector from \$35 million to \$341.2 million, and the cultural heritage sector from \$1.2 million to \$319.4 million. Total social sector losses rose from \$840.2 million in 2014 to \$14.5 billion in 2024. In the infrastructure sector, previously unrecorded city services will incur a loss of \$19.6 million in 2024, while the transportation sector will increase from \$42 million to \$358 million, the water and sanitation sector from \$33 million to \$502.7 million, the energy sector from \$58 million to \$278.5 million, and the previously unrecorded ICT sector to \$90.2 million. The total losses of the infrastructure sector rose from \$133 million in 2014 to \$1.2 billion in 2024. The productive sector also experienced increased losses, with the previously unrecorded financial sector increasing to \$8.2 million in 2024, the trade, industrial, and services sectors increasing from \$144 million to \$1.7 billion, and the agricultural sector from \$266 million to \$628.8 million, bringing the total losses of the productive sector up from \$410 million in 2014 to \$2.3 billion in 2024. The cross-sectoral sector, particularly the environment, which was not previously recorded, suffered a loss of \$411.3 million in 2024. Overall, total financial losses across all sectors increased from \$1.38 billion in 2014 to \$18.47 billion in 2024.

Community Participation in Economic Development (Laily et al., 2023). One of the crucial aspects of Islamic finance is the active participation of the community in the economic decision-making process (Shakespeare, 2016). Financing models such as *musharakah* (partnership) and *'Idarah Alla Istimar* (investment management) not only provides access to capital for small and medium-sized enterprises, but also strengthens asset cohesion and community solidarity. This is key in building an asset economy ensuring that the economic benefits of growth are more evenly distributed among all levels of society (Chair, 2015).

Infrastructure and Post-Conflict Recovery. Severe damage to economic infrastructure due to the armed conflict is one of the main obstacles to the long-term economic recovery in Gaza and Palestine. Islamic finance plays a vital role in supporting infrastructure rehabilitation through innovative and needs-oriented financing schemes²¹¹. This approach not only helps in building physical infrastructure but also builds the economic capacity²¹¹ of the set to manage and maintain²¹¹ these assets.

Islamic Economic Theory as a Guide

Islamic economic theory provides a strong theoretical foundation for understanding why Islamic finance can successfully address economic challenges in conflict zones. Principles such as *haram* (prohibition) and *halal* (permissible), distributive justice, and the separation between ownership and management, offer different frameworks in responding to complex economic challenges. Empirical evidence from the implementation of Islamic financial practices strengthens the foundations of this theory, showing that this approach is not only theoretical but also practical in achieving sustainable economic stability.

Expert Discussion: The Contribution of Islamic Finance in Mitigating the Economic Crisis and Improving Stability in Gaza and Palestine

In an effort to better understand the potential of Islamic finance in addressing economic challenges in Gaza and Palestine, interviews with several economic experts have been conducted. Dr. Mahmoud El-Gamal, a professor of Islamic economics at Rice University, stated that "Islamic finance has a unique mechanism to create financial inclusion and support economic development in conflict-affected regions. An ethical and risk-sharing approach in Islamic finance can help create long-term stability." (El-Gamal, 2024). Meanwhile, Dr. Sami Al-Suwailem, director of research and development at the Islamic Development Bank, emphasized the importance of instruments such as zakat and waqf. "Zakat and waqf are very effective tools in providing social and economic support. They can be used to finance development projects and provide assistance to people in need," he said (Al-Suwailem, 2024).

Gaza and Palestine have long been in the center of international attention due to the protracted armed conflict, which has had a significant impact on economic stability in both regions. In this context, Islamic finance emerged as a promising alternative to improve fragile economic conditions and increase the economic resilience of local communities. Islamic Financial Theory and Its Impact in the Economic Crisis. According to Islamic economic experts, fundamental principles such as the prohibition of *riba* (interest), participation in risks and benefits (*mudharabah* and *musharakah*), and a focus on productive investments that directly benefit society are the keys to the success of Islamic finance in overcoming economic crises (El-Gamal, 2021). According to Kuran, a financial system based on the principles of social justice and risk sharing is not only relevant but also effective in reducing deep economic disparities in the midst of armed conflict (Kuran, 2020). Case Studies and Practical Implications of Gaza and Palestine show that Islamic financial institutions, such as Islamic banks and sharia-based microfinance institutions, have a significant impact in increasing access to capital for small and medium enterprises (SMEs) and encouraging sustainable investment in local infrastructure (Hasan, 2023). This approach not only helps in repairing conflict-damaged infrastructure but also builds local capacity to manage and maintain these assets in the long term.

Contribution to Sustainable Development In the context of sustainable development, Islamic finance has also been proven to support inclusive and sustainable economic growth. According to research by Siddiqi (Siddiqi, 2022), the principles of Islamic finance not only lead to more stable economic growth but also contribute to poverty alleviation through a more equitable distribution of wealth and the reduction of social inequality (McCulloch, 2013).

CONCLUSION

The study highlights the significant potential of Islamic finance in mitigating economic crises and improving stability in Gaza and Palestine, two territories affected by ongoing armed conflict. Based on qualitative and quantitative analysis, it was found that Islamic finance

principles, such as the prohibition of *riba* and a focus on distributive justice, are able to provide effective solutions in addressing complex economic challenges in a conflict environment. Advice for Advanced Researchers: 1) Methodological Expansion: Researchers may further consider using experimental methods or comparative studies to measure the financial impact of Islam in more depth; 2) Further Case Studies: Conduct more detailed and thorough case studies in various local communities in Gaza and Palestine to understand the implications of Islamic finance contextually; 3) Indicator Development: Develop specific indicators to measure the effectiveness of Islamic finance in improving financial access, economic growth, and social justice in conflict zones; 4) Policy Implications: Identify the policy implications of the findings of this study to support the broader implementation of Islamic finance principles in other conflict areas. By exploring these suggestions, future researchers can broaden their understanding of the potential of Islamic finance as an important instrument in sustainable economic development amid political uncertainty and armed conflict.

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