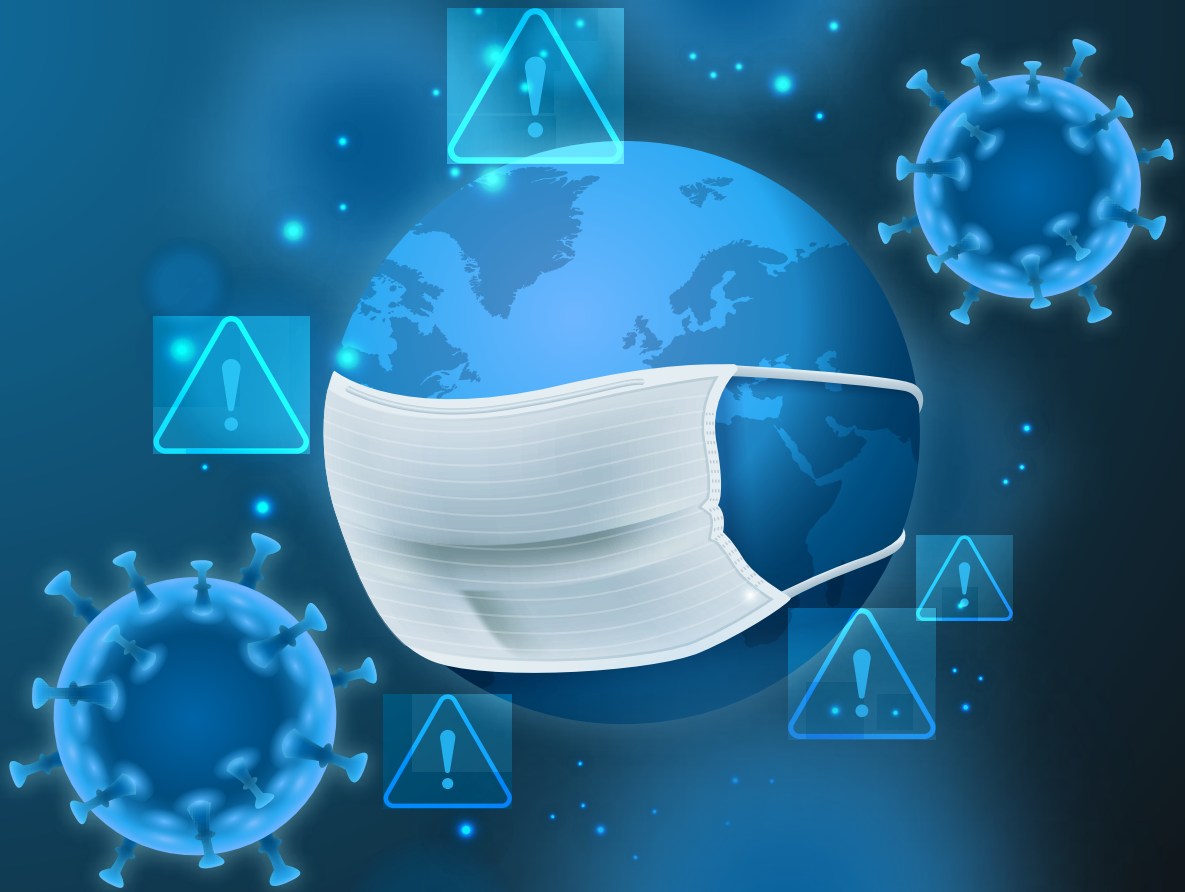


Revisiting Islamic Finance in the Midst of COVID-19 Pandemic: The Case of Malaysia

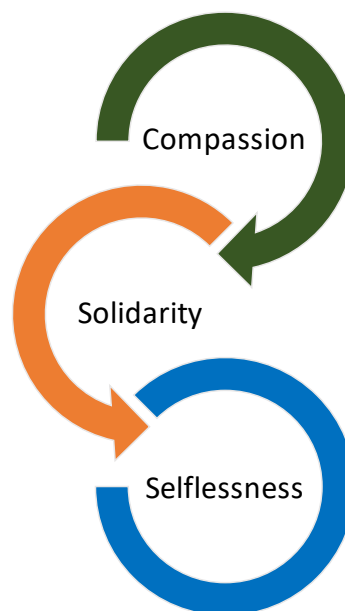


Impact of COVID-19 Pandemic

The ongoing COVID-19 pandemic has shattered the 2020 global economic growth. Amidst lingering uncertainties of the effects of COVID-19, governments around the world have set out measures to assist its economies through economic stimulus packages and interest rate cut. At the international front, the World Bank and the International Monetary Fund (IMF) on 25 March 2020 issued a joint statement calling on all bilateral creditors to suspend debt payments from International Development Association (IDA) countries that request forbearance (IMF 2020). A similar call was made by central banks around the world. On 24 March 2020, Bank Negara Malaysia (BNM) ordered banking institutions to grant an automatic moratorium on all loan/financing repayments/payments, principal and interest (except for credit card balances) to all individuals and SME borrowers/customers for a period of six months from 1 April 2020 (BNM 2020).

On the other hand, the COVID-19 pandemic catalyses compassion, solidarity and selflessness across the globe, as briefly depicted in Figure 1 below.

Figure 1: Positive Impacts of COVID-19 Pandemic



While these are the natural ingredients of Islamic economics and finance, there have been calls that question the existence of these values in the current practice of Islamic finance. Some critics suggest that Islamic finance has failed to deliver its promise of fairness, equity and inclusion. This perception should not come as a surprise since the Islamic finance industry is built on the traditional (conventional) model of finance and financial system (Izhar 2020). This short article attempts to revisit Islamic finance and examine if this sector has not acted upon its principles and promises as alleged by its critics. In this brief examination, Islamic finance in Malaysia is chosen due to its de facto leading position in the global Islamic finance industry.

Equitable and Sustainable Agenda in Malaysia's Islamic Finance Landscape

The practice of modern Islamic bank in Malaysia started in 1983 with the establishment of Bank Islam Malaysia Berhad (BIMB). With no existing template to refer to, the Government of Malaysia, BNM and industry players worked hard in building the industry. Today, the advancement, performance and delivery of the Malaysian Islamic finance industry have been duly recognised. The ICD-Thomson Reuters/Refinitiv Islamic Finance Development Report for instance, from its first report in 2013 till the recent 2019 report, have continuously named Malaysia as the top three markets in terms of Islamic finance development (ICD-Refinitiv 2019).

To maintain financial stability and Shari'ah compliance in the Islamic financial sector, BNM continues to nudge Islamic financial players to internalise the element of equitableness and sustainability into Islamic banking practices. BNM's Financial Sector Blueprint launched in 2011 highlighted equitable and sustainable financing following the 2008/2009 global financial crisis. It deliberated on the prospects, role and relevance of Islamic finance in contributing towards global financial stability and more sustainable economic growth due to the similar sharing of universal ethical values of fairness, transparency and risk sharing (BNM 2011).

The agenda for more equitable and sustainable financing led to the launch of the Strategy Paper on Value-based Intermediation (VBI) in 2017. VBI internalises the spirit of the objective of Islamic law (*maqasid al-Shariah*) into Islamic financial practices, conduct and offerings towards producing positive and sustainable impact on the economy, community and environment (BNM 2017). In the same year, BNM, Securities Commission Malaysia (SC) and the World Bank Malaysia Hub formed a Technical Working Group to address the challenge of meeting the country's green agenda. The outcome of this initiative led to the issuance of the world's first green sukuk by a Malaysian-based renewable energy and sustainable

technology investment firm, Tadau Energy Sdn. Bhd. in 2017 (The World Bank 2019). Tadau Energy Sdn. Bhd. issued green sukuk of up to RM250 million to finance the construction of large scale solar ("LSS") photovoltaic power plants in Kudat, Sabah. The following figure is a simple illustration of green sukuk.

Figure 2: What is Green Sukuk?



Source: The World Bank 2019

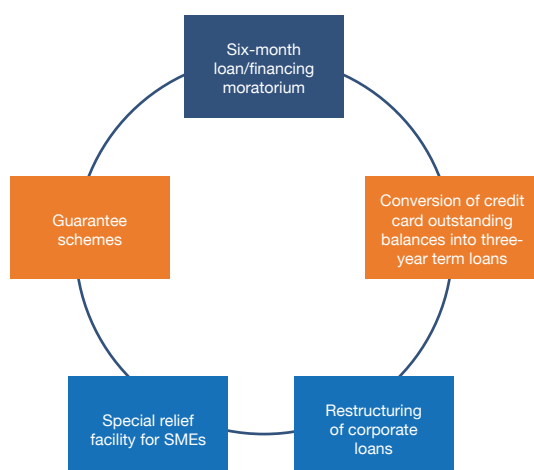
BNM Financial Sector Blueprint 2011-2020 also outlines the need for financial inclusion to empower communities with banking services. With this in mind, the launch of myWakaf initiative represents an inclusive economic instrument for maximising the potential of waqf (Islamic endowment). With the launch of the myWakaf portal in 2019, it effectively publicises waqf integration into Malaysia's Islamic banking landscape. The myWakaf fund initiative comprises six Islamic banking institutions, namely Affin Islamic, Bank Islam, Bank Rakyat, Maybank Islamic and RHB Islamic collaborating to provide banking services for donors to channel cash waqf for the development of waqf projects under the purview of State Islamic Religious Councils (SIRCs). The cash waqf collections are then distributed to projects from four different sectors, namely education, health, economic empowerment, and investment under the strict supervision of the SIRCs (MyWakaf 2019).

COVID-19 Mitigation Financial Measures

Given the above scenario, it is not surprising to see more communal efforts rendered by the financial industry during the COVID-19 pandemic in Malaysia. The COVID-19 outbreak has caused the nation to suffer RM2.4 billion losses on a daily basis due to the suspension of businesses during the Movement Control Order (MCO) period from 18 March 2020. Though Malaysia's stimulus package is the largest in Southeast Asia at 17.6% of gross domestic product, this has not spared local businesses from struggling, with the agriculture and services sectors registering job losses amounting to 22% and 15% respectively of their respective workforce (Bloomberg 2020).

To assist the nation in combating the economic impact of COVID-19, BNM with the Malaysian financial industry has set up a website to provide information on dedicated financing facilities for Micro, Small & Medium Enterprises (MSMEs). Among the measures are a six-month loan/financing moratorium, conversion of credit card outstanding balances into three-year term loans, restructuring of corporate loans, special relief facility for SMEs, and guarantee schemes, as illustrated in Figure 3.

Figure 3: Selected Financing Facilities for MSMEs



The recent announcement on 6 May 2020 helped to ease the burden further where no additional charges on hire purchase loans/facilities will be imposed during the moratorium period (MoF 2020).

To assist the Bottom 40% (B40) entrepreneurs and workers who lost their jobs, a social financing programme is being introduced. Social donations will be channelled in the form of initial capital for micro-entrepreneurs using zakat funds, and this will be matched with microfinancing at affordable rates. The first programme involves BIMB, SME Corp and the Federal Territory SIRC where eligible entrepreneurs will be given training in entrepreneurship and financial management as well as business support development (Yassin 2020).

The takaful and insurance industry is also doing their bit to help affected Malaysians. On 27 March 2020, The Life Insurance Association of Malaysia (LIAM), Persatuan Insurans Am Malaysia (PIAM) and the Malaysian Takaful Association (MTA) pledged RM8 million to establish the COVID-19 Test Fund (CTF) to support the Ministry of Health's efforts to conduct more COVID-19 testing for medical insurance policyholders and takaful certificate holders (BNM 2020). In addition to that, a three-month suspension on premiums is given to contributors whose source of income is affected by the pandemic (Yassin 2020).

The above brief analysis evidenced the permutation of equitable and sustainable practices in the Islamic financial sector. Though these are just baby steps to some, they are worth highlighting particularly at a time when the global economy is facing social and economic casualties on an unprecedented scale caused by the COVID-19 pandemic. What has not gone unnoticed is that in response to the huge sacrifice and forbearance on the part of business-oriented industries, Malaysia's Islamic finance industry has consistently demonstrated that fairness, equity and inclusion are still inherent in its business and operations. **FIKR**

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