

COVID 19 PANDEMIC

# THE ROLE OF ISLAMIC FINANCE

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## INTRODUCTION

COVID-19 pandemic is a virus-related natural disaster. The Covid-19 pandemic was detected in 2019 in Wuhan in China and then spread to Hong Kong and then other countries, as it has considerably broader reach in terms of numbers of both countries and people affected than other virus-related disasters (Hassan et al. 2020). The possible reason for this global contagion is the increased integration of the global social and economic supply chain linkages so entrenched in the globalized ecosystem since 1980s. These previous virus-related pandemics including Severe Acute Respiratory Syndrome (SARS) (2002-03), Swine Flu (2009-10), Middle East Respiratory Syndrome (MERS) (2012-13), Ebola (2014-15), and Zika (2016) had a relatively high mortality but low infection rates compared to Covid-19 that is highly contagious but relatively less fatal but generating greater economic losses due to its prolonged persistence (Verikios et al., 2011).



The prolonged nature of this pandemic has halted the global economy and caused substantial socio-economic adversities in all economies, albeit more in emerging and developing economies that have greater vulnerabilities of poor population, lack of financial resources and infrastructure to provide reasonable health services in normal times, let alone during pandemics. Covid-19 have beaten them all by affecting the economy and financial systems of almost 211 countries, with more than 50 million diagnosed and 1.2 million deaths at the point of writing this article (November 2020). This pandemic has contributed to mass economic destruction due to total and partial lockdowns of the economy, economic disruption through reduction of output or even closure of factories and increase in unemployment. Since the pandemic is global, the export-oriented economies suffer greatly as importing countries reduce their imports due to decrease in demand for goods and services.

With the global economy under lockdown, governments are pursuing emergency fiscal measures to mitigate the short-term effects of drastic interruption to the normal income, credit, and spending patterns among businesses and households. Though these measures are politically expedient, the real effectiveness of these measures depends very much on the extent of pre-existing vulnerabilities such as the levels of leverage, the dependence on large external financing needs, and the level of existing political, social, economic and financial structural issues (Huidrom et al. 2019). In heavily populated countries like Indonesia and India with absence of any social support system, the general workers are willing to take the risk to work in vulnerable environments and impedes the containment measures to stop the

spread of the virus (Corburn et al. 2020; Farzanegan, Feizi, and Gholipour 2020; McKibbin and Sidorenko 2006). This leads to fast spread of the virus and greater social costs of treatments and fatalities. For governments, there is a trade-off of either taking effective measures to control the contagion through various measures or spend more resources on treating those affected with their limited facilities and resources.

It is almost a year for the Covid-19 pandemic with more than 161 centres working on the potential vaccine with varying degree of self-proclaimed success. The latest is the vaccine developed at the Oxford University in the UK with 70% of success in helping individuals not getting infected, but nothing with regard to curing those who are already affected. On the other hand, Pfizer reported a 95% successful rate in protecting from COVID 19. As a result, the Malaysian government has signed a purchase agreement to immunise 20% or 6.4 million of the population with a condition that the vaccine must be registered with the US Food and Drug Administration (FDA) and Malaysia's National Pharmaceutical Regulatory Agency (NPRA).

## ROLE OF ISLAMIC FINANCE

Islamic finance is a financial system that creates, preserves and distributes wealth based on ethical and moral principles that do no injustice to anyone of the stakeholders. The value proposition is that it is social centric, ensures justice for all, ethical and upholds morality for all God's creation. These principals become more relevant in times of pandemic when the economic and social systems are in chaos, that requires the system to *walk the talk* in mitigating the adversities of the pandemic on the populace.



Malaysia, is a good setting for testing the role of Islamic finance in the pandemic, as it's population is predominantly Muslims and is currently a global Islamic Finance hub. To date, nothing much has been apparent, except for government hand-out to ease the burden of the great majority of the poor sector of the population. This brief suggests some unique initiatives that Islamic Finance could afford to substantiate the government's initiatives to lessen the burden of the populace and hopefully ride-out of this pandemic and get the economy and livelihood normalized again.

First, it must be noted that irrespective of Islamic or conventional, there is a dire need for the private sector (financial or otherwise) to support the government's initiatives to protect jobs. Since the crisis began in March 2020, more than half a million workers have lost their jobs. Currently, SOCSO has taken the initiative to provide subsidy scheme for employer to retain their employees. This is a good stop-gap measure to buy time to ride out of the pandemic. If firms have high operating leverage and operations costs with less revenue inflow, they will not be able to retain their workers.

Probably, the subsidy scheme with reduced working days for the workers could help reduce the unemployment figures and keep the demand for goods and services rolling, albeit at a low level. Islamic financial sector should emulate this noble initiative for their institutions as well. The Islamic finance sector could bear most of their payroll costs and retain their workers. After all, they can use the Zakat funds and the Penalty funds (*Charamah*) in these institutions, besides the tax incentive packages from the government.

Islamic finance can play a critical role by funding the social, health and education programs. In the societal programs, there could be more funds allocated to technological innovations and more important to support micro and small business financing for those who are willing to venture and make a small livelihood for themselves. They should provide free capital and advisory service to those qualified for this scheme and for those who have lost their small businesses due to lack of working capital. Islamic banks could provide this financing in the form of *Qard* financing with no interest or even *Qard Hassan* financing with no requirement to payback the capital borrowed to micro businesses to help people start financing their livelihood.

For long term planning to face future pandemics and crisis, the lesson from current experience is that there should be some kind of periodical savings in each business's institution, besides the zakat funds which are obligatory, and to be invested with effective governance. When there happens to be a crisis, these funds will then be used to help retain workers and help the society-based programs. This is modelled on the citizen-funds concept currently in practice by Norway and other developing countries. The government made it compulsory for businesses to contribute to this fund that is invested and governed by the government, and can only be utilized in times of crisis or pandemics. On the national scale, the government could do the same, for example, when the economy recovers, a percentage of wealth created by the joint government and private sector, wealthy individuals that work on government projects and all government-linked firms make periodical contribute into a national crisis fund. These contributions can be treated as tax-deductible expenses to incentivize these contributors, similar to the spirit of public fund created by the previous government to help them pay-off government debts. The proceeds of this fund can only be used for national emergencies only and invested diligently with proper transparency and governance, and the progress of the fund be tabled in the parliament annually.

Another long-term initiative could be for the government to start infrastructure projects (like highways, stadiums, hospitals, schools etc) both at state and federal level to create employment and restart the economy. Islamic finance institutions could come together and issue Sukuks to support these projects as their long-term investments. We had successful experience of this strategy after the 1997 and 2007 crisis using proceeds from bond

issues and whatever development budget there was to enabled us avoid begging for IMF funds, and managed to recover the economy, albeit at a slower rate than expected.

For the educational sector, the pandemic has necessitated closure of both private and public educational institutions for a prolonged period, and forcing the delivery where ever possible through on-line mode. This requires a well set-up internet infrastructure to facilitate the smooth operation of online classes. Unfortunately, not all areas or families have access to the required internet services and this has caused a lot of students to drop-out of the education programs usually conducted in normal times. This is an area where government should not only relieve parents from the fees and other expenses usually charged for the educational facilities but get the internet companies to collaborate with the Islamic finance institutions to provide the internet services where it is needed using their zakat and penalty funds, or even provide these facilities in areas without the internet services, free of charge to affected students.

Another initiative to support the poor is to reactivate the agriculture sector which includes vegetables farming and breeding goats, cows, and chickens on a small-scale farming on idle lands in towns and villages. Affected needy families eligible for this project could work with local authority for using government lands (like river banks or land around railway tracks and high ways) and to mobilise relevant agencies like FAMA for distribution of products to be sold in day and night-markets. Participants should be provided with the capital from Islamic financial institutions and zakat authority, preferably in kind (like, seeds, fertilizer, pesticides, and technical advice) and do not have to pay back anything.

Another initiative to provide short-term relieve to the hard-core poor sector of the population by creating Kitchen Soups all over the countries to provide at least two meals a day to these people, preferably through the cooperation of mosques, churches and other place of worships, and non-profit organizations. There should be an open fund to collect contributions to provide financing to food catering firms to revive their business and at time contribute to the society in times of need.

For those who still can afford to pay for their livelihood, provide them with heavily subsidized food items. Government should set up a company to buy main food items (like rice, flour, sugar, cooking oil, salt eggs etc) on a bulk scale from wholesalers and sell to the population at cheap prices. Another similar alternative is to buy the tin food items (like sardines, biscuits etc) that almost reaching their expiry date and distribute these items to the needy through proper channels to relieve their burden. Food items that are near expiry date could be bought from grocery stores in bulk at discounted prices and sell at a subsidized price to the public. This could address the buyer affordability issue as well provide some profits to the firms that provide this service,

## CONCLUSION

The Islamic finance sector and the governments must develop a new sustainable culture to work closely with the private sector to not only initiate the short-term measures to support the needy, but need to think long-term measures to create jobs through infrastructural projects and developing Micro and Small-scale businesses.

The government on its part should reshape the economy through investments in acquiring technologies and developing technological skills and provide related education programs in the educational system.

The real trade-off for the government is the balance the choice between short and long-term measures. The short-term measures are politically expedient but are short on economic expediency for long term survival.

Whereas the long-term measures are economically expedient but are short of the political expediency much to the disliking of the ruling elite that are always focused on short-term dividends.

A strong political leadership and social trust are the necessary success factors for long-term survival and sustainability under the new-normal geo-political and reshaped globalized world.

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