THE COVID-19 CRISIS AND ISLAMIC FINANCE

RESPONSE OF THE ISLAMIC DEVELOPMENT BANK GROUP

DISCUSSION DRAFT

SEPTEMBER 2020
Disclaimer:
This report is only a discussion draft released for the purpose of obtaining comments and suggestions to improve its content and recommendations. Except where explicitly stated, the analyses in this report do not necessarily reflect the policy position of the Islamic Development Bank (IsDB), its Entities, its Executive Directors or the Countries they represent.
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The Covid-19 pandemic and associated lockdown have adversely affected the global economic activities. Given the global impact of the crisis, H.E. Dr. Bandar Hajjar, Chairman of the Islamic Development Bank (IsDB) Group, constituted a Working Group to study the impact of the pandemic on the Islamic finance industry. The Working Group, formed on 21 Sha’ban 1441H (14 April 2020), worked tirelessly to produce a document as informative and as relevant as possible. Given the high uncertainty surrounding the Covid-19 crisis, the current document is presented as a Discussion Draft of the desired report.

The preparation of the Report went through several rounds of collecting data, preparing write ups, consolidating, reviewing, and editing. We are posting this Discussion Draft to the public to benefit from the feedback and comments that could further enhance and improve the content and recommendations of the Report.

The Report consists of two sections:

The First Section addresses the Covid-19 pandemic from an Islamic-finance perspective. The Section explores how the principles of Islamic finance enable the economy to withstand exogenous as well as endogenous sources of risk and fluctuations. The Section also analyzes the performance of the Islamic finance industry during the crisis, within the available data.

The Second Section provides a detailed description of the response of the IsDB Group to the crisis caused by the pandemic. The “3R” initiative is a comprehensive plan to support OIC Member Countries through innovative channels created by the IsDB Group. This initiative shows the ability of the IsDB Group to lead Islamic finance by planned and coordinated activities across the 57 Member Countries. This is not a trivial task, but the staff of the IsDB Group are determined to be up to the challenge.

We are grateful to each and all members of the Working Group and the focal points for the marvelous efforts in making the Report a reality. Several IRTI staff contributed substantially to the Report, and we are glad to acknowledge their efforts. We thank in advance all those who share their comments and suggestions on this Discussion Draft to help the Islamic finance industry to strengthen its performance and enhance its contribution to the development and prosperity of our societies and communities.

Dr. Sami Al-Suwailem
Acting Director General, IRTI

13 Safar 1442H
30 September 2020
# THE WORKING GROUP to Study the Impact of Covid-19 on the Islamic Finance Industry

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<td>Islamic Solidarity Fund for Development</td>
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<td>ITFC</td>
<td>Br. Khalid Habib</td>
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ABBREVIATIONS

3R  Respond, Restore & Restart
5Ps  Public, Private, Philanthropy and People Partnership
AAB  AAOIFI Accounting Board
AAOIFI  Accounting and Auditing Organization for Islamic Financial Institutions
ACG  Arab Coordination Group
AGEB  AAOIFI Governance and Ethics Board
AGFUND  Arab Gulf Program for United Nations Development Organizations
APIF  Awqāf Property Investment Fund
BCM  Business Continuity Management
BCPs  Business Continuity Policies
BEIs  Benchmark Equity Indices
BIA  Business Impact Analysis
CBFS  College of Banking and Financial Studies
CGF  Covid Guarantee Facility
CIBAFI  General Council for Islamic Banks and Financial Institutions
CPC  Country Programs Complex
CSOs  Civil Society Organizations
DFIs  Development Financial Institutions
DFSA  Dubai Financial Services Authority
DSSI  Debt Service Suspension Initiative
EED  Economic Empowerment Department
EIDs  Emerging Infectious Diseases
EU  European Union
FASs  Financial Accounting Standards
GDP  Gross Domestic Product
GFC  Global Financial Crisis
GLCs  Government-Linked Companies
GMPFC  Global Muslim Philanthropy Fund for Children
GVCs  Global Value Chains
ICD  Islamic Corporation for the Development of the Private Sector
ICIEC  Islamic Corporation for the Insurance of Investment & Export Credit
IEIs  Islamic Equity Indices
IFATAD  Islamic Finance Advisory and Technical Assistance Department
IFN  Islamic Finance News
IFRS  International Financial Reporting Standards
IFSB  Islamic Financial Services Board
IFSD  Islamic Financial Sector Development Department
IGOIs  Intergovernmental Organizations
IIIs  Islamic Infrastructure Institutions
IMF  International Monetary Fund
IMFIIs  Islamic Microfinance Institutions
INGOs  International NGOs
### ABBREVIATIONS

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<td>Islamic Research and Training Institute</td>
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<td>ISFD</td>
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<td>ITFC</td>
<td>International Islamic Trade Finance Corporation</td>
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<td>KPIs</td>
<td>Key Performance Indicators</td>
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<td>LDMCs</td>
<td>Least Developed Member Countries</td>
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<td>LOF</td>
<td>Line of Finance</td>
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<td>MAO</td>
<td>Maximum Acceptable Outage</td>
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<td>MCs</td>
<td>Member Countries</td>
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<td>Microfinance Institutions</td>
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<td>NPLs</td>
<td>Non-Performing Loans</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>Organization of Islamic Cooperation</td>
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<td>PPP</td>
<td>Public-Private Partnership</td>
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<td>Risk Acceptance Criteria</td>
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<td>SDR</td>
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<td>Strengthening the Economic Resilience of the Vulnerable Enterprises</td>
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<td>YPFS</td>
<td>Yale Program on Financial Stability</td>
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The Covid-19 crisis is an exogenously induced downturn that is expected to leave 2021 global GDP about 5 percentage points lower than in the pre-Covid-19 estimations of January 2020. The adverse impact on low-income households is particularly acute, threatening the significant progress made in reducing extreme poverty in the world since the 1990s.

A new paradigm is needed to respond to repeated crises and to the pandemic-induced stagnation of the global economy. In particular, institutionalized risk-sharing can help the global economy to resiliently absorb shocks and stimulate stagnated demand.

Principles of Islamic finance help the economy to avoid endogenously generated crises, like the Global Financial Crisis, and provide a strong safety net against exogenously induced cycles, like the Covid-19 crisis. This in practice requires a spectrum of well-functioning institutions to translate these principles into real-world impact. The Islamic financial industry, as it stands today, is still lacking many essential components of this spectrum. The crisis should be an opportunity to fill in the gaps and enhance the diversity of the industry.

Since the Covid-19 crisis is exogenously induced, the impact of the crisis on Islamic banks is expected to be comparable to that on conventional banks given the similarity of their business model. However, Shari’ah-compliant equities performed remarkably better than their conventional counterparts. The limited effectiveness of non-profit institutions, like waqf and zakāt, reduced the role of safety net in curbing the repurcussions of the crisis.

The Covid-19 pandemic poses challenges for liquidity, resilience, and capital for the Islamic banking sector, the largest component of the Islamic financial industry. To deal with the crisis, central banks have announced several measures for liquidity support to the banking sector. These include (i) lowering reserve requirements, (ii) lowering of the regulatory capital buffer, (iii) bond/Sukūk buying programs, and (iv) availability of central bank credit lines (reverse repo). The first two measures help both the Islamic and conventional banks – however, the last two measures in some jurisdictions are hard to obtain, either due to non-availability or legal impediments. There is a clear need to look at the challenges of liquidity management for Islamic banks, especially in the wake of loan deferment programs in place for various jurisdictions offering Islamic finance and are also systemically important.

The impact of the lockdown is more debilitating to microenterprises and SMEs as it adversely affects their operability. The fears are MSMEs may not be able to service their debts after the end of moratoriums, if they get one. The real challenge would be the survival of microfinance institutions (MFIs). Some estimates suggest that MFIs that provide only financing may not survive through the lockdown if it exceeds more than two months. Others suggest that the slipping of repayment rates from 95 to just 85 percent would render many MFIs insolvent in less than a year.

Given the dire situation, there is a need to look beyond lending or easing of payments, especially to non-farm MSMEs. There is a need to look at micro-equity financing similar to venture capital as an alternative option on a risk-sharing basis for microenterprise development. With risk sharing, poor entrepreneurs can consider starting a new business or adopting innovations that might prove too risky if financed through borrowed capital.

In the context of the pandemic, all the instruments of Islamic social finance – zakât, Sadaqah, waqf, takaful ta’awuni, and others – should be coordinated together and integrated with the fiscal policy of the governments in the form of safety nets and pro-poor expenditure. Governments may look at issuing Sukūk that is linked with temporary cash waqf to mobilize social and benevolent funds at below market rates for financing various safety net measures. Cash and corporate waqf funds may have a useful role when the government begins unwinding its holdings of corporate assets in the recovery phase.

The work of Fintech companies is lauded from the financial inclusion perspective, as these companies often work with microenterprises and fringe borrowers with a minimal financial record from informal sectors. Islamic financial services industry can benefit by developing AI and big data-led infrastructure to support full spectrum of services starting from the distribution of aid/support to citizens and evaluating and monitoring financing.

As an immediate response to the Covid-19 pandemic, the IsDB Group has committed up to USD 2.3 billion funding package to be extended to its Member Countries in support of country efforts to fight against the pandemic and to address the adverse effects on their economies.

To streamline the support to MCs at different stages of the response capacity and recovery trajectory, the package consists of a Respond, Restore & Restart (3R) program, economic empowerment, and partnerships development.

The 3R is the flagship IsDB Group-wide program and consists of three tracks. The Respond track proposes immediate and fast disbursing actions to assist MCs’ response and mitigate the adverse impact of the Covid-19 pandemic. The Restore track addresses medium-term actions to strengthen the health and economic systems.
to overcome the pandemic’s peak. Restart track supports long-term actions to kick start the economy on a solid and resilient foundation and catalyze private investment.

- Under the Respond Track, emergency needs of the MCs are considered in terms of provision of healthcare and food security to respond to the spread of the Covid-19 pandemic. To support the differentiated and specific needs of the MCs at different stages of the pandemic, the specific projects/ interventions are tailored to the context of each MC.

- The Restore track envisages financing for (i) SMEs and (ii) Trade to sustain activity in core strategic value chains, to ensure continuity of the necessary supplies mainly to the healthcare and food sectors, and for other essential commodities.

- The focus of the Restart Track is on “Economic Resurgence” by assisting the MCs to kick start the economy towards a sustainable growth path. Under this track, project preparation will be launched for large-scale infrastructure projects, identified as essential for enhancing the global value chains (GVCs) in the country. This track will deliver long-term actions to build resilient economies on solid foundations.

- Any program of the 3R magnitude has its own challenges and new opportunities. One of the biggest challenges could be the financing itself. IsDB has adopted a three-prong strategy for this purpose. This includes repurposing of existing facilities, issuance of Covid-19 Sukūk and seeking partnership with other major players including MDBs.

- The IsDB Covid-19-related Sukūk is the first Sukūk in the market, showing the contribution of the Bank in the capital market in the area. The IsDB Covid-19-related Sukūk is meant to have an impact in containing the economic effect of Covid-19 and building resilience against future shocks in our MCs.

- The IsDB, through its network, leads several initiatives for the institutional coordination with development partners, especially IGOs (e.g., UNICEF, UNDP, UNOPS, WHO) IFIs and bilateral donors (e.g., OECD-DAC members, ACG) for coordination/alignment purposes and to harness additional support, whenever feasible, as well as for design and delivery capacity.

- Due to the impact of Covid-19 on the most vulnerable populations, IsDB has initiated programs to support the economic empowerment initiatives by combining the resources from the bank, ISFD, and APIF. A comprehensive IsDBG-wide plan aims to help the most vulnerable and the MSMEs to recover quickly from the adverse impact of the Covid-19 pandemic. In line with the IsDB, the Group entities including ICD, ITFC and ICIEC, have initiated response to the pandemic and this includes support to the private sector via financing, trade facilitation and providing insurance. IRTI, for its part, proposes issuing a smart SDG-currency to support Member Countries in achieving the Sustainable Development Goals.
SECTION 1
THE COVID-19 PANDEMIC AND ISLAMIC FINANCE
PART I. ECONOMIC CRISIS: AN ISLAMIC-FINANCE PERSPECTIVE

I.1. Overview

As the Covid-19 pandemic spreads and lockdowns are maintained to limit escalation, the impact of this pandemic is felt beyond the public health sector. The pandemic presents severe economic consequences for the real economy. Estimations from the Economic Intelligence Unit show a devastating impact of the Covid-19 crisis on economic growth in most economies (Table 1.1).

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Table 1.1: Impact of Covid-19 on the GDP Growth

The IMF describes the Covid-19 crisis as "a crisis like no other.” Both the IMF and the EIU project global economy to contract by about 5% percent in 2020, much worse than during the 2008–09 Global Financial Crisis (GFC) and the steepest decline since 1946. The IMF expects the 2021 GDP to be about 6½ percentage points lower than in the pre-Covid-19 projections of January 2020. The adverse impact on low-income households is particularly acute, imperiling the significant progress made in reducing extreme poverty in the world since the 1990s.

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This section provides an overview of how the Islamic finance industry is impacted by the Covid-19 crisis and the response to deal with the crisis by the industry, regulators and policymakers. It is understandable that this overview is limited by the available data on one hand, and the uncertainty associated with the unfolding of the pandemic on the other. The discussion and analysis presented here reflect the best available knowledge the team has as of the time of publication of the report.

The section consists of the following parts:
• Part I provides an analysis of economic crises from an Islamic-finance perspective.
• Part II discusses the status of the Islamic finance industry and how it is impacted by the crisis and how it reacted to it.
• Summary and recommendations are given in Part III.

1.2. Introduction

Within almost a decade, two major crises hit the world economy: the GFC (2008-2009) and the ongoing Global Covid-19 Crisis. Despite the severe economic and financial impact of both crises on the world economy, they differ in terms of underlying nature of causes. Generally speaking, risk can be either endogenous or exogenous to the economic system (SRC, 2013). Exogenous risk reflects factors that emanate from outside the economy. Endogenous risk on the other hand emanates from within the system.

The GFC is a clear example of endogenous risk wherein crisis emerged out of the actions of markets players, bankers, and speculators. These actions led to excessive risk-taking and buildup of debt resulting in the “largest credit bubble in history”, according to Nobel laureate Paul Krugman (2009). The Global Covid-19 Crisis, in contrast, is due to exogenous factors. These factors hit the real economy directly, whereby the GFC hit primarily the financial system.

The difference between the two types of crises has been extensively studied by economists at the IMF and elsewhere.

These studies conclude that, on average, downturns associated with financial episodes tend to be more severe and protracted than downturns not associated with financial turmoil (Figure 1.1). Moreover, the economy is prone to losing its potential so that it grows at rates below its capacity (IMF, 2009b). Figure 1.2, taken from Summers (2014), illustrates the gap between actual and potential GDP for the US and the Eurozone after the GFC, clearly indicating that the global economy is still catching up the loss in potential GDP growth. The figures indicate that the Covid-19 crisis hit the world economy at a time when many countries are still suffering from anemic growth and sluggish demand due to the GFC.

The impact of the Covid-19 pandemic on the real GDP seems more acute than that of the GFC, given the direct impact of lockdown on markets and production. However, the recovery of the real GDP, once the pandemic is under control, is expected to be much faster than that of the GFC. But the burden of the associated debt might make recovery very difficult.

Figure 1.1: Types of recession in relation to financial distress.

Source: IMF, World Economic Outlook, October 2008, p. 137, Table 4.2; IRTI representation
How does this relate to Islamic finance? Islamic finance offers two lines of defense against crises in general:

1. The tight integration of finance with real economic activities is the first line of defense against endogenous risks.

2. A strong social safety net is the main line of defense against exogenous risks.

By controlling the debt growth and speculation on one hand, and enhancing the social safety net on the other, the economy is able to control endogenous risks while withstanding exogenous shocks (more on this later).

I.3. The ‘Debt Trap’

Recent studies show that debt levels and concentration of income or wealth tend to move in tandem. According to a study by Atif Mian, Ludwig Straub and Amir Sufi (2020), the rise in top income shares globally began in the 1980s concurrently with financial deregulation. Over the subsequent 40 years, the rise in government and household borrowing moved in lockstep with concentration of income (see Figure 1.3).

Mian et al. (2020) observe that, in general, well-off agents tend to have a lower propensity to consume (and therefore a higher propensity to save) compared to less well-off agents, which is supported by many empirical studies. As the less well-off borrow from the wealthy, resources are redistributed such that the gap between the two groups becomes even larger, in a positive feedback loop.

As borrowers reduce their spending to make debt payments to savers, the latter group, having greater saving rates, only imperfectly offset the shortfall in borrowers’ spending. Because savers spend less as a fraction of income than borrowers, the increased income from debt services is allocated to additional lending, while a larger share is allocated to refinancing rather than to productive economic activities. This explains why in such a situation overall economic output is depressed.

According to Mian et al. (2020), this gives rise to "indebted demand": greater debt levels mean a greater transfer of income in the form of debt service payments from borrowers to savers, leading to depressed aggregate demand. The phenomenon of depressed aggregate demand has been well documented in the literature and sometimes described as "secular stagnation." According to Larry Summers (2017), secular stagnation characterizes a "prolonged period in which satisfactory economic growth can only be achieved by unsustainable financial conditions."
In an indebted demand environment, conventional expansionary policies—such as accommodative monetary policy and deficit spending—will not help much. They generate a debt-financed short-run boom at the expense of indebted demand in the future. Policies that boost demand today through debt accumulation necessarily reduce demand going forward by shifting resources from borrowers to savers.

The positive feedback loop eventually makes the economy get stuck in a debt-driven liquidity trap, or a “debt trap”: a situation whereby conventional economic policies fail to bring the economy out of this “black hole.” Conventional policies that are based on debt accumulation, such as deficit spending, only work in the short run. Eventually, the economy is pulled back into the debt trap.

The alert reader will easily note the relevance of the above analysis to Islamic finance. First, the empirically verified relationship between income concentration and debt build up reminds us of the relationship between prohibition of Ribā and the obligation of Sadaqāt (e.g. the Qur’ān 2:276). Prohibition of Ribā controls the growth of debt while charity redistributes wealth. Given the asymmetry of propensity to consume between borrowers and lenders, the result of the combined precepts of Islamic finance is higher sustainable economic growth and the avoidance of the debt trap. Islamic finance, in addition, encourages risk sharing, which is crucial in containing the burden of debt. The proposed “unconventional” policies of wealth tax and debt forgiveness, among other policies for redistribution of wealth, are natural ingredients of Islamic finance.

For this reason, Mian et al. (2020) argue that unconventional policies can facilitate an escape from the debt trap. Examples for such unconventional policies include:

- Wealth taxes that are geared towards reducing income inequality generate a sustainable increase in demand.
- One-time debt forgiveness policies can also lift the economy out of the debt trap, but need to be combined with other policies, such as macroprudential ones, to prevent a return to the debt trap over time.

![Figure 1.3: Debt and Income of the top 1% in 14 economies: Australia, Canada, Finland, France, Germany, Italy, Japan, New Zealand, Norway, Portugal, Spain, Sweden, US and UK.](image)

Source: Mian et al. (2020), p. 10
I.4. The Great Lockdown

The current economic crisis is induced by the Covid-19 pandemic that threatened the health of people and escalated the fear factor resulting in synchronized lockdowns across the countries, making it a global economic and financial crisis. Pandemics have struck the world previously as well, but never in history had the lockdown policy been so highly synchronized to create a global shut-down. This raises the question of additional policies to complement the lockdown so as to protect citizens’ health with minimum economic costs.

Recessions and economic downturns caused by exogenous adverse factors have been witnessed before, but this time it is different. Natural disasters such as earthquakes and man-made disasters such as wars destroy physical capital at the country or regional levels resulting in lower capital to labor ratios. Pandemics that kill large number of people across large regions create labor shortages but leave capital intact, resulting in high capital to labor ratios.

These recessions used to result in a more even distribution of income and wealth. Thomas Piketty (2014) notes that wars, which result in large destruction of physical capital, tend to redistribute wealth in a more even manner, and this contributed to the sustained growth in the post-war period. The 1918 flu pandemic resulted in a shortage of labor, leading to higher wages (Garrett, 2007), which likely contributed to the redistribution of income. For the Covid-19 pandemic, however, the global lockdown policy did not result in direct redistribution of wealth or income. However, it created indirect and skewed redistribution effects by increasing the value of certain kinds of capital (information and communications technologies) and labor (white-collar work and software skills). Many experts, including Nobel laureate Amartya Sen (2020), warned that the current crisis might end up with a severe concentration of wealth and income and higher levels of poverty, adding to the already prevailing trends before the pandemic (see Aaminou, 2020).

This shows that a strong redistribution policy is critical to contain the implications of such an economic crisis. Governments have announced packages worth trillions of dollars to protect lives and reduce the economic losses caused by the crisis. The policy has inbuilt empathy for the poor and vulnerable. However, it does not help in sustainable redistribution of income or wealth as the mechanism is short-term, and the significant portion of the support consists of debt, which ultimately transfers wealth from the bottom of the pyramid to the top. A strong safety net, funded by e.g. a wealth tax, as Mian et al. (2020) suggest, would be particularly helpful. Social mechanisms of transfer of wealth, including zakāt, awqāf and Sadaqāt, are a form of risk-sharing that is an integral part of Islamic finance.

I.5. Why Public Goods are Essential?

The Covid-19 crisis shows clearly how healthcare is essential for normal market operation. Healthcare is predominantly a public good. This means that health is not generally divisible, i.e. it is not generally the case that I can be healthy while you are not. In many important cases, either we are all healthy or we are all in danger, just as it is the case during the pandemic. Healthcare therefore becomes a collective good—in fact, a global public good (Chen et al., 1999).

Another essential public good is stability (see for example, IMF, 2009a, p. xxii). This means that stability requires collective cooperation and cannot be obtained satisfactorily through competition. All market players are in the same boat, and thus one cannot be safe if others are not. Trying to shift all risks to other agents will result in a riskier, and less stable, economy, than if all agents agree to share the risks appropriately.

I.6. Risk-Sharing Paradigm

The debt trap is becoming worse over time (Figure 1.4). During the GFC, US and EU governments committed a total of more than $20 trillion.3 These commitments resulted in the sovereign debt crises in many countries (Braga & Vincelette, 2011). Now, countries around the globe are incurring more debt to overcome the pandemic crisis. According to the Institute of Finance, government debt worldwide has doubled to $70 trillion since the 2008 crisis; pandemic response will drive that higher still.4 So far, estimated sovereign commitments to fight off the pandemic crisis is about $9 trillion.5 The pile up of sovereign debt is causing major concerns of yet another sovereign debt crisis.6

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Successive buildup of sovereign debt after each crisis is obviously not sustainable and is a major factor behind the secular stagnation discussed earlier. Repeating the same policies every time the economy is hit by a crisis is making crises more likely than ever. A different paradigm for handling economic risks must be adopted. This different paradigm is risk sharing. As pointed out earlier, stability is a public good, and thus risks must be shared appropriately among economic agents rather than concentrated through mostly government debt. There is no unique form of risk sharing, but all forms have the common feature of having a performance-linked pay that helps both sides of the financing to adapt to economic uncertainty.

A recent study by Arnoud Boot et al. (2020), of the Center for Economic Policy Research, propose equity-like funding to stimulate the corporate sector in Europe, especially small and medium-sized firms.

The proposal is expected to have “positive risk-sharing features for firms, without impinging on ownership structures”. This fits neatly with the above analysis showing the limited effect, and the long-term negative impact, of debt-based policies to stimulate the economy.

Regardless of the type of risks facing the economy, for the financial system to be resilient it must be able to distribute the risks in a productive and conducive manner. Risk sharing is a paradigm and not simply a set of contracts. It spans the for-profit domain (e.g. equities and various forms of partnerships) as well as the not-for-profit domain (including social and solidarity finance). We hope that this crisis will further accelerate the transformation of the global financial system to institutionalize risk sharing and build the proper ecosystem needed to perform its expected functions.

I.7. Islamic Finance

Recall that Islamic finance offers two lines of defense against crises in general:

1. The tight integration of finance with real economic activities and risk sharing the first line of defense against endogenous risks.

2. A strong social safety net is the main line of defense against exogenous risks.

If we put the two lines of defense together, we can get a better view of the overall economic performance during economic cycles (Figure 1.5).

In the absence of credit controls, debt financing is likely to lead to artificial booms and bubbles. Since it is not sustainable, the bubble is destined to burst, and the economy will be hit with a recession. In the absence of a strong safety net, the downturn might be severe, and the economy might take longer time to recover. However, when credit is tightly integrated with productive activities, the boom is more sustainable, and bubbles are less likely to develop. When the markets are down, a strong safety net will make the recession shorter and less severe. An Islamic economy is not immune from cycles, but these cycles are mostly due to exogenous factors, and the economy is better able to absorb the losses and recover quickly.
II.1. Response to the Covid-19 Crisis

As indicated earlier, while the Covid-19 pandemic is an exogenous shock to the economy, the Islamic financial services industry is not immune to such crisis. The expected shortfall in performance of Islamic financial service industry is not substantially different than the conventional industry as was the case during the GFC. Nonetheless, as we shall see later, Sharī’ah-compliant equities performed markedly better than comparable conventional equities. This confirms the value of risk sharing alluded to earlier.

Governments and central banks all over the world have announced financial assistance and relief packages for the most affected sectors to reduce the impact of health crisis and lockdowns. The monetary policies are loosening; asset buying programs are in place while tax relief packages are announced. Massive plans for cash transfers are announced and distributed. The government-sponsored credit programs are announced in various countries for pandemic-affected small and medium enterprises (SMEs) with the aim to lessen the impact of the pandemic and to get back the economy on-track as soon as the condition gets back to normal. Also, various central banks have announced moratoriums on loans for individuals and businesses affected by the Covid-19 pandemic for up to six months and further extensions are announced in some countries now.

The IsDB Member Countries also provided support to reduce the economic impact of the crisis. In mid-March, a wave of central banks announced targeted Covid-19 support measures that have so far included payment reprieves for affected borrowers, a reduction in fees, liquidity support, capital requirement reductions, and reserve requirement reductions, amongst other measures. Table 1.2 provides a list of measures from a select group of IsDB Member Countries to highlight the breadth of various programs to support the economy as well as the financial sector to deal with the impact of Covid-19.

Given the range of responses by governments and central banks, it is pertinent to understand the impact of these measures on the Islamic finance sector. Below is an analysis of the Islamic finance sector and how the Covid-19 pandemic could potentially affect various segments of the Islamic finance sector.
<table>
<thead>
<tr>
<th>Measure</th>
<th>Bahrain</th>
<th>Bangladesh</th>
<th>Brunei</th>
<th>Indonesia</th>
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Sources: IRTI staff compilation from the website of various central banks and the IMF as of 23 September 2020

**Table 1.2: List of announced measures by selected jurisdictions offering Islamic finance**

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<thead>
<tr>
<th>Measure</th>
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Sources: IRTI staff compilation from the website of various central banks and the IMF as of 23 September 2020

Table 1.2: List of announced measures by selected jurisdictions offering Islamic finance
II.2. Islamic Financial Sector Development – An Overview

The exceptional growth of the Islamic finance industry in the last decade is a remarkable development from a low base, but the industry still constitutes a tiny fraction of global finance. The risk-sharing nature of Islamic finance has attracted attention in all financial sectors, including banking, capital markets, and insurance. Figure 1.6 shows the performance of the Islamic financial services industry from 2015 to 2018 showing growth in each segment of the sector.

The development in various sectors of Islamic finance is discussed next, along with an analysis of the status of their activities to engage in risk sharing and long-term financing.

Figure 1.6: Change in Assets of the Islamic Finance Sector, 2015 versus 2019

II.3. The Status of the Islamic Banking Sector

The Islamic banking sector has seen uninterrupted growth over the last decade. Table 1.3 shows double-digit growth trends in both assets and financing of Islamic banks in the past five years. However, this growth is not evenly distributed among all of the countries. The Islamic Financial Services Industry Report 2020 highlighted that while the market share for Islamic banking is on the increase in most jurisdictions (27 out of 36) albeit at a slower pace, there are markets where the Islamic banking sector has witnessed a decline in the market share. The GCC region remained the engine of growth for the Islamic banking sector.

The Islamic banking sector has become systemically important in various jurisdictions where it has reached a share of 15 percent or higher of the overall banking sector (IFSB, 2019). Thirty percent of the global Islamic banking assets are held by jurisdictions where the Islamic banking sector is systemically important (IsDB, 2018). Among most countries where the Islamic banking sector is systemically important, the banking sector provides capital to the economy and especially to small businesses.

Table 1.3: Selected Aggregated Structural Islamic Financial Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2013</th>
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<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tr>
<td>Total assets (USD billions)</td>
<td>1,168</td>
<td>1,282</td>
<td>1,332</td>
<td>1,531</td>
<td>1,684</td>
<td>1,754</td>
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<tr>
<td>Total Sharī`ah-compliant financing (USD billions)</td>
<td>753</td>
<td>810</td>
<td>854</td>
<td>937</td>
<td>1,021</td>
<td>1,052</td>
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<tr>
<td>Total funding/liabilities (USD billions)</td>
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<td>1,239</td>
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Notes: The aggregated data for total assets (21 countries), total Sharī`ah-compliant financing (19 countries), and total funding/liabilities (19 countries) are calculated from available countrywide structural data from Islamic banks and Islamic banking windows of conventional banks, converting into US dollar (USD) terms, at the end period exchange rates.

Source: IFSB, PSIIs country wise data
In terms of the relative riskiness, profitability, and capital position, the Islamic banking sector is on a par with the overall banking sector. The review of the IFSB PSIFIs data reveals that the Islamic banking sector is well-capitalized, both the Capital Adequacy Ratio and Tier 1 Ratio are well above the minimum regulatory requirement. Figure 1.7 reports the profitability trends of the Islamic banking sector. The profitability of the Islamic banking sector is similar to that of the overall banking sector. This may not be surprising as the Islamic banks in most of the jurisdictions are subject to the same capital and other regulations resulting in holding similar asset portfolios as that of conventional banks that boiled down to performing as the overall banking sector.

![Graph](https://www.ifsb.org/psifi_01.php)

**Figure 1.7: Return on assets and Return on equity for Islamic banking sector based on aggregated data from 18 countries from 2013Q4 to 2018Q2**

After the 2008 GFC, the Basel Committee released two critical measures to deal with the liquidity risk and the asset-liability mismatching of banks, namely, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). IFSB has fine-tuned the Basel III requirements for Islamic banks, and IFSB 15 provides detailed guidelines on how Islamic banks can comply with these regulations. IFSB (2019) reports that the Islamic banking sector is sufficiently liquid and has provided a natural asset-liability management hedge for longer-term financial stability by keeping both the LCR and NSFR above 100 percent. However, looking at the role of LCR for 30-day liquidity stress and NSFR for longer stress, these buffers may not be sufficient during the Covid-19 pandemic, primarily due to inactive money markets for Islamic instruments and a possible substantial withdrawal of lines for the weaker banks.

Given the situation by the end of 2019, the Islamic banking sector indicated stable projections and was on the path towards the normal growth trajectory. However, the onset of the Covid-19 pandemic paired with the plummeting oil prices created a dual shock for most of the oil producer jurisdictions offering Islamic finance. The oil prices have thus far recovered from the lowest level but are still far below the expected level. The result is significantly increased risks for the banking sector both in terms of assets quality and profitability. Furthermore, the monetary and fiscal measures announced by various countries to reduce the impact of the crisis from the financial and real sectors of the economy have a disproportionate effect on the Islamic banking industry due to the peculiar nature of contracts in place and avoidance of interest. However, rapid support measures by the central banks and more stable conditions ahead of the outbreak are likely to support the financial industry and minimize the systemic risk.

Similar to several previous crises, the survival of the financial services industry boils down to three main themes: liquidity, capital, and profitability. In the next subsection, we discuss these challenges and how the Islamic banking industry is embracing the fight against the pandemic.

### II.4. Liquidity Challenge

The Covid-19 pandemic has increased banking sector risks significantly and across the board. Due to strong lockdowns and uncertain health situation, the default rate is expected to rise considerably. During crisis time, the banking sector is liquidity constrained due to mismatch between the demand and supply. Most jurisdictions are facing increased cash outflows from the corporate sector for liquidity, and following withdrawals from deposits maintained in accounts by various governments or government-related institutions to fund massive cash transfer programs. Banks turn to the liquidity support from the central banks to meet the excessive demand.
II.5. Default Risk and Profitability

The immediate impact of the payment deferments of principle and markup will be on the credit growth. Given the slowdown of the economy, banks will have little appetite to expand credit due to higher risk aversion and fear of higher loan losses in the near future. Banks will increase their provision for loan losses to reduce the impact of Covid-19-related defaults after the deferment periods. Although it would be unfair to judge Islamic banks based on the 2018 data, if the past is any indication, Islamic banks have enjoyed faster financing growth and had provisioned larger amounts of their loan portfolios for possible losses compared to the overall banking sector (IFSB, 2019). The higher financing growth and a higher provision of loan losses may suggest higher probable losses in the loan portfolios of Islamic banks, especially when these portfolios are not diversified enough due to Sharī’ah limitations.

Although most central banks put a hold on the classification of loans or impairment, banks are subject to Expected Credit Loss assessment under IFRS 9. The assessment from the losses due to loan impairments would be based on the reporting date and potentially affect the profitability of banks based on accounting standards rather than on the classification by the central banks.

Given the response to the pandemic, in countries where banking sectors are already struggling with high non-performing loans (NPLs), low profitability, and weak capital buffers, the shock associated with the Covid-19 pandemic will be felt more acutely.

II.6. Business Failures: Corporate and MSME Sector

The banking sector, in general, is facing a liquidity shortage due to various forbearance measures such as deferment of principal/interest/profit payments for the consumer and industrial lending announced by the governments/central banks. The situation is such that banks’ borrowers are not returning funds while the consumers and governments’ withdrawals continue to support the economy, resulting in the erosion of the deposit base. The existing liquidity measures such as LCR for 30-day liquidity stress and NSFR for longer stress look insufficient due to inactive money markets and withdrawal, especially from weaker Islamic banks.

Many central banks are encouraging or requiring financial intermediaries to defer the receivables to help the SMEs, the businesses in key industries such as agriculture and the households. The forbearance and deferment of loans in the conventional banking is a financial issue that affects liquidity, capital and profitability through balance sheet only. The conventional banks defer loans but accumulate interest payments. However, in the case of Islamic banks, it becomes a Sharī’ah and operational issue as well if the bank wants to practice forbearance and simultaneously avoid significant losses. The type of the financing contract (i.e., sales-based or rental-based or partnership-based) and the stage of transaction matter in determining the ease of deferment or foregoing a part of the receivable.

To deal with the Covid-19 crisis, central banks have announced various measures for liquidity support to the banking sector, including (i) lowering reserve requirements, (ii) lowering of the regulatory capital buffer, (iii) bond/Sukūk buying programs, and (iv) availability of central bank credit lines (reverse repo). The first two measures help both the Islamic and conventional banks – however, the last two measures in some jurisdictions are hard to obtain, either due to non-availability or legal impediments.

Another major concern that potentially constrains the ability of the banking sector in general and especially Islamic banking sector to raise capital from the capital markets is the deterioration in their credit ratings. The credit environment for the financial sector has deteriorated considerably since the onset of Covid-19. Given the health crisis and associated economic uncertainty, and extended lockdowns, it is expected that considerable time will be required for banks to return to the pre-Covid-19 ratings.

There is a clear need to look at the challenges of liquidity management for Islamic banks, especially in the wake of loan deferment programs in place for various jurisdictions offering Islamic finance and are also systemically important.

Governments/government-linked companies (GLCs) often contribute to the deposit base of the banking sector between a quarter and a third of the total banking system deposits.

The authors use a sample of 40,000 listed and large unlisted non-financial firms across 26 advanced and emerging economies.

To fill this funding gap. The one lesson from the 2008 crisis is that banks become more conservative during contraction and often do not renew credit lines, which are, unfortunately, the liquidity buffers that most companies hold.
The impact of the lockdown is more debilitating to microenterprises and SMEs as it adversely affects their operability. Turay et al. (2015), while analyzing the impact of Ebola on Sierra Leone, concluded that the worst-hit businesses, due to the Ebola pandemic, were the informal, urban non-agriculture firms. While looking at the global impact of the Covid-19 pandemic, the fears are that the MSMEs may not be able to service their debts after the moratoriums, assuming they get the moratoriums. This poses an existential threat to microfinance institutions (MFIs). Some estimates suggest that MFIs offering only financing options may not survive through the lockdown if it exceeds more than two months. Others suggest that the slipping of repayment rates from 95 to just 85 percent would render many MFIs insolvent in less than a year.\(^\text{11}\)

Given the dire situation, there is a need to look beyond lending or easing of payments, especially to non-farm MSMEs. The success of startup grants and equity financing in developed countries indicates that there is a need to look at micro-equity financing as an alternative option for microenterprise development (Pretes, 2002). Equity financing provides a reduction of risk (by sharing it between the entrepreneur and the financier) and lower transaction costs (Pretes, 2002; Chapra, 1985). With risk sharing, poor entrepreneurs can consider starting a new business or adopting innovations that might prove too risky if financed through borrowed capital.

II.7. Business Continuity Management (BCM) and Organizational Resilience

Besides the business challenges, the interconnected, global and digital world implies that organizations are constantly managing their operational risk to ensure business continuity. The onset of Covid-19 pandemic has posed severe challenges for financial institutions. These challenges range from cyber security to natural disasters management.

The BCM framework is essential to enhance the organizational resilience capability and to ensure continuity and availability of organizations’ operations and services during the crisis period. The main purpose of BCM and Organizational Resilience is to create a crisis-resilient organization in pre-crisis phase with succession plans and specific delegation arrangements for the continuity of leadership in the event of absence of key decision makers and executives during the potential breakdown.

Human resource continuity and system security may be the biggest challenges for the IFIs during the pandemic. The biggest challenge during the pandemic may arise if one or some of the key employees is diagnosed with Covid-19 or there is an outbreak in one or more facilities of the financial institutions. Furthermore, due to extended lockdowns, many employees may not be routinely available and are required to work from home. For the continuity, human resources and systems should be evaluated and detailed succession plans are prepared and clearly communicated to all stakeholders. Box 1 highlights a set of best practices that Islamic financial institutions can adopt for building their BCM.

Box 1: Points to consider for Business Continuity Management during the pandemic

The BCM planning must:

- Ensure employees have a clear understanding of their roles and responsibilities, in particular for business continuity management and crisis management.
- Review employee management policies, particularly for leave of absence and absenteeism, sick leave, overseas travel, workplace lockdown, and recall of noncritical employees from affected geographies especially due to possible travel lockdown and restrictions.
- Review and adopt the remote working policy and arrangements.
- Set up a communication channel for employees for reporting.
- Prepare and validate employee and stakeholder contacts to be used for updates, and evaluate the adoption of a communication system, covering different channels (e.g., SMS, email, mobile, virtual meetings using tools like Google Meet, Zoom, Skype, WebEx, etc.).
- Where possible, encourage work from home (WFH) for employees; however, it is possible that employees may not have adequate facilities, such as laptops, internet bandwidth, etc., at home, and it may be difficult to arrange WFH at short notice.
- Security of information during WFH may be improved by providing adequate VPN connections; however, this service needs to be planned in advance.

• Consider providing for non-employee access to sensitive data and equipment.
• Assess the efficiency, resilience and security of employee home networks.
• Ensure that IT systems have adequate capacity to manage operations and communications.
• Ensure that suppliers can provide remote maintenance and change management services.

Organizations, when developing Business Continuity Policies (BCPs), should take into consideration the supply chain dependencies and not to focus on supplier-specific risk, but on the end-to-end supply chain risk that might be inherited from supply chain partners and subcontractors and extend the same concepts to other functional areas where appropriate.

II.8. Islamic Capital Market: Sukūk

The capital markets, an essential source of capital, are not immune from the impact of Covid-19. With a flurry of expected credit rating downgrades, funds availability will be limited to high-quality issuers, which will likely result in greater severity. Defaults and restructuring are quite likely in the near term, albeit at a much higher cost of funding. For the support of the capital markets, developed economies have announced asset purchase programs that resulted in a huge activity in the debt and equity markets.

The Islamic capital markets are the second most significant component of the Islamic finance sector, where Sukūk are major contributors. Figure 1.8 reports the sector-wise outstanding amount of Sukūk as of 31 August 2020. The significant chunk of the outstanding Sukūk is concentrated with sovereigns and financial institutions. The sovereign Sukūk market is expected to be less affected by the pandemic, and in case of any disruptions in the secondary debt market, it is quite likely that sovereign issuers may buy back their Sukūk through central banks. Regarding the Sukūk issued by financial institutions, in the past five years, several Islamic banks raised funds using Tier I and Tier II Sukūk to meet the regulatory capital requirements. Most of these issues have maturities close to perpetuity and do not pose systemic risk as such unless there is a collapse in the secondary market.

The story for the corporate sector Sukūk, however, may be different. The immediate effect could be freezing of new Sukūk issuance due to uncertainty leading to an unattractive cost of funding. It is quite likely that most issuers may prefer to tap into the massive stimulus packages announced by governments for private sector support as the support is available either interest-free in short-term or as guaranteed soft-loans.

One of the major concerns in the fixed-asset markets is the ability of existing issuers to service outstanding debt due to lockdown. The short- to medium-term outlook, at best, is grim mainly due to the stoppage of businesses and the uncertainty in getting those back to the pre-crisis level in the foreseeable future. Deteriorating economic conditions, collapse in oil prices, or an expected long-term change in consumer behavior further add to deteriorating credit fundamentals.

To understand the maturity structure of Sukūk, the right panel of Figure 1.9 reports the maturity structure of the outstanding Sukūk, while the left panel reports the sector-wise percentage of Sukūk maturing within the next five years and beyond. The assuring factor is that maturity structure of Sukūk is tilted towards longer term Sukūk. Among the corporate Sukūk, those maturing in 2020 and 2021 account for about 15 percent, while another 15 percent shall mature in 2022.

Specific sectors such as oil & gas, real estate, malls, airlines, restaurants, and hotels might be hit harder than others due to pandemic. Although oil & gas, airlines, and hospitality are smaller sectors in terms of outstanding Sukūk amount, these have a significant chunk of Sukūk maturing within the next 9 to 36 months that might need refinancing. Given the economic uncertainty, refinancing will be a challenge, especially to those issuers under liquidity stress. There will be a considerable increase in the cost of funding, and lenders may require additional collateral to refinance an existing Sukūk (IFN, 2020).
Besides refinancing, issuers may consider alternative financings such as government support and repayment of *Sukūk* with banks. However, given the deleveraging efforts to keep banks afloat and moratoriums, banks may also be reluctant to provide long-term financing.

Another major concern in the *Sukūk* market is the ripple effect of defaults on the *Sukūk* sector, especially in the absence of tested, standardized, harmonized bankruptcy laws related to Islamic finance transactions supported with legal precedence (IFN, 2020). IFN (2020) reported that most of the new issues are expected to be more cumbersome in legal documentation with clauses specific to pandemics as the lenders are keen to hedge their portfolio.

The trend to watch in the near future, as the lockdown ends, is the response of the consumer to the new economic conditions. An increase in demand for the hospitality sector, including hotels, and airlines may help oil prices to rebound, and markets to return to the pre-crisis level sooner. However, in the absence of robust consumer response, the *Sukūk* sector may need similar government support as has been given to the banking sector. This may be in the form of soft loans to repay existing *Sukūk* or credit enhancements by the governments, such as a guarantee program to protect lenders in case of defaults. Another possible support could be the *Sukūk* buy program, similar to the Troubled Asset Relief Program of the US Government in response to the 2008 financial crisis.
II.9. Islamic Equity Markets

Although equity investments constitute a significant proportion of Sharī‘ah-compliant investments, in the absence of an organized exchange that tracks the performance of global Islamic equity markets, it is difficult to measure the size of these investments. Regarding the impact of the Covid-19 pandemic, Figure 1.10 shows the performance of the select global Islamic equity indices: S&P Global 1200 (total return) Index versus S&P Global 1200 Sharī‘ah (total return) Index, Dow Jones - Islamic Market versus Dow Jones - World Index, and MSCI ACWI Islamic Index versus MSCI ACWI Index, starting from January 2019 with an investment of $100. Interestingly, the Sharī‘ah-compliant counterpart of any major index performed better than the main index, especially after March 2020, when the stock markets crashed as a consequence of the Covid-19 crisis and global trade contraction fears.

Source: IRTI staff compilation of data obtained from the websites of index providers and Bloomberg

Figure 1.10: Daily Return performance of selected Islamic equity indices versus conventional benchmark indices for the period January 2019 to August 2020
Moreover, the drop of the Islamic equity indices from their peak in mid-February 2020 to their trough in mid-March 2020 was less than their conventional counterparts, showing the resilient nature of Islamic investments.

\[
\begin{array}{|l|c|c|c|}
\hline
\text{Index} & \text{YTD} & \text{1-Year} & \text{3-Year} \\
\hline
\text{S&P Global BMI Sharī'ah} & 11.87\% & 23.73\% & 12.46\% \\
\text{S&P Global BMI} & 0.30\% & 10.52\% & 5.48\% \\
\text{S&P 500 Sharī'ah} & 12.74\% & 24.53\% & 15.32\% \\
\text{S&P 500} & 6.07\% & 16.65\% & 11.43\% \\
\text{DJIM World} & 13.13\% & 23.52\% & 12.87\% \\
\text{Dow Jones Global} & -6.03\% & 2.79\% & 2.36\% \\
\text{S&P Developed BMI Sharī'ah} & 11.24\% & 22.80\% & 12.81\% \\
\text{S&P Developed BMI} & 0.60\% & 10.70\% & 6.07\% \\
\text{S&P Emerging BMI Sharī'ah} & 17.75\% & 32.72\% & 8.27\% \\
\text{S&P Emerging BMI} & -2.10\% & 9.06\% & 0.47\% \\
\hline
\end{array}
\]

Source: S&P Dow Jones Indices LLC. Data as of 4 September 2020.

**Table 1.4: Performance of Equity Indices, 4 September 2020**

Across various sectors (developed markets, emerging markets, etc.), Islamic indices generally outperformed their conventional counterparts by a notable margin (Table 1.4). According to Welling (2020), broad-based Islamic indices outperformed their conventional counterparts by a substantial margin, as Information Technology and Health Care—which tend to be overweight in Islamic indices—outperformed among sectors, while Financials—which is underrepresented in Islamic indices—heavily underperformed the broader market.

In a recent paper, Ashraf et al. (2020) compared the performance of Islamic equity indices (IEIs) with benchmark equity indices (BEIs) during the pandemic period from the perspective of regional differences and equity screening criteria (Table 1.5). The authors report that, on average, all IEIs and BEIs show negative returns with considerably high volatility. Regarding comparative performance of IEIs following different Sharī'ah screening criteria, IEIs following market-based approach for screening (S&P and Dow Jones IEIs) outperform their corresponding BEIs on nominal as well as on risk-adjusted basis (Sharpe ratio) irrespective of regional differences. However, the story is different for the IEIs following the book value approach for Sharī'ah screening (MSCI). Regarding the systematic risk of IEIs, Ashraf et al. (2020) find a general shrinkage of systematic risk for Islamic equities during the Covid-19 period, reflecting the relative risk-averse nature of Islamic investments and suggesting potential hedging benefits.

### II.9.1. Capital Market Liquidity

In market disruptions like the one triggered by the Covid-19 pandemic, liquidity dries up in the capital market even for the most liquid stocks, especially in emerging market countries. This forces investors/fund managers to pay the much higher spread on either side of the trade. Besides the liquidity impact on the Islamic fund industry from the equity side, the significant decline in market prices of **Sukūk** will affect the value of portfolios. Here the question may arise whether governments will step in to purchase **Sukūk**, i.e., taking similar action to what most developed economies are doing. Buying **Sukūk** would be a better proposition for the government as these are backed by some assets and may provide access to the equity of businesses. Developing such a program would help not only the issuers but also stabilize the market for **Sukūk**.
### Table 1.5: Performance comparison of Islamic Equity Indices VS Corresponding Benchmark Equity Indices

<table>
<thead>
<tr>
<th>Islamic Equity Indices</th>
<th>$\bar{R}_i$</th>
<th>$\delta_i$</th>
<th>Sharpe Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P Global 1200 Sharī'ah</td>
<td>15.12%</td>
<td>33.34%</td>
<td>0.45</td>
</tr>
<tr>
<td>Dow Jones - Islamic Market</td>
<td>15.12%</td>
<td>31.91%</td>
<td>0.47</td>
</tr>
<tr>
<td>MSCI ACWI Islamic Index</td>
<td>-5.04%</td>
<td>29.53%</td>
<td>-0.17</td>
</tr>
<tr>
<td>S&amp;P 500 Sharī'ah Index</td>
<td>17.64%</td>
<td>40.48%</td>
<td>0.44</td>
</tr>
<tr>
<td>Dow Jones - Islamic Market US Large-cap</td>
<td>20.16%</td>
<td>40.16%</td>
<td>0.50</td>
</tr>
<tr>
<td>MSCI AC Americas Islamic Index</td>
<td>-5.04%</td>
<td>39.21%</td>
<td>-0.13</td>
</tr>
<tr>
<td>S&amp;P Europe 350 Sharī'ah Index</td>
<td>2.52%</td>
<td>28.57%</td>
<td>0.09</td>
</tr>
<tr>
<td>MSCI AC Europe Islamic Index</td>
<td>-10.08%</td>
<td>33.18%</td>
<td>-0.30</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benchmark Equity Indices</th>
<th>$\bar{R}_i$</th>
<th>$\delta_i$</th>
<th>Sharpe Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P GLOBAL 1200</td>
<td>0.00%</td>
<td>33.50%</td>
<td>0.00</td>
</tr>
<tr>
<td>Dow Jones - World Index</td>
<td>-5.04%</td>
<td>32.07%</td>
<td>-0.16</td>
</tr>
<tr>
<td>MSCI ACWI Index</td>
<td>0.00%</td>
<td>32.54%</td>
<td>0.00</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>7.56%</td>
<td>40.32%</td>
<td>0.19</td>
</tr>
<tr>
<td>Dow Jones U.S. Large-Cap Market Index</td>
<td>5.04%</td>
<td>40.48%</td>
<td>0.12</td>
</tr>
<tr>
<td>MSCI AC Americas Index</td>
<td>7.56%</td>
<td>40.48%</td>
<td>0.19</td>
</tr>
<tr>
<td>S&amp;P EUROPE 350</td>
<td>-15.12%</td>
<td>33.65%</td>
<td>-0.45</td>
</tr>
<tr>
<td>MSCI AC Europe Index</td>
<td>-15.12%</td>
<td>33.97%</td>
<td>-0.45</td>
</tr>
</tbody>
</table>

Notes: Covid-19 period. $\bar{R}_i$ is the annualized mean return, $\delta_i$ is the annualized standard deviation of returns, and the Sharpe ratio is the risk-adjusted return as measured by $(\bar{R}_i - R_f)/\delta_i$. Daily data is pooled over the sample period 1 Jan 2020 to 21 Aug 2020.

Source: (Ashraf et al., 2020)

### II.10. Fintech and the Digital Economy

The pandemic has proved beyond doubt the value of digital services that minimize or eliminate direct human contact. E-commerce companies particularly flourished during the crisis. Moreover, digital money is becoming more important to avoid transmitting the disease through paper money. As an indication of how digital economy is taking over the traditional economy, the market value of the videoconferencing company Zoom, as of 15 May 2020, surpassed the market value of the world’s seven largest airlines.12

The Digital Economy Ministers of the G20, in their meeting on 30 April 2020, emphasized the promising role of digital technologies to strengthen the collective response to the Covid-19 pandemic as well as to enhance the countries’ abilities to prevent and mitigate future crises. The ministers, moreover, noted the importance of access to capital and the role of digital solutions in carrying out production, business activities, and international trade cooperation, so as to maintain the stability of global supply chains. The ministers furthermore encouraged the transition to digitalized production systems, e-commerce, and e-payments. The ministers concluded in their communiqué:

This present crisis carries with it an opportunity for governments to encourage the use of our most advanced technologies in order to prevent, mitigate, treat, and defeat future pandemics, and to facilitate the development of digital innovations that will enable a full economic recovery. The Digital Economy Task Force will encourage the dissemination of current and emerging digital tools for fighting this pandemic. Taking stock of and building on this experience, Italy is open to support and continue dialogue on the application of advanced technologies to fight pandemics in the upcoming G20 Presidency.13

The power of digitalization can facilitate outreach to even the most vulnerable population. A good example is the Ehsaas Emergency Cash Relief program by the Government of Pakistan wherein the program used mobile money transfer to reach more than 6.8 million families in less than a week.14

There is a further possibility that Islamic financial institutions may seize this opportunity, especially microfinance, to expedite the digitalization of their operations by joint venturing with financial technology companies.

14 [https://www.pass.gov.pk/ecs/uct_all.html](https://www.pass.gov.pk/ecs/uct_all.html).
II.11. Safety Nets and Islamic Social Finance

Safety nets can play an important role in two distinct phases of the crisis – the containment phase and the recovery phase. Since we are looking at a health crisis as well as an economic crisis intertwined together, the policy options will have to consider both. The health crisis calls for expenditure for health care, sanitation, testing and increase in the capacity of quarantine centers and hospitals during the containment phase. During the recovery phase, governments should continue with testing, but invest in scientific research establishments and laboratories, greenfield hospitals and healthcare centers in their quest for effective drugs and vaccines and treatment.

Safety nets by governments can take various forms for the household, firms and the financial services sector. Since the impact of the pandemic on these sectors is primarily on their liquidity and solvency, we discuss the policy options to address both. During the containment phase, safety nets should aim at shielding affected people and firms with large, timely, targeted fiscal and financial sector measures, such as through cash transfers, wage subsidies, unemployment benefits, and credit guarantees. Post-containment, measures should aim to foster recovery, bring back business confidence and normalized operations and provision of fiscal stimulus.

Arguably, Islamic social finance institutions should enjoy varying degrees of independence from the governments. A dominant view is that the institution of zakāt should be in the government domain while Sadaqah and awqāf are best nurtured in the voluntary sector. In the context of the pandemic, however, all the instruments of Islamic social finance should be coordinated together and integrated with the fiscal policy of the governments in the form of safety nets and pro-poor expenditure. Except the various subsidies, tax deferrals and asset purchase/sale by the government, most other forms of safety net can use various instruments of Islamic social finance. These include philanthropy-based instruments, such as (i) Sadaqah (free donor funds that can be utilized practically for all purposes – grants, cash transfers, loans, equity), (ii) zakāt (donor funds intended for all the above purposes, as long as the benefits are restricted to the poor and the needy, people in bondage or heavily indebted), and (iii) Sadaqah jariya or waqf (endowed cash or properties or any fixed and financial asset that can be used as per the donors’ stipulated and intended use that can cover practically all purposes, as long as they do not contravene the Sharī’ah). Islamic social finance instruments also include not-for-profit ones, such as, (iv) qard hasan (interest-free loans with or without maturities), (v) cooperative takāful (mutual and community insurance), and (vi) kafālah (guarantee). The application of these instruments is presented in the second and fourth rows of Table 1.6 on integrating Islamic social finance with provision of safety net or fiscal policy of the governments.

Zakāt and Sadaqah are increasingly being used by national and international humanitarian and development agencies as cash transfers that may be conditional or unconditional (recent examples include UNHCR, UNICEF, IFRC, UNDP). These have also been used in many IsDB Member Countries in recent times to create funds for provision of interest-free loans, start-up equity, micro-takāful and other forms of microfinance. During the pandemic, some Member Countries have increasingly used such funds to cover the expenditure on testing kits, protective gears and equipment.

Examples include the MDEC initiative in Malaysia to launch a joint initiative of all charity crowd-funds in the country to raise funds for the above purpose, and the BAZNAS pay-for-work initiative in Indonesia to engage two-wheeler drivers in sanitizing the streets of the capital city.

The institution of waqf is slowly but steadily being pushed into the mainstream through reforms and developing consensus on innovations, such as corporate waqf and temporary cash waqf. There are relevant instances of their application for provision of affordable health care. In the case of the former, an equity stake in a for-profit company or portfolio of companies is placed as waqf and the returns flowing in the form of dividends are used for funding establishments that provide various social goods. Relevant examples include the Vehbi Koc Foundation in Turkey that runs a state-of-the-art hospital and research center and Waqf-An-Noor Corporation in Malaysia that provides affordable health care through its chain of clinics and hospital.

The latter essentially provides a mechanism to raise costless cash resources for a finite time period. A further innovation is to link the temporary cash waqf to a sukūk on which returns need not be competitive and market-driven, since the fund providers for the sukūk are the endowers who do not expect any return for themselves. These instruments can, therefore, be issued at below-market rates. The issuer – sovereign or corporate – is able to meet its funding need. The returns that are generated are used to cover a socially desirable goal. While this promising instrument awaits its mass application, recently there has been a good example that is worth replicating. In the first-of-its-kind experiment, the government of Indonesia issued cash-waqf-linked-sukūk to fund its infrastructure development. The returns were utilized by Indonesia Waqf Board (BWl) to fund a hospital and several other projects.
<table>
<thead>
<tr>
<th>Phase</th>
<th>Health Sector</th>
<th>Household</th>
<th>Firms</th>
<th>Financial Services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Liquidity</td>
<td>Solvency</td>
<td>Liquidity</td>
<td>Solvency</td>
</tr>
<tr>
<td>Containment Phase</td>
<td>Expenditure for health care, sanitation</td>
<td>Relief on loan and mortgage payments</td>
<td>Direct cash transfers (3)</td>
<td>Restructuring Loans (5)</td>
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<td></td>
<td>Testing</td>
<td>Utility payments (2)</td>
<td>Rent subsidies</td>
<td>Tax deferrals</td>
</tr>
<tr>
<td></td>
<td>Hospital capacity (1)</td>
<td>Tax deferrals</td>
<td>Unemployment Insurance (4)</td>
<td>Asset purchase</td>
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<td>ISF Response</td>
<td>(1) Zakāt, Sadaqah</td>
<td>(2) Z-S-TCW</td>
<td>(3) Z-S-TCW</td>
<td>(4) Takāful Ta’awuni</td>
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<td>Temporary Cash Waqf (Z-S-TCW)</td>
<td>(8) Kafālah</td>
<td>(9) Z-S-TCW</td>
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<td>Recovery Phase</td>
<td>Scientific Re-search Establishment and Laboratories (10)</td>
<td>Unwinding of support</td>
<td>Unwinding of support</td>
<td>Balance sheet repairs</td>
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<td></td>
<td>Greenfield Hospitals and Health-care Centers (11)</td>
<td>Hiring subsidies</td>
<td>Debt restructuring</td>
<td>Government to unwind holdings (12)</td>
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<tr>
<td>ISF Response</td>
<td>(10) Temporary &amp; Perpetual Cash Waqf</td>
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<td>(11) Cash, Property, Corporate Waqf</td>
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<td>(12) Cash &amp; Corporate Waqf</td>
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<td></td>
<td>(13) Cash &amp; Corporate Waqf</td>
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Table 1.6: Integrating Islamic Social Finance with Safety Net (Fiscal Policy)

While the above instruments of Islamic social finance hold a lot of promise, the introduction of Islamic fintech has provided a boost to their mainstreaming. Traditionally a global approach to Islamic social finance institutions, such as zakāt, was frowned upon as it was perceived to make due-diligence and monitoring costlier and more difficult. A localized approach was preferred. However, the advent of fintech has changed the rules of the game. Several initiatives in IsDB Member Countries have demonstrated that the application of fintech can raise efficiency to a level where logistics related costs can be minimized to a negligible level. Application of fintech can also drastically reduce informational asymmetry between donor and beneficiaries; and ensure due diligence and monitoring with complete transparency. This has a huge positive impact in mitigating the trust-deficit between donors and zakāt management institutions.
PART III. SUMMARY AND CONCLUSIONS

- Principles of Islamic finance help the economy to avoid endogenously generated crises such as the Global Financial Crisis (2008-09) and provide a strong safety net against exogenously induced cycles.
- The debt-induced response to boost demand might cause the economy to shift in 'debt trap' and lose its potential growth and suffer from "secular stagnation."
- Pushing the economy out of a "debt trap" requires unconventional policies, including wealth tax and debt forgiveness, among others which are in line with the principles of Islamic finance.
- The Covid-19 crisis is an exogenously induced downturn of the economy. In such circumstances, a strong safety net (both governmental and private) constitutes the primary line of defence to protect the economy and most vulnerable section of the society.
- Overall, the Islamic financial industry shares the costs of the downturns with the conventional industry. In some sectors, like equities, Islamic assets tend to perform relatively better.
- The banking sector is liquidity constrained as withdrawals have increased considerably from deposits maintained by various governments or government-related institutions, while liquidity lines from central banks are filling up quickly.
- The capital markets, an essential source of capital, are not immune from the impact of Covid-19. With a flurry of expected credit rating downgrades, fund availability will be limited to high-quality issuers, which will likely result in greater severity.
- Among most countries where the Islamic banking sector is systemically important, i.e. where it has reached a share of 15 percent or higher, the banking sector provides capital to the economy and especially to small businesses.
- To deal with the Covid-19 crisis, central banks have announced various measures for liquidity support to the banking sector, including (i) lowering reserve requirements, (ii) lowering of the regulatory capital buffer, (iii) bond/Sukūk buying programs, and (iv) availability of central bank credit lines (reverse repo). The first two measures help both the Islamic and conventional banks – however, the last two measures in some jurisdictions are hard to obtain, either due to non-availability or legal impediments. There is a clear need to look at the challenges of liquidity management for Islamic banks, especially in the wake of loan deferment programs in place for various jurisdictions offering Islamic finance and are also systemically important.
- The impact of the lockdown is more debilitating to microenterprises and SMEs as it adversely affects their operability. The fears are MSMEs may not be able to service their debts after the moratoriums, if they get one. The real challenge would be the survival of microfinance institutions (MFIs). Some estimates suggest that MFIs providing only financing to MSMEs may not survive through the lockdown if it exceeds more than two months. Others suggest that the slipping of repayment rates from 95 to just 85 percent would render many MFIs insolvent in less than a year.
- Given the dire situation, there is a need to look beyond lending or easing of payments, especially to non-farm MSMEs. The success of start-up grants and equity financing in developed countries indicates that there is a need to look at micro-equity financing as an alternative option on a risk-sharing basis for microenterprise development.
- In the context of the pandemic, all the instruments of Islamic social finance – zakāt, Sadaqah, waqf, takāful ta’awuni – should be coordinated together and integrated with the fiscal policy of the governments in the form of safety nets and pro-poor expenditure.
- Except the various subsidies, tax deferrals and asset purchase/sale by the government, most other forms of safety net can use various instruments of Islamic social finance. Governments may look at issuing Sukūk that is linked with temporary cash waqf to mobilize social and benevolent funds at below market rates for financing various safety net measures. Cash and corporate waqf funds may have a useful role when the government begins unwinding its holdings of corporate assets in the recovery phase.
- The work of Fintech companies is lauded for their financial inclusion as these companies often work with microenterprises and fringe borrowers with a minimal financial record from informal sectors.
- There is a possibility that Islamic financial institutions may seize this opportunity, especially microfinance, to expedite the digitalization of their operations by joint venturing with financial technology companies. Such a merger would be a win-win for all parties, including microfinance institutions, Fintech companies, and above all, borrowers and investors.
References


Sen, A. “A better society can emerge from the lockdowns,” Financial Times, April 15.


2.1. Introduction

On 11 March 2020, the World Health Organization (WHO) declared Covid-19 a pandemic. The magnitude of the Covid-19 outbreak demonstrates that the world was not prepared for large-scale pandemics. And the toll is high, reaching close to a million deaths and nearly 33 million people infected globally as at 26 September 2020. The immediate response to the health crisis led to lockdowns and sudden freezing of economic activities. Both the governments and International Financial Institutions (IFIs) announced economic packages to help countries to counter the health consequences of the pandemic and bolster post-lockdown economic recovery.

Most IsDB Member Countries (MCs) are low- or middle-income countries, with weak healthcare systems and low ratio of health workers with limited capacity to effectively tackle the negative repercussions of the crisis. These countries are therefore extremely vulnerable. Many of the countries also have limited resources and systems to put up an effective action plan and response to the outbreak. In addition, several IsDB MCs largely rely on commodities, tourism, SMEs and foreign investment and capital inflows to drive their growth and hence would be severely affected due to global economic and health crisis.

As an immediate response to the Covid-19 pandemic, the IsDB Group committed up to USD 2.3 billion funding package to be extended to its Member Countries in support of country efforts to fight against the pandemic and to address the adverse effects on their economies. The program envisages a holistic approach in the short-, medium- and long-term, accommodating priorities beyond the health sector, considering that the Covid-19 pandemic not only affects people’s health but has also a knock-on effect on their livelihoods through the loss of income and a broader economic slowdown. In order to streamline the support to MCs at different stages of the response capacity and recovery trajectory, the package consists of a Respond, Restore & Restart program, economic empowerment, and partnership development.

Source: IsDB Group.

Figure 2.1: IsDB Dashboard for the Response to COVID-19.
2.2. Respond, Restore and Restart (3R)

The 3R is the flagship IsDB Group-wide program and consists of three tracks:

(i) **Respond** track proposes immediate and fast disbursing actions to assist MCs’ response and mitigate the adverse impact of Covid-19 pandemic

(ii) **Restore** track addresses medium-term actions to strengthen the health and economic systems to overcome the pandemic’s peak

(iii) **Restart** track supports long-term actions to kick start the economy on a solid and resilient foundation and catalyze private investment.

2.2.1. Respond

2.2.1.1. Objective

The Respond Track addresses both the emergency needs of the MCs in terms of health and food security to respond to the spread of Covid-19 pandemic as well as medium-term measures to build the preparedness for future epidemics. In order to support the differentiated and specific needs of the MCs at different stages of the pandemic, the specific projects/ interventions are tailored to the context of each MC. In principle, it comprises of three sub-components:

(i) Healthcare Emergency Response
(ii) Food Emergency Response
(iii) Strengthening the Health Systems.
2.2.1.2. Healthcare Emergency Response

The healthcare emergency response includes immediate and fast track actions to assist MCs in responding to the health emergency. The interventions cover the whole spectrum of activities ranging from prevention measures to diagnosis and treatment, depending on the need of the MC. Key activities include, but are not limited to, the following:

- Strengthening national pandemic coordination and response mechanisms at the country or regional level
- Securing the supply chain of Covid-19 related medical supplies to sustain the provision and production of medical supplies, equipment, and testing kits to control and prevent Covid-19

- Support in strengthening the identification, tracing/tracking, diagnosis, quarantine and disinfection systems/infrastructure
- Training of the medical staff on massive case management, pandemic preparedness, and response
- Communication, preparedness, and awareness among the general population
- Supporting the healthcare/pharma/medical equipment supply chains to ensure the availability of necessary supplies
- Sharing best practices across countries in Covid-19 preparedness and response

2.2.1.3. Food Emergency Response

Food emergency response consists of actions to support MCs in the confrontation of the impending food security crisis attendant on the socio-economic consequences of the global coronavirus pandemic. Key interventions include, but are not limited to, the following:

- Support the operations of agricultural and food supply chains to avoid disruptions
- Ensure resilience and mitigation of social disruptions by increasing local food productivity and water access

- Support the advocacy on avoiding food waste and post-harvest losses
- Provide emergency food aid
- Reply to the needs of the most vulnerable, and scale up social protection programmes including cash transfers
- Develop trade incentive

2.2.1.4. Strengthening the Healthcare Systems

Strengthening the healthcare systems comprises of medium-term actions to strengthen the health systems to cope with the protracted crisis and to build the capacity of health systems to respond to such epidemics in the future. The interventions include the following:

- Undertake epidemic preparedness assessment to assess capacity gaps and prepare national emergency contingency plans
- Preparation/enhancement of and response planning/capability for Emerging Infectious Diseases (EIDs) including interventions for mitigation of the impact of health emergencies especially by strengthening infrastructure and building local capacities
- Accelerating access and availability of candidate therapeutics, vaccines, innovative diagnostic kits and other advanced technology to enable better preparedness and response

- Bolstering health sector infrastructure and human capital to sustain continuous services and to avoid reoccurrence of outbreak in other regions
- Support and promote medical innovation, research and development in Member Countries, including through provision of scholarships as well as research grants
- Strengthening medical supply chain logistics in case of lockdowns and quarantines to ensure continued provision
- Support to MCs’ private industries with the comparative advantage for scaling up the production and supply of vital medical supplies, vaccines, and equipment. In this respect, IsDB will seek to use its convening power and work with the Organization of Islamic Cooperation (OIC) to operationalize the various trade agreements that will support intra-OIC preferential trade for essential commodities and medical supplies.
Box 2: IsDBG’s Response Framework: ‘Strategic Preparedness and Response Program (SPRP)’

In response to the Covid-19 pandemic, the IsDB Group approved the Strategic Preparedness and Response Program (SPRP) in April 2020. The objective of the SPRP Program is to support the MCs efforts in containing, mitigating and recovering from the impact of the Covid-19 pandemic. The program comprises of two key components: (i) Health Emergency Response and Preparedness, and (ii) Sustaining and Reviving the Economic and Social Sectors. The program takes a holistic approach under each component focusing on interventions that span Response, Restore and Restart (“the 3R approach”) spectrum, aligned with the emergency needs, continuity of health support and economic activity and rebuilding resilient economies in post-crisis period.

The total amount approved for the program is US$2.28 billion, which comprises US$1.58 billion from IsDB, Islamic Solidarity Fund for Development, and King Abdullah Program for Charity Works, and US$700 million from IsDB Group entities including ITFC, ICIEC, and IRTI.

Since the approval of the program, the IsDB Group has engaged with the MCs and other stakeholders to establish the strategic engagement in each MC and to identify appropriate projects that can be financed from SPRP resources.

As of 14 May 2020, the total assistance announced by H.E. the President, in meetings with MCs, has so far reached US$ 1.86 billion for 27 Member Countries. The technical teams from IsDB and about 15 Member Countries are in discussions to estimate their basic needs to finalize their financial packages as part of the first stage (i.e. Respond) of IsDB Group support that will cover their needs in the short, medium and long terms.

2.2.2. Restore

2.2.2.1. Objective

The Restore track envisages financing for (i) SMEs and (ii) Trade to sustain activity in core strategic value chains, to ensure continuity of the necessary supplies mainly to the health and food sectors, and for other essential commodities. ICD will act as the Group Execution Agent for Lines of Finance to SMEs in MCs, while ITFC will be the Group Execution Agent for Trade Finance operations. The projects will be revolving 12-18 months financing lines through Exim Banks and IFIs. This support will be fully backed with a sovereign guarantee and priced in line with the IsDB pricing guidelines.

The lines of finance will carry a prioritization matrix to be developed in conjunction with government PS support programs.

2.2.2.2. ICD-Managed Lines of Finance

Given the crisis situation, it is proposed to support MCs rapidly with an economic stimulus through short and medium financial intermediation to reach SMEs. It is therefore considered to have IsDB and ICD joining funds to provide Commodity Murābahah-based Line of Finance (LoF) for liquidity support and Wakālah-based LoF for short- to medium-term asset financing.
2.2.2.3.  *Wakālah Structure*

ICD extends a line of finance to a Financial Institution (FI) operating in a Member Country on a *Wakālah* (agency) basis to be channeled to finance eligible beneficiaries/projects (defined and selected SMEs).

ICD gives the FI the authority to act as its agent in respect of *Murābahah* contracts to be entered into with beneficiaries and purchase/supply agreements with suppliers with respect to the line of finance. The FI can be Islamic or conventional institutions provided that Sharī’ah-compliant financing facilities (partnership criteria) are extended to beneficiaries. It provides an irrevocable and unconditional guarantee to ICD covering the potential default of the beneficiaries. The FI monitors beneficiaries and provides ICD with quarterly reports detailing inspections, progress and expenditure.

2.2.2.4.  *Commodity Murābahah Structure*

ICD extends a line of finance to a Financial Institution operating in a Member Country pursuant to which the FI enters into a *Murābahah* transaction and uses the proceeds to finance eligible beneficiaries/projects (defined and selected SMEs).

**Box 3: Response of the Islamic Corporation for the Development of the Private Sector (ICD)**

Since the beginning of the outbreak, ICD is closely observing the rapidly evolving Covid-19 situation in the Member Countries. In order to help its MCs in their fight against Covid-19, in line with 3R initiatives, the ICD Management has taken the following business actions:

**Urgent Financing Package**

US$250 million allocated from ICD resources, which will be directed towards the following activities:

a. **Line of Finance** (including transactions with government-backed/guaranteed facilities). In this regard, LoF team has prepared a list of Financial Institutions to benefit from similar facilities with the aim of supporting the private sector businesses affected by Covid-19 pandemic. Selected counterparts are either state-owned banks or regional IFIs with strong financials and desired risk profile. In this regard, ICD has proposed a special LoF product which is standardized (Commodity *Murābahah*) with same terms and conditions / 1Y renewable / same pricing for all transactions with the aim of supporting the private sector businesses affected by the pandemic. Further, ICD will work closely with 100+ local and regional financial institutions in its network to provide necessary support so they can continue to finance SMEs in affected sectors within the markets they operate.

b. **Term Financing** /Infrastructure financing for healthcare, energy and agri-business sectors. The Term Finance can identify some feasible projects in the field of healthcare and public services to be financed in mostly affected member countries.

c. **Equity Investment** and Collaboration with/through ICD investee companies and other financial institutions in ICD network (including onward lending from/through them). Many investee companies of ICD are facing the issues related to timely collections of client financings and eventually having some predicted NPLs. In this regard, the equity team of ICD has worked on an emergency plan to support those investee companies through additional equity injections and/or extending lines.

d. **Connecting healthcare**/medical services in advanced Member Countries with the Member Countries requiring medical services. As a part of South-South cooperation or Reverse Linkages framework, ICD is also working closely with some clients and counterpart with advanced healthcare endowments to be transferred or extended to geographies where the help is needed the most.

**New Products/Platforms**

ICD to introduce new products/mechanisms for addressing the requirements of its Member Countries (such as government guaranteed line of finance facility, etc.)

**Introducing Fast Track Processes**

ICD also is adopting a fast-track approach (for approval & disbursement processes) to respond to Member Country requirements in an agile manner.
Generally, import financing is supported through standard Murābahah financing. Under this mode, ITFC will purchase the commodities from the supplier and then sell them to the beneficiary with a deferred payment arrangement. The difference between the purchase price and the sale price is a reasonable markup added to the purchase price.

**2.2.2.5. ITFC-Managed Lines of Trade Finance**

As an Executing Agency for trade finance operations, ITFC will employ its standard financing mechanisms to extend support to MCs for the import and pre-export of necessary goods under Restore track.

**2.2.2.6. Import Finance**

Generally, import financing is supported through standard Murābahah financing. Under this mode, ITFC will purchase the commodities from the supplier and then sell them to the beneficiary with a deferred payment arrangement. The difference between the purchase price and the sale price is a reasonable markup added to the purchase price.

**2.2.2.7. Pre-Export Finance**

In pre-export finance, ITFC will purchase the commodities from the local supplier and then sell them to the beneficiary with a deferred payment arrangement under the Government guarantee for realization of the final product by the beneficiary. The beneficiary will then process the commodity and export the final product and re-pay ITFC from proceeds of that export operation.
Box 4: ITFC Response to Covid19

ITFC is engaging closely with government stakeholders, partners, businesses, and the financial institutions to assess the type of interventions required. That dialogue enabled ITFC to respond in a coordinated manner to soften the economic fallout on our MCs. The comprehensive response includes providing immediate crisis-related technical assistance programs, including capacity building for medical personnel and capacity enhancement of laboratories. ITFC is also assisting in sourcing medical equipment and medicines from its network.

US$ 300 million is made available through ITFC’s Covid-19 ‘Rapid Response Initiative’ (RRI) to enable countries procure needed medical supplies as well as essential food commodities. These funds are being directly funnelled towards eligible OIC Member Countries in most need of support – for critical supplies of energy, healthcare, food security and other life support requirements. ITFC is in continuous consultations with OIC Member Countries to ascertain their most pressing needs as the pandemic unfolds. In addition, the program includes financing for financial institutions in Member Countries designed to enhance access for funding to Small and Medium Enterprises (SMEs), an important sector for employment and income generation.

An additional fund of US$550 million is earmarked under the ‘Recovery Response Program’ (RRP) for deployment over the next two years. The RRP is aimed at fixing the socio-economic damage which is expected to last longer than the immediate impact of the virus.

ITFC is actively engaging international, regional and local partners as a strategic means of scaling these interim financing measures to contribute to the critical needs of the Member Countries and where necessary, on the mobilization of trade development support services during the pandemic. This includes helping OIC Member Countries with strategies for the control and production of healthcare facilities.

Status of the Strategic and Operational Measures taken by ITFC

<table>
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<th>Items</th>
<th>US$</th>
<th>Remarks</th>
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<tr>
<td>Total Covid-19-Related Requests from MCs (New Financing &amp; Repurposed)</td>
<td>1.0 billion</td>
<td>15 MCs</td>
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<td>Total Approvals till end of July 2020 including new Financing &amp; Repurposed</td>
<td>556 million</td>
<td>Egypt, Maldives, Mali, Mauritania, Senegal, Suriname, Turkey, Uzbekistan &amp; AfreximBank</td>
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<td>Total Disbursements till end of July 2020</td>
<td>328.3 million</td>
<td>Egypt, Maldives, Senegal, Suriname, &amp; AfreximBank</td>
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<tr>
<td>Pipeline Under Process (under consideration)</td>
<td>191 million</td>
<td>Bangladesh, Benin, Cote D’Ivoire, Morocco, Nigeria, etc.</td>
</tr>
<tr>
<td>Products Financed</td>
<td>Medical Supplies, Food Security, SME Support</td>
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</table>

**Capacity Building and Technical Assistance:**
- Requests received from MCs for training, purchase of equipment supply, food safety & supplies and support for distance learning infrastructure. The MCs include Maldives, Kyrgyzstan, Benin, Burkina Faso, Tunisia, Palestine, Afghanistan, Tajikistan, Sudan and others.
- Support is being extended to the Institut Pasteur and similar laboratories in the region (Benin, Burkina Faso, Cameroon, Chad, Cote D’Ivoire, Guinea, Mali, Mauritania, Niger and Togo).
- Support is being extended to Cote d’Ivoire for a food safety project in the production of Rice in the country.
2.2.2.8. Funding Sources

2.2.2.8.1 From Other MDBs & DFIs
The Emergency Country Platforms\(^{18}\) are set to provide transparent, quick and efficient way of responding to the needs of MCs, providing an easy way for other MDBs to extend trade finance facilities to support the countries in need. These blockchain-based country platforms will ensure effective coordination, country ownership and financial efficiency, hence establishing a value proposition for other MDBs and DFIs to join the platform and channel their programs through IsDB-designed support modality.

![Emergency Country Platform Diagram]

**Figure 2.6: Emergency Country Platform**

Furthermore, ICD and ITFC are developing their capacity to lead LOF syndication transactions with other MDBs and DFIs.

2.2.2.8.2 From Private Sector
In order to mobilize additional resources for trade and SME finance from private partners, IsDBG Covid Guarantee Facility (IsDBG CGF) is being set up and will be rolled out under Country Platforms. The facility will pull together funding from IsDB, ICIEC and external partners, whereby ICIEC will act as Executing Agency for the IsDBG CGF. The facility will help mobilize resources through parallel lending and IsDB A/B loan structure mechanisms by providing guarantees to external partners though pre-set tranching mechanism. Operations of the Country Platforms are subject to sovereign guarantee wrap, which will be triggered as the first cushion in case of default. Payments to external parties will be honored through IsDB CGF in case of the inability of the Government to pay due amounts.

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\(^{18}\) Within the IsDB Global Coordination Platform, there are nodes representing the country platforms, the countries are owners of their country platforms. There are 25 country platforms for the onboarded countries. The plan is to have as many countries as possible.
BOX 5: ICIEC RESPONSE TO COVID-19 PANDEMIC

The Islamic Corporation for the Insurance of Investment & Export Credit (ICIEC) is specialized in providing risk mitigation solutions to facilitate cross-border trade and investments for its Member Countries. Such risk mitigation tools include trade credit insurance, investment insurance and insurance of sovereign financial obligations.

Along with the IsDB Group entities, ICIEC has committed to support its Member Countries in combatting the Covid-19 pandemic and its economic implications within its specific mandate.

In this respect, ICIEC is supporting its Member Countries during this crisis through various actions and services, as follows:

i) Insurance of imports of medical equipment and strategic commodities:
   a. ICIEC insures LC confirming banks against the non-payment risk of LC issuing banks for the import of medical equipment and strategic commodities.
   b. ICIEC insures banks for their financing to the governments of Member Countries related to the import of medical equipment and strategic commodities.

ii) Insurance of healthcare-related projects: ICIEC received requests from financial institutions to insure their financing to governments of Member Countries for the construction and upgrade of healthcare facilities and is giving priority to these projects.

iii) Insurance of financing to governments of Member Countries aiming at supporting SMEs affected by the Covid-19 pandemic.

In parallel, ICIEC is working on various initiatives with many partners within and outside the IsDB Group. Some of these initiatives are still at the development stage:

Partnerships within the IsDB Group

- ITFC: ICIEC Tranche-based Syndication Framework
- ISFD: A collaboration framework has been developed between ICIEC and ISFD to optimize MCs benefits from ISFD grant offered to ICIEC which should reduce the cost of financing of the Member Countries
- IsDB: ICIEC and the Economic Empowerment Department of IsDB are exploring an initiative to support MSMEs in Member Countries.

Other partnerships

Ongoing discussions on various initiatives and structures for cooperation with MDBs and DFIs in order to scale up insurance capacity that helps to mobilize more financial resources to Member Countries. Among those institutions, ICIEC is in active discussions with Afreximbank and AfDB on certain Covid-19 initiatives.
IsDB CGF will leverage on MC guarantees for the Restore PS operations and will optimize the usage of the country portfolio CUCs. This will be done through project portfolio CUCs that will be repurposed from an active portfolio to the facility based on discussions with the MC Government.

The commitments will be for a 3-year period from projects that the Government deems to be of low priority given the backdrop of pressing needs stemming from the Covid-19 pandemic. These projects will be either repurposed or frozen for the period of 3 years and will resume implementation once the IsDBG CGF is unwound.

2.2.3. Restart

2.2.3.1. Objectives

The focus of the Restart Track is on “Economic Resurgence” by assisting the MCs to kick start the economy towards a sustainable growth path. Under this track, in parallel to Respond and Restore track activities, project preparation will be launched for large scale infrastructure projects, identified as essential for enhancing the global value chains (GVCs) in the country. This track will deliver long-term actions to build resilient economies on solid foundations.

2.2.3.2. Products

The main product under this track will be a special project preparation vehicle, established jointly between IsDB and MC, as equity participation from both sides, that will have the capacity to prepare, structure, and tender to the bankable market projects in line with Member Country Partnership Strategy.

2.2.3.3. Funding Sources

Funding for the Restart track will be sourced through the repurposing of the current country portfolio based on projects’ prioritization discussion with the MCs. Additionally, new allocations under the Annual Work Program may be channeled towards the Restart track to avail initial funding necessary to implement project preparation activities. The focus of the track will be bankable projects that can be tendered to the market as Public-Private Partnership (PPP) projects to attract private funding in equity (by sponsors) and debt (by syndicated banks).

2.2.3.4. Implementation Arrangement

The initial funding sourced for the track through the repurposing of the existing portfolio of the bank will be used to conduct necessary Global Value Chain studies to reveal the key industries and projects that need to be implemented to kick start the economy in the post-pandemic phase. Once these project interventions are identified, those categorized as potentially bankable, i.e. likely to attract private sector interest through PPP procurement modality, will be included in project preparation vehicle, co-managed under the Emergency Country Platform with the government of the MC.
The project preparation vehicle will then conduct necessary feasibility studies to structure bankable transactions tailored to the appetite of private investors. Through tendering, these transactions will be presented to the market for sponsors to undertake project activities and raise the required debt financing to complement the sponsor’s equity injection.

**Box 6: IsDB/CPC Contribution towards Implementation of SPRP**

The Country Program Complex (CPC) is spearheading the IsDB’s efforts and coordination with all internal and external stakeholders to roll out the SPRP to ensure that the Banks’ assistance is delivered to the MCs as quickly as possible.

**Strategic Resource Allocation Model:** In an effort to allocate IsDB’s resources through a systematic and strategic approach, a Strategic Resource Allocation Model and an associated Country Needs Assessment Framework was developed to prioritize the support to MCs. The resource allocation model combines: (i) impact and needs assessment of MCs, (ii) analysis of IsDB’s existing OCR portfolio across MCs to ensure optimal repurposing and minimization of disruption to the existing active portfolio, and (iii) analysis of IsDB’s financial sustainability constraints such as disbursement and headroom limits. The combination of these three dimensions into one real-time, dynamic tool enables the Strategic Resource Allocation Model to generate a fair and equitable resource allocation to MCs with due consideration to preserving IsDB’s active portfolio and financial sustainability. Further, the model aids in designing the projects with the right scope for the 3R pillars of the SPRP based on the country needs and the financial envelope available to it. Under the model, US$1 billion is earmarked for R1 interventions’ disbursements during 2020.

**Country Dialogues:** The IsDB Management engaged in extensive country dialogues with 43 MCs that have requested financial support for tackling Covid-19 and discussed country needs, support along with a presentation of the Program and support modalities. During subsequent discussions, technical teams from both sides identified needs and agreed on a tentative financial package that included the utilization of savings, repurposing of previously approved projects as well as allocation of new funding from the 2020 Annual Work Program. Following these technical meetings, H. E. the Chairman, IsDBG held virtual meetings with their Excellencies, the Governors of the countries involved, to firm up the proposed financial package and assuring them of the full support of the Group in delivering the package. H.E. the Chairman of IsDBG also introduced the MCs to the new innovative Blockchain Country Platform that will be used for delivery of IsDB package if preferred by the country. Of the 42 countries with whom the technical meetings were held, H. E. the President has already engaged with the Governors of 34 MCs as of the date of this report and plans are in place to reach out to the rest of the Governors. The CEOs and DGs of the Entities of the Group also engaged with selected MCs that requested private sector support, including trade finance, SME finance and investment and credit insurance.

**Projects Processed to-date:** The Bank received 43 official requests seeking support to tackle the impact of Covid-19. The Bank has worked with the technical agencies of the MCs and other stakeholders to translate these requests into bankable interventions using the fast-track business processes and procedures approved by the BED in the SPRP. The Bank’s internal fast-track procedures allowed the formulation of quick project documents that were subject to reviews and validation by internal technical committees. So far, a total of US$ 524.47 million worth of operations were approved out which the Bank’s approval amounts to US$ 116.26 million and US$ 6.80 million by KAAP.
Any program of the 3R magnitude has its own challenges and new opportunities. One of the biggest challenges could be the financing itself. IsDB has adopted a three-pronged strategy for this purpose. This includes repurposing of existing facilities, issuance of Covid-19 Sukūk and seeking partnership with other major players including MDBs.

2.3.1 Sukūk Issuance: Covid-19

The IsDB innovative 3R initiative instantly reoriented its funding strategy and capital market activities. Reflections were focused towards IsDB marking its footprint in the capital market by issuing a Covid-19-related Sukūk to support the fight against the pandemic.

In the global capital markets, supranational institutions have been issuing Covid-19-related conventional bonds to support the fight against the pandemic in the world. IsDB Treasury was aligned toward the same approach. Since early March 2020, the IsDB Treasury is putting together necessary actions to make its next issuance a Covid-19-related one.

The issuance project is named “Project 3R” with the objective to issue a benchmark Sukūk with a 3/5 years maturity subject to the market conditions at the time of issuance.

In this regard, expertise work was conducted on the Sustainable Finance Framework (SFF) of the Bank to ensure its support to a Covid-19-related Sukūk issuance. [The SFF was established in November 2019 and was used to issue EUR 1 billion as a Debut Green Sukūk in November 2019]. After reviews and consultations with experts, it was found that the Social Projects Categories of the SFF could fully cover a Covid-19-related Sukūk.

Despite the volatility in the capital markets, IsDB issued the First Sustainability Sukūk for US$ 1.5 billion listed on Nasdaq Dubai to support Covid-19 relief initiatives. The capital raised will fund medical, social and business projects in many of the bank’s 57 Member Countries (MCs) aimed at protecting health and improving lives.

The IsDB Covid-19-related Sukūk is the first Sukūk in the market showing the contribution of the Bank in the capital market in the area. The proceeds of the trade will be directed to the affected countries in sectors impacted by the Covid-19 pandemic including healthcare, Islamic SME businesses, sanitation, etc. The Sukūk will disclose how its proceeds are used hence providing an attractive prospect for investors who want to know how their money is used. Through its issuance, the IsDB Treasury is playing an important role in the Islamic financial industry by bringing investors around the world to invest in an Islamic product aimed at fighting the Covid-19 pandemic.

IsDB Covid-19-related Sukūk issuance could serve as a starting point for other Islamic financial institutions, corporate and sovereign, to issue the same in the coming weeks or months. These Sukūk can contribute to the speedy recovery of industries affected by the pandemic.

The Sukūk is the second to be issued under IsDB’s Sustainable Finance Framework, following its debut Green Sukūk last year and is the first ever AAA-rated Sustainability Sukūk in addition to being the first Covid-19-related Sukūk in the global capital markets. It brings the number of IsDB Sukūk listed on the region’s international exchange to 12 with a total value of US$ 16.14 billion.

2.3.2. Accelerating Operational Disbursements

The IsDB’s response to Covid-19 crisis to help the affected MCs includes accelerating the operational disbursement for earlier approved projects. This could somehow reduce the economic impact on the affected MCs by way of liquidity injection to their economies as a result of their limitation to raise the required cashflow to fund the stimulus packages at favorable rate or their not being able to raise funds at all, especially the non-rated MCs. On that ground, about ID800 million worth of projects have been identified for disbursement within 2-3 months. That translates into about double or triple of the disbursement size during normal business scenario.

2.3.3. Partnerships Development

IsDB, through its network, lead several initiatives for the institutional coordination with development partners for global coordination/alignment and to harness additional support, whenever feasible, as well as design and delivery capacity. The response to Covid-19 pandemic is not any different. The sheer scale and extent of the Covid-19 crisis made joining forces with development partners imperative, starting with multilateral and collective forces such as
IFIs, UN system, OIC, ACG and the G20, to name a few, in order to create a collective response to save lives and livelihoods. The aim of the partnership efforts is addressing the public health crisis and its economic and social impact, as well as to prevent a protracted global recession.

2.3.3.1. Coordination With Partners

There are several initiatives on which IsDB is working with other partners for co-financing and exploring joint procurement for two reasons. First, it is well known that procurement is the main bottleneck for deploying assistance. Second, the very high demand from advanced nations for medical supplies and equipment (incidentally, most of it from China) is leading to significant price hikes that only advanced nations can afford, cutting access to developing nations.

In terms of financial assistance, MDBs have collectively committed around $250 billion in response to the Covid-19 pandemic, while the IMF has increased its lending capacity to $1 trillion. The Total Financing Package is tailored to respond to the health, economic and social counter cyclical shocks by providing timely containments measures.

As of 10 July 2020, and pursuant to the effort to mobilize additional resources, MDBs have succeeded to collectively increase their total financing package. In terms of Boards Approval Commitments while facing market uncertainty and volatility, MDBs were able to secure a total US$ 88.2 billion and will increase their commitments to $104 billion by 31 December 2020.

2.3.3.1.1. Arab Coordination Group

The Arab Coordination Group (ACG) consists of ten institutions. Four of these are national institutions, namely the Kuwait Fund for Arab Economic Development, Saudi Fund for Development, Abu Dhabi Fund for Development, and Qatar Development Fund. Five are regional organizations, namely the Arab Fund for Economic and Social Development, Islamic Development Bank, OPEC Fund for International Development, Arab Bank for Economic Development in Africa, and Arab Gulf Program for United Nations Development Organizations (AGFUND). The tenth institution is the Arab Monetary Fund. The ACG members have collectively announced $10 billion in response to the Covid-19 crisis. The IsDB is leading the coordination of the implementation of the ACG Covid-19 package, with a view to identifying financing opportunities and putting in place a commitment tracker.

2.3.3.1.2. G-20

During the G20 Finance Ministers and Central Bank Governors Meeting on 15 April 2020, MDBs collectively announced a total commitment of US$ 200 billion for emerging and low-income countries as a global response package to Covid-19. Furthermore, the IsDB is currently coordinating the MDBs position on the DSSI (Debt Service Suspension Initiative), a G20-led moratorium on official bilateral debt owed by low-income countries.

2.3.3.1.3. The UN system and other IFIs

The IsDB has recently put in place a series of framework agreements with the agencies in the UN system that set out the terms of its joint Covid-19-related engagement with these organizations. Moreover, Global Country Platform onboarding sessions for these UN partners were subsequently organized. The bulk of the IsDBG Covid-19 response package is currently being quickly delivered in partnership with the UN system (e.g., UNOPS, UNICEF, UNDP, WHO, WFP) and IFRC.

Similarly, the Bank is currently engaged in Covid-19-related (mainly country-focused) conversations with the UK (DFID) and Japan (JBIC and JICA).

2.3.4. Muslim Philanthropy

Covid-19 provides an opportunity to engage meaningfully with Muslim philanthropists. The Global Muslim Philanthropy Fund for Children (GMPFC) could be used as a platform to engage with Muslim donors. The Bank and UNICEF have already drawn Covid-19-related funding proposals to be included in the GMPFC pipeline of projects.
Box 7: IsDB Experience with Lines of Financing

Given the importance of SMEs in economic growth and employment, governments attempt to shield them from adverse economic impacts and attempt to provide them with resources to flourish. This is also the case during the Covid-19 pandemic. However, IsDB Member Countries face enormous fiscal difficulties and their ability to provide sovereign guarantees are limited especially during economic crises such as the ongoing Covid-19 pandemic. During such times, the support of international institutions, including IsDB, play an important role in building resilient economies around the globe. At the center of this support stands the drive to increase access to finance for SMEs, most often through the provision of line of financing schemes that are not backed by sovereign guarantees. This is especially relevant in Member Countries where the provision of sovereign guarantees represents a fiscal strain on an already strained budget.

The IsDB is currently in the process of developing new LoF products to serve these objectives. The new mechanism is expected to provide IsDB and other MDBs with the opportunity to intervene through a wider spectrum of modalities and increase the possibilities to customize the interventions according to the specific needs and conditions of Member Countries. The increased provision of credit to SMEs through non-sovereign guarantee backed LoFs will potentially lead to a preservation of jobs during the difficult times.

2.4. IsDB Economic Empowerment Initiatives

Due to the impact of Covid-19 on the most vulnerable populations, IsDB has initiated programs to support several economic empowerment initiatives by combining the resources from the bank, ISFD, and APIF. These initiatives include those directed to support Member Countries to deal with the dual crises: health and economic. In this regard, special arrangements are made to support the health sector. Also, IsDB is involved in various capacity building programs, providing grants, and direct and indirect financing initiatives to support the most vulnerable MSMEs sectors.

The MSMEs form the backbone of several of our MCs’ economies and they represent the most affected economic agents. The MSMEs represent more than 90% of the registered businesses in the world, 50% of employment and up to 40% of national income (GDP) in emerging markets. The average number of MSMEs per 1,000 people in OIC MCs, i.e. 53.2, represents more than double the world average of 25.2, indicating the substantial footprint of this sector on MCs’ economies. Foreign investors have pulled US$83 billion from emerging markets since the start of the crisis, the largest capital outflow ever recorded. The vulnerable MSMEs need urgent financing to support their working capital to avoid laying off staff and informal workers. IsDB is supporting its MCs’ financial capacity to fulfill these needs.

Details of the IsDB-led program include initiatives from the ISFD, EED and APIF as below.

2.4.1. The Islamic Solidarity Fund for Development (ISFD) Response

As the poverty alleviation arm of the IsDB Group, ISFD has an important role in supporting Least Developed Member Countries (LDMCs) and Member Countries hard hit by the health and economic crisis, to manage immediate impacts and support the long-term recovery from the effects of the pandemic (and similar, future global crises). The ISFD remained involved with the IsDB Group in developing and designing the IsDB Group Strategic Preparedness and Response Program for Covid-19 Pandemic (SPRP), reviewing its operations financing budget of 2020-2022 to reallocate a portion of its loans and grants to the different components under the SPRP to develop dedicated programs for credit insurance, trade, CSOs, and MSMEs, in addition to redesigning and using cost savings of old ISFD projects.

The ISFD also seeks to mobilize additional resources to expand the program’s effectiveness and increase its impact efficiency, in addition to mitigating the profound health, social and economic impacts of the pandemic, especially in the LDMCs. The ISFD allocation is divided into two main parts for addressing the difficulties faced by LDMCs:

**Part 1:** to address the urgent and emergency needs of these countries, according to a scale of priorities, which is being developed by an internal task force in comparison to international announcements by international organizations such as the World Health Organization (WHO). Centers of Excellence in the Member Countries are on the frontlines to fight the pandemic to support their attentiveness and enhance their capabilities.

**Part 2:** to confront the medium and long-term health, economic and social impacts that will be reflected on all Member Countries, with special focus on MSME sectors. ISFD will play an important role in the IsDB Group SPRP, by allocating a total amount of US$122 million as follows:
A- Loans from Cost Savings: $26 million
ISFD has allocated US$26 million from cost savings realized from ISFD financed projects. “Cost Savings” are defined as any part of an approved amount not required, as planned, to meet contracted commitments in the implementation of a project as originally designed. The guidelines of the Bank provide that such Cost Savings may be utilized to enhance the same Project or exceptionally allowed for emergency purposes in the country. Such utilization of cost savings is built on the original Board approval of the financing in question. The savings are to be used to finance components not initially earmarked to be covered by the Approved Amount. Hence, the same terms and conditions of the approval apply to the same beneficiary, under the same financing agreement.

B- Loan from Repurposing: $10 million

i. Palestine
ISFD has allocated US$10 million loan to support the Working Capital Facility to Support Small and Medium-sized Enterprises (SMEs) in Palestine under IsDB SERVE and SPR Covid-19 Pandemic – Palestine. The proposed project will have immediate impact on the Covid-19 pandemic response. Its implementation is proposed to be under “Restore” pillar of the IsDB’s SPRP, comprising medium-term actions to overcome the peak effects of the pandemic on health and the economy, with a focus on trade finance, SMEs, and continuity of social services.

C- Loans from Reallocation of the AWP 2020-2022: $35 million

i. Countries with no Cost Savings
ISFD has reallocated from its annual work plan of 2020-2022 the amount of US$15 million financing allocated to countries which do not have cost savings, divided into US$3 million for each country (Yemen, Guinea-Bissau, Mali, Djibouti, Burkina Faso). These projects will strengthen the country Covid-19 preparedness and response through early detection, investigation, isolation and treatment of Covid-19 cases.

ii. Economic Empowerment for MSMEs
ISFD has allocated US$40 million loans to support MSMEs through economic empowerment and microfinance projects (to be implemented by Economic Empowerment Department). The aim of this program is to improve MSMEs’ access to trade lines of finance through providing capacity building to MSMEs, partner banks, and supporting successful MSMEs in the submission process for trade financing, which will help to preserve jobs and create new ones. The program will provide line of finance to IFIs to help restructure financings for MSMEs in distress and provide new concessional loans to productive MSMEs.

iii. Trade Finance
ISFD has allocated US$10 million loans to support trade transaction through trade finance lines for banks (to be implemented by ITFC). The cooperation between ISFD and ITFC will benefit West African SMEs, which cover the 8 countries of the West African Economic and Monetary Union: Benin, Burkina Faso, Cote d’Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. It is expected that ISFD will mobilize at least additional US$40 million through its contribution to trade financing lines to help Member Countries to buy emergency pharmaceutical supplies, food, and important commodities to mitigate the consequences of Covid-19.

D- Grants from reallocation of Ebola Fund ($10 M) and from Income on exceptional basis ($5 M): $15 million

i. Tadamon CSO Pandemic Accelerator Project
ISFD has allocated US$ 8 million grant (including US$1 million from Al Quds Fund) allocation for Tadamon CSO Pandemic Accelerator Project. Under this initiative the ISFD is working to build a set of partnerships with a variety of different implementing partners who are qualified and interested in contributing to fight the pandemic. These partners may include non-governmental organizations (NGOs), International NGOs (INGOs), and Civil Society Organizations (CSOs).

The Tadamon Platform developed under “ISFD NGOs Empowerment for Poverty Reduction Program” is to serve as a “networking platform” for citizens and the private sector, making it easier to finance the humanitarian and development work of CSOs. It links NGO crowdfunding campaigns and help them use blockchain technologies to mobilize additional financing. The ISFD aims to use the Tadamon platform to map issues, categorize the NGOs and CSOs in Member Countries depending on the nature of the work and to provide a comprehensive support to CSOs in OIC Member Countries, offering visibility and funding, and matching them with specific needs on the field for the empowerment for poverty reduction project between UNDP/ISFD and IsDB.

ii. MSMEs Credit Fund Facility
ISFD has allocated US$3 million grant to develop, in collaboration with SPARK, EED and partners, an ‘MSMEs Credit Fund’ which combines financial support and technical advisory services to help the MSMEs. The fund aims to safeguard MSMEs from the impact of the coronavirus crisis and invest in those MSMEs with potential to grow, including enterprises currently providing critical services or products in demand for the Covid-19 response. The financial support will also allow MSMEs to repurpose products and services to new market and customer demands and be more resilient in coping with future setback and crises.

iii. Credit & Political Risk Insurance
ISFD has allocated US$5 million grant to support import of medical goods and essential commodities through credit insurance. The grant will be implemented and managed by ICIEC to help LDMCs and severely affected MCs to access finance and facilitate the import of medical equipment, pharmaceutical products and other related items needed for the fight against the Covid-19, such as protective gear, testing kits, sanitizers, ventilators etc., and essential commodities such as food items, oil & gas.
etc. The beneficiary countries include Bangladesh, Benin, Burkina Faso, Chad, Djibouti, Gambia, Guinea, Iran, Mali, Mauritania, Mozambique, Niger, Palestine, Senegal, Sudan, and Uganda. This initiative will facilitate an estimated amount of US$400 million volume of trade for procurement of essential medical equipment, medicines, and essential commodities by beneficiary countries with subsidized transactions and easy access to financing.

2.4.2. Strengthening the Economic Resilience of the Vulnerable Enterprises (SERVE) Program

Considering the current situation, and in line with the global benchmarking of initiatives currently being implemented to address the financial distress faced by the MSMEs, the IsDBG is structuring a Rapid Restoring Support Package targeting the MSMEs in its priority MCs.

1.1. Program Objective and Key Results:

The program objective is to provide Lines of Finance (LoF) to Islamic Finance Institutions (IFIs) that would be used to help:

- Restructure financings for MSMEs in distress; and
- Provide new concessional loans to productive MSMEs.

1.2. Program Description:

The program comprises of two key components:

- Providing financing to microenterprises through Islamic Microfinance Institutions (IMFIs); and
- Providing financing to SMEs through Islamic Banks.

i. Providing financing to Microenterprises

IsDB/ISFD loan financing will be used to provide a line of finance to recognized IMFIs. Countries where IsDB had supported IMFIs or where there are existing and well-established IMFIs are eligible for the program if they meet the criteria set by IsDB Covid-19 High-Level Committee (e.g. headroom, risk management, and acceptance of terms and conditions). Each project is expected to be up to USD 10 million. Once the project is approved, IsDB will sign the loan and sovereign guarantee agreements with the country’s Ministry of Finance. Subsequently, the Ministry of Finance will sign on-lending agreements with the IMFIs. Upon effectiveness, IsDB will start disbursing the approved amount to the Ministry of Finance which will subsequently transfer the installments to the IMFIs.

ii. Providing financing to SMEs

IsDB/ISFD loan financing will be used to provide Lines of Finance (LoF) to recognized Islamic banks. Countries where IsDB had supported Islamic banks or where there are existing and well established Islamic banks are eligible for the program if they meet the criteria set by IsDB Covid-19 High-Level Committee (e.g. headroom, risk management, and acceptance of terms and conditions). Each project is expected to be up to USD 50 million. Once the project is approved by IsDB, the bank will sign the loan and sovereign guarantee agreements with the country’s Ministry of Finance. Subsequently, the Ministry of Finance will sign on-lending agreements with the Islamic banks. Upon effectiveness, IsDB will start disbursing the approved amount to the Ministry of Finance which will subsequently transfer the installments to the Islamic banks.

As of the end of July 2020, IsDB is processing the first 4 projects in Palestine, Jordan, Djibouti and Morocco amounting to USD 83.35 million. More MCs are expected to request for support for MSMEs.

iii. Partnerships and resources mobilization

The IsDB is seeking ways and means of collaboration and to mobilize resources for the SERVE Program. The negotiation is now at an advanced stage with well-established partners. To enhance the transparency of the implementation the program, IsDB is considering a blockchain solution that will allow the Bank as well as the partner financial institutions under the program to monitor and report on a live basis the utilization of the lines of finance by the MSMEs benefiting from it.
2.4.3. Awqāf Properties Investment Fund Portfolio (APIF)

The APIF, an impact fund, was established by the IsDB in 2001 with the objective to develop Awqāf properties globally. As of the end of 2019, APIF has financed 54 projects in 29 countries with an aggregate project cost of more than US$ 1.1 billion. 40% of APIF’s current portfolio of projects are supporting the health sector whereas over 30% of projects are supporting organizations active in the more general category of relief and charities.

As we know, Awqāf institutions play a major role during and after crisis by providing quick responses. The nature and scale of the current crisis has reinforced the idea that non-market sources of funding such as zakāt and Awqāf remain crucial to respond in cases that require relief and cannot be served by profit-seeking investors, no matter how SDGs/impact-aligned their investments may be.

With the current crisis, more and more NGOs specialized in providing healthcare support and services are approaching APIF for establishing their own Awqāf and secure their financial sustainability. Therefore, it is expected that the health sector will become a major focus for APIF in the future, and an innovative initiative related to rural healthcare is currently being developed.

In addition to APIF activities and operations, the IsDB BED has approved the launch of a new fund similar to APIF dedicated to Saudi Arabia with an initial capital of SAR 1 billion. For this new fund, the plan is to launch its operations in Q4, 2020. The new fund will be targeting to finance projects for securing the financial sustainability of Awqāf institutions and charitable organizations in Saudi Arabia. The team is currently working on all internal matters (sourcing investors, preparation of fundraising material, fund term sheet, regulations, etc.) in order to launch the fund at the earliest. We expect that this fund will play a major post-crisis role supporting the NGOs working on the health and relief sectors.

2.4.4. Islamic Finance Advisory and Technical Assistance Department (IFATAD)

The IFATAD has prioritized processing of requests from IsDB Member Countries which are related to responding to the Covid-19 pandemic. In this regard, as of end-July 2020, two technical assistance (TA) requests have already been approved by IsDB: (i) request from the Government of Algeria (with IsDB Contribution of USD 270,000) for enhancing the Central Bank’s Islamic banking sector regulations to enable more efficient and resilient Islamic banking operations; and (ii) request from the Government of Afghanistan (with IsDB Contribution of USD 210,000) for developing Sukūk market in Afghanistan to encourage capital market activity in the domestic market, particularly in the aftermath of the Covid-19 crisis. One more TA request from the Government of Algeria is in advanced stage prior to approval by IsDB to enable issuance of Sukūk in Algeria to help raise funds and support recovery efforts post-Covid-19.

Another five TA requests are in intermediate stages of approval process by IsDB for developing policy recommendations in light of Covid-19 (jointly with CIBAFI), and for supporting Islamic microfinance in Uganda, thematic-women’s financial inclusion globally (in-house request), Takāful (Islamic insurance) in Nigeria and green Sukūk in Uzbekistan. Together, these projects once approved are expected to have over USD 1 million contribution from IsDB in Grant Financing to support these Covid-19-related projects by assisting with resource mobilization and financial inclusion.

IFATAD has also secured IsDB approval for a TA Grant for the Islamic Financial Services Board (IFSB) with IsDB Contribution of USD 200,970/- to undertake a strategic review of the Islamic Financial Services Industry (IFSI) which among other things will look at the impact of Covid-19 and the role of fintech in revolutionizing Islamic finance.

IFATAD has also enhanced its cooperation with the Islamic Infrastructure Institutions (IIIs) in supporting their response to the Covid-19 pandemic. This included but not limited to:

i. Participation and contribution in the AAOIFI first global Islamic Finance Virtual Forum on Covid-19 in May 2020
ii. Review of the IFSB Compendium of Financial Sector Regulatory Responses to Covid-19
iii. Review and approval of the IFSB Public Statements on Islamic Banking and Investor Protection in Islamic Capital Markets through the IFSB Council

In response to the Covid-19 outbreak, IFATAD has also shifted to an online business process mechanism, utilizing diverse tools available within IsDB (including Skype for Business and Microsoft Teams), in order to engage closely with beneficiaries and implement remote desk-based projects scoping, implementation and supervision.
The process has encouraged efficiency and environment sustainability, as there has been zero involvement of paper in this process, and encouraged faster response times through online communication and approvals.

The soft-component of the technical assistance and advisory mandate of IFATAD is increasing in significance post-Covid-19 as MCs are looking to revitalize their development efforts and this would require strong support of the Islamic financial sector. For example, through implementation of policies to issue Sukūk to raise funds; to support SMEs with innovative Sharī'ah-compliant financing products; and to encourage societal welfare through development of Islamic social finance (awqāf, zakāh, microfinance). IFATAD stands ready and is preparing itself to meet this challenge of supporting our MCs' increasing requests for Islamic finance advisory and technical assistance support. Overall, despite the operational limitations due to Covid-19 travel restrictions, IFATAD endeavors to continue to work on a best-effort basis using remote tools and work-from-home initiatives.

Box 8: Islamic Infrastructure Institutions – Initiatives in Response to Covid-19

1. Islamic Financial Services Board (IFSB)


   The compendium compiles discretionary measures, taken by the jurisdictions of selected IFSB member regulators and supervisory agencies to combat Covid-19 pandemic. The purpose of the compendium is to serve as reference toolkit for IFSB members. The compendium summarizes interventions for jurisdictions with 10% and above systemic significance of Islamic finance which include Central Banks, Capital Market Authorities, Securities and Exchange Commissions and Insurance Regulators in Bahrain, Bangladesh, Brunei, Egypt, Iran, Indonesia, Jordan, Kuwait, Malaysia, Oman, Pakistan, Palestine, Qatar, Saudi Arabia, United Arab Emirates and the Dubai Financial Services Authority (DFSA) and Abu Dhabi Global Market.

   b. IFSB Public Statements on Islamic Banking and Investor Protection in Islamic Capital Markets

   To ensure that the Islamic finance industry receives appropriate guidance during the current crisis, the IFSB assesses its ongoing and previously-issued standards in order to identify prudential issues and recommendations relevant to the ongoing crisis, and reviews global financial regulatory actions in response to Covid-19. IFSB plans the publishing of a series of statements that contain guidance to the industry in its three sectors, namely Islamic banking, capital markets and Takāful to address Islamic financial stability concerns. These statements, unlike standards, have been expeditiously produced by the IFSB to address a topic, or a group of related topics and recommendations, that are in direct response to emerging vulnerabilities in each Islamic finance sector.

   The public statement on Islamic banking covers critical areas including:

   i. Treatment of payment moratorium and government guarantees in determining capital requirements
   ii. Expected Credit Loss Accounting
   iii. Profit-sharing Investment Accounts

   The public statement on Investor Protection in Islamic Capital Markets makes recommendations to highlight areas for greater regulatory vigilance and consistent regulatory responses across IFSB member countries to mitigate the negative effects of the Covid-19 crisis and to ensure continued strong investor protection in the Islamic capital markets during these unprecedented times. The recommendations pertain to:

   i. Islamic Capital Market Intermediaries
   ii. Sharī'ah-compliant listed entities
   iii. Sukūk
   iv. Product and Sharī'ah Governance Arrangements
   v. Suitability and Appropriateness requirements
   vi. Best Execution
   vii. Cyber Risk Management
   viii. Client Assets
   ix. Handling Investor Complaints
   x. Investor Education and Investor Alerts
c. Other initiatives

Other IFSB initiatives currently undertaken to address the Covid-19 pandemic include: providing free, full unlimited access to IFSB e-learning modules for all members to help them build capacity; establishment of internal Technical Task Force to undertake strategic technical review of all past and ongoing technical projects in order to reprioritize IFSB activities; and developing financial policy trackers among IFSB RSA members to assess and monitor policy impacts.

2. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)


The objective of this statement is to provide clarifications to Islamic Financial institutions (IFIs) for the application of AAOIFI financial accounting standards (FASs) and the Conceptual Framework of Financial Reporting by the Islamic Financial Institutions considering certain pertinent issues arising due to economic factors and regulatory interventions in the wake of the Covid-19 pandemic. The statement covers standards pertaining to the following issues:

i. Payment moratoriums / deferment
ii. Settlement of a transaction with execution of a new transaction
iii. Government grants and subsidies
iv. Qard Hasan (interest-free loan) and zero-return RePOs by the governments / regulators
v. Expected credit losses
vi. Impairment of assets
vii. Significant and prolonged decline in value of investments held at fair value through equity
viii. Going concern assumption
ix. Technical reserves

b. AAOIFI Governance and Ethics Board (AGEB)’s Statement on the Application of AAOIFI Governance, Ethics and Auditing Standards Considering the Impacts of Covid-19 Pandemic

The objective of this statement is to provide clarifications and interpretations as well as flexible options to Islamic Financial Institutions (IFIs) for the application of AAOIFI governance, ethics and auditing standards considering certain pertinent issues arising due to economic factors and regulatory interventions in the wake of Covid-19 pandemic.

The statement covers standards pertaining to the following issues:

i. Payment moratoriums / deferment
ii. Considerate and fair dealings with employees
iii. Use of charity (purification) funds and corporate social responsibility (CSR) activities
iv. Payment to suppliers and customers

AAOIFI also organized its first Islamic Finance Virtual Forum on “Covid-19 Economic Implications, Islamic Finance and the Way Forward” in collaboration with Islamic Research and Training Institute (IRTI), College of Banking and Financial Studies (CBFS) and Minhaj University. The half-day virtual forum was organized over three sessions with two keynote speakers, Shaikh Mufti Taqi Usmani, Chairman of the AAOIFI Shari’ah Board and H.E. Shaikh Ebrahim bin Khalifa Al Khalifa Chairman of AAOIFI Board of Trustees, and over 20 other distinguished speakers and panelists. The forum was attended by more than 1,200 people while thousands more joined by live streaming on multiple online channels from no less than 40 countries from around the world. The forum received institutional support from more than 15 globally well-established and well-known institutions including the IsDB.
2.4.5. South-South and Triangular Cooperation Through Reverse Linkage Operation

In response to the Covid-19 pandemic, the Reverse Linkage Operational Work Program has been amended to be aligned with IsDB’s Strategic Preparedness and Response Package (SPRP) and to address the needs of the IsDB Member Countries in their fight against Covid-19. Through Reverse Linkage, IsDB continues playing the role of a facilitator to connect Member Countries among themselves as well as with other countries from the Global South that have developed solutions to mitigate and address the effects of the pandemic. Through this approach, the Bank has endeavored to mobilize expertise, technology, and resources from a wide variety of actors, be they public, private or civil society, from the Member Countries and Global South as well as international organizations. The three main areas of collaboration under Reverse Linkage are the following:

- **Partnering with Centers of Excellence and Relevant Institutions in the IsDB MCs:** Some institutions in the MCs are on the frontlines in responding to the Covid-19 crisis. These institutions are Centers of Excellence with proven expertise and resources at the national level. They are either already playing a crucial role in providing expertise to other countries or have the capacity to become regional and international providers during this pandemic. The Bank, through Reverse Linkage, is coordinating its response with these institutions, identifying areas of need to strengthen capacities to help scale-up the response to the pandemic at the national, regional, and international levels. The collaboration with these institutions includes, among others, provision of diagnostic tools and equipment, sharing SOPs, guidelines, and procedures, online technical training to raise the capacity of medical personnel, etc.

- **Engaging with the Public Sector of the Non-Member Countries from the Global South:** The capacity to deal with the fallout from the coronavirus has been very variable. On the positive side, some countries from the Global South have been able to “flatten the curve” or reduce the rate of increase of the contagion and contain it through widespread testing, and disciplined application of rules such as “social distancing”. The governments of these countries can be important providers of knowledge and expertise to the Member Countries. The Bank is serving as a bridge for this transfer through the Reverse Linkage mechanism.

- **Leveraging the Private Sector for Provision of Urgent Needs:** Given the current pandemic and the need to focus resources towards strengthening the capacity of MCs to address this crisis, the Bank has been exploring ways and means to engage the private sector (including pharmaceutical companies, foundations, etc.) to benefit from their technical and financial resources. Due to the urgency of the crisis, this engagement has involved private sector from Member Countries as well as non-Member Countries without exception, as all kinds of resources from the private sector is welcomed to rapidly mobilize and move resources and technical expertise to where they are needed in order to address this crisis.

2.4.5.1. Select Reverse Linkage Activities under Covid-19

**Identification of offers:** Since the outbreak of Covid-19, the Reverse Linkage approached its network of partners from public and private sectors as well as the third sector in the IsDB Member Countries and the Global South to identify potential suppliers of medical items, specialized equipment and test kits that can be made available for the consideration of Member Countries. Formal offers were provided in most of the cases with discounts while providing technical support and knowledge sharing (virtual and on-site). The gathered offers have been shared with the Member Countries through the IsDB Regional Hubs.

**Organization of webinars and training:** Under Reverse Linkage, the Africa E-Learning and Knowledge Sharing Platform on Covid-19 was designed and introduced by the IsDB and its partners to facilitate peer learning and knowledge sharing on preparing and responding to the Covid-19 pandemic among medical and paramedical staff, as well as decision-makers in IsDB African MCs. Since its launching on 25 April 2020, the platform organized 6 webinars: 5 related to health related-issues and 1 on the challenges and opportunities facing South-South and Triangular Cooperation in the context of the Covid-19 crisis and role of technical cooperation agencies. In total, 16,500 persons viewed the webinars including more than 5,700 medical and paramedical attendees from 25 IsDB African MCs. Around 90 speakers from 26 countries (member and non-MCs) had the opportunity to share knowledge, best practices, and expertise in this area. The speakers included high-level experts such as the Vice President of Samsung Biologics and the Deputy Director of WHO.

In addition, the Reverse Linkage partnered with the International Centre for Diarrhoeal Disease Research, Bangladesh to develop an online training program on “Biosafety and Biosecurity for Managing Covid-19 in Laboratories and Healthcare Facilities”.

[55]
This training aims at introducing the principles of biological risk assessment to medical laboratories and healthcare providers and equipping the staff of these entities with the necessary knowledge for managing biological risks while dealing with communicable diseases, including Covid-19. The training will be provided to the staff of medical laboratories from Nigeria, Sierra Leone, Somalia, Sudan, The Gambia, and Uganda.

**Development of national medical laboratories capacities:** Reverse Linkage formulated a program to strengthen the human and institutional capacities of the national medical laboratories in IsDB Member Countries. This program provides the laboratories with technical guidelines, and operational protocols to help accelerate action and easy detection of Covid-19 cases, supplies them with necessary medical equipment, and facilitates the exchange of knowledge and expertise through peer learning. This program has been submitted for co-financing to various partners and its implementation has started.

Under this program, the first project has been approved between the Pasteur Institute-Dakar and the network of 10 laboratories in sub-Saharan countries for capacity building in response to the Covid-19 pandemic. The Institute Pasteur-Dakar is the provider of knowledge and expertise. The second project under this program has been approved for Uzbekistan, that aims to train laboratory staff in Covid-19 molecular biology testing, public health emergency management, field epidemiology, severe infection case management, and infection prevention control, among others. Similar interventions are being developed for Comoros, Sudan, and Tajikistan to build the human and institutional capacities of their national laboratories.

**Engagements to support food security:** In line with the Bank’s efforts under SPRP, Reverse Linkage initiated activities beyond the health sector and started focusing on food security/assurance in Member Countries as the pandemic is seriously impacting the global food supply. In this regard, Reverse Linkage is partnering with ICBA to support farmers in Chad through the introduction of resource-efficient and climate-smart crops as well as technologies that are best suited to different regions affected by salinity, water scarcity, and drought.

**Mobilization of financial resources:** In addition to leveraging knowledge and expertise, Reverse Linkage reached out to different partners to mobilize grant resources and donations. This resulted so far in the mobilization of more than US$ 3.2 million.

**Formulation of new initiatives:** With the aim of diversifying the support and offers to Member Countries, Reverse Linkage formulated a program on “Telemedicine for Improved Health Services in IsDB Member Countries” to develop the human resources and institutional capacities of health facilities in up to seven Member Countries so that they can provide enhanced health services to their communities, being related to Covid-19 or any other communicable or non-communicable diseases.

### 2.4.6. Climate Change to Promote Resilience & Social Development

The Covid-19 pandemic has resulted in health and socio-economic shocks all over the world, which will undoubtedly lead to increased competition for limited resources across sectors and policy areas in development finance. Against this backdrop, a blueprint has been prepared for the Bank with recommended work tracks to ensure that moving forward, IsDB can adequately deliver on its Covid-19 Green Recovery and its Climate Change commitments in Member Countries beyond the recovery phase.

The Bank (through its Climate Change Division) has been engaging with many development partners including MDBs, UN agencies and bilateral development agencies as well as Member Country stakeholders to discuss implications of the Covid-19 pandemic on environmental and climate change action on different stages of response and recovery. It has also engaged in webinars and knowledge exchange platforms on the topic, to discuss plans and best practices for incorporation of climate and environmental action in recovery plans moving forward.

**During MDB Climate Change coordination meetings,** it was agreed that the MDB group Covid-19 response is a potential channel for collaborating on a green economic recovery for Member Countries as confirmed by the MDB heads during their meeting on 30 April 2020. Through the MDB Climate Heads Group, IsDB has already started working with all MDBs on producing a high-level guidance note on green principles for MDBs’ Covid-19 response (mainly focusing on the recovery/restart phase) to ensure that the MDBs’ support (including IsDB’s) at recovery phase enables green and sustainable growth.
2.5. Business Continuity Management

The IsDB Group is engaged in a wide range of specialized and integrated functions within an IT framework compromising of specialized systems and infrastructure. At the onset of the Covid-19 pandemic, the IsDB Group finalized the Business Impact Analysis (BIA) report for better understanding of its critical business processes that feeds into future phases and provides a solution enabling the IsDB Group to operate in the wake of a sudden change to conditions and increase its resiliency level as per the below chart of resiliency level:

![Business Continuity Management Plan - Maturity Levels](image)

BIA, the priority list is prepared of all critical business processes relying on MAO and include:

**Identify Business Continuity Human Resources & Roles**

The process of calculating human resources allocated to critical business processes as follows:

- Meetings with key business users to define the roles needed for the critical business processes.
- Retrieve the number of positions from the actual processes in “Business as Usual” status.
- Calculate the duplicated roles across the service(s) and isolate them as shared pool.

**Identify Business Continuity IT Systems / Applications**

This was achieved by mapping the required IT systems/applications used by the critical business processes and assigning the needed RTO for each one respectively.

**Identify Critical Business Processes**

The structure of critical business processes is as follows:

- IsDB Group Members – IsDB, IRTI, ICIEC, ICD, ITFC and ISFD.
- Service – The service grouped critical business processes that have the same criteria (Treasury, Finance, Operations, Administrative Services, etc.)
- Process Category – Each critical business process will be assigned to a category based on its function.
- Process – A list of critical business processes within a process category.

The IsDB adopted a customized approach to build BIA by creating a list of the critical business processes within IsDB Group and mapping them to the critical business functions. In the second step, based on various impact categories, business processes are analyzed to determine the Maximum Acceptable Outage (MAO) and Recovery Time Objectives (RTO).

BCM required critical business processes to restore within the identified MAO after a disruption to ensure IsDB Group's ability to protect its assets, meet its critical needs, and satisfy its customers and stakeholders. Getting the services up and running does not only involve IT systems and applications, but also other resources such as workstations, human resources availability and mobilization, workspace readiness, etc. As a result of the
2.6. Knowledge Based Initiatives: SDR-Based SDG Cryptocurrency

There is the need to mitigate the economic slowdown due to Covid-19 in a sustainable manner that not only provides short-term stimulus but also supports long-term growth, fairly distributed across the globe. Moreover, there are major challenges facing the financing of the Sustainable Development Goals (SDGs). The Islamic Research and Training Institute (IRTI) aims to formulate a solution for both of these challenges based on the Special Drawing Rights (SDRs).

According to the IMF, the Special Drawing Rights (SDR) is an international reserve asset, created by the International Monetary Fund in 1969. The value of the SDR is based on a basket of the major world currencies—the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. The SDR is neither a currency nor a claim on the IMF. Rather, it is a "potential claim" on the freely usable currencies of IMF members. SDRs can be exchanged for these currencies.  

The SDR has been suggested as a global currency by Nobel laureate Joseph Stiglitz, among others.  

During the Global Financial Crisis, the G20 approved in April 2009 that the IMF issues the equivalent of $283 billion in SDR to be added to IMF member countries reserves according to their shares in the Fund. This allocation was expected to play a role in providing liquidity and supplementing member countries’ official reserves.  

In the current Covid-19 crisis, the Managing Director of the IMF, Kristalina Georgieva, made a statement on 23 March 2020 in which she indicated that:

Several low- and middle-income countries have asked the IMF to make an SDR allocation, as we did during the Global Financial Crisis, and we are exploring this option with our membership.

The same proposal has been advanced by other officials and economists.  

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20 https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR.
21 https://www.ft.com/content/c2215510-9bc4-11e0-b8e7-00144f0b49a.
23 https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR.
24 For example:
2.6.1. Development Currency

Probably a better proposal is to have the SDR as a development currency. That is, the SDR can be injected into the capital of Multilateral Development Banks to support sustainable development of member countries. In this manner, the currency is used for objectives directly serving the Sustainable Development Goals (SDGs) rather than budget financing which tends to depress long-term development of the country. Moreover, this approach will give better treatment to developing and least-developing countries, as their shares in the IMF are relatively small. Hence, their benefits from the injected SDR will be limited.

The allocation of the SDR to MDBs will be, of course, in coordination with the IMF and its shareholders. The IMF may issue two tranches of SDR: one for its shareholders (as it did during the GFC), and one for the MDBs. The SDR allocated to MDBs can be distributed in proportion to each MDB’s capital.

2.6.2. SDG Smart Cryptocurrency

Another layer of improvement can be introduced using the blockchain-based crypto-asset technology. This, as such, is not a new idea. Former IMF Managing Director Christine Lagarde raised the possibility of launching a digital version of the SDR, dubbed “IMFCoin”. What is probably new is linking the crypto-SDR to development objectives through MDBs.

If the IMF issues crypto-SDR, the currency can be easily traced and monitored, and thus its impact can be easily evaluated. The blockchain technology and smart contracts allow for transparency and verifiability of the use of the crypto-SDR funds, which greatly enhances the proper governance of development financing.

By dedicating the crypto-SDR to development, the IMF and the MDBs will be able to issue “crypto-SDG smart currency” (or c-SDR for short): A blockchain-based currency dedicated to support the Sustainable Development Goals. Using smart contracts, the currency can be directed to serve the KPIs of the SDGs. Technology will make it possible to trace and verify the use and performance of the new currency in achieving the desired objectives.

The smart SDGs cryptocurrency might be a valuable source for funding the implementation of the SDGs, given the estimated $2.5 trillion per year SDG financing gap. It should be emphasized that the proposed c-SDR, with the conditions highlighted in the paper, will not be a speculative currency like bitcoin and similar speculative crypto-currencies.

2.6.3. Financing Mechanism

The smart crypto-SDR can be used to support MCs through more than one mechanism. To respect the current rule of restricting the SDR to central banks (in general), the following mechanisms operate through the central bank of the member country.

2.6.3.1. Central Bank Investment Deposit

1. The MDB can place a certain amount of the c-SDR with the central bank of the MC as an investment deposit for, say, a 3-year period.
2. The central bank will issue a national cryptocurrency (nc-currency) backed by the deposited c-SDR (according to an agreed exchange rate). The national cryptocurrency will be a form of “central bank digital currency” discussed among central bankers.

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26 It should be emphasized that the proposed c-SDR, with the conditions highlighted in the paper, will not be a speculative currency like bitcoin and similar speculative crypto-currencies.
3. These nc-currencies will be channeled to the economy through direct transfer to beneficiary groups. These groups can be designated using an objective set of criteria (e.g., age, occupation, MSMEs, etc.) to achieve the KPIs of the SDGs.

4. The nc-currency cannot be exchanged for foreign currencies, but it can be exchanged for ordinary national currency or the c-SDR. The restriction on the nc-currency can be easily implemented using the blockchain technology and smart contracts, further enhancing transparency and accountability in utilizing the c-SDR. The restriction serves primarily to stimulate the domestic economy instead of supporting imports of foreign commodities which may negatively impact the long-term growth. Moreover, the restriction helps keep inflation under control.

5. A Gesell’s tax can be imposed on the nc-currency. Gesell’s tax is a hoarding tax that deducts a certain percentage of the nc-currency from the e-wallet of the users. It encourages users to spend the nc-currency and discourage hoarding or speculation.  

6. At maturity (by the end of 3 years), if the investment deposit is not renewed, then the central bank shall return the c-SDR deposit (and replace it with other hard-currency reserves). The returns on the deposit need not be in c-SDR but could be in any agreed currency (e.g., US$).

2.6.3.2. e-Commerce

Another possible channel would be to support trade among Member Countries using the c-SDR. For this purpose, a trade (e-commerce) platform can be created to support trade among producers in MCs using the c-SDR. The exchange of local currency for the c-SDR shall be through the central bank.

2.6.4 Conclusion

A smart SDG crypto-currency could be of great value in supporting Member Countries to cope with economic crises and make substantial progress towards achieving the SDGs. The above proposal is one possible way towards that objective. This is an area where fintech can be of great value in supporting development.

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2.7. Summary

- As an immediate response to the Covid-19 pandemic, the IsDB Group has committed up to USD 2.3 billion funding package to be extended to its Member Countries (MCs) in support of country efforts to fight against the pandemic and to address the adverse effects on their economies.

- To streamline the support to MCs at different stages of the response capacity and recovery trajectory, the package consists of a Respond, Restore & Restart (3R) program, economic empowerment, and partnerships development.

- The 3R is the flagship IsDB Group-wide program and consists of three tracks. The Respond track proposes immediate and fast disbursing actions to assist MCs’ response and mitigate the adverse impact of the Covid-19 pandemic. The Restore track addresses medium-term actions to strengthen the health and economic systems to overcome the pandemic’s peak. Restart track supports long-term actions to kick start the economy on a solid and resilient foundation and catalyze private investment.

- Under the Respond Track, emergency needs of the MCs are considered in terms of provision of healthcare and food security to respond to the spread of the Covid-19 pandemic. To support the differentiated and specific needs of the MCs at different stages of the pandemic, the specific projects/interventions are tailored to the context of each MC.

- The Restore track envisages financing for (i) SMEs and (ii) Trade to sustain activity in core strategic value chains, to ensure continuity of the necessary supplies mainly to the healthcare and food sectors, and for other essential commodities.

- The focus of the Restart Track is on “Economic Resurgence” by assisting the MCs to kick start the economy towards a sustainable growth path. Under this track, project preparation will be launched for large scale infrastructure projects, identified as essential for enhancing the global value chains (GVCs) in the country. This track will deliver long-term actions to build resilient economies on solid foundations.

- Any program of the 3R magnitude has its own challenges and new opportunities. One of the biggest challenges could be the financing itself. IsDB has adopted a three-prong strategy for this purpose. This include repurposing of existing facilities, issuance of Covid-19 Sukūk and seeking partnership with other major players including MDBs.

- The IsDB Covid-19-related Sukūk would be the first Sukūk in the market, showing the contribution of the Bank in the capital market in the area. IsDB Covid-19-related Sukūk is meant to have an impact in containing the economic effect of Covid-19 and building resilience against future shocks in our Member Countries.

- The IsDB Covid-19-related Sukūk issuance could serve as a starting point for other Islamic financial institutions, corporate and sovereign, to issue the same in the coming weeks or months. These Sukūk can contribute to the speedy recovery of industries affected by the pandemic.

- The IsDB’s response to Covid-19 crisis to help the affected MCs includes accelerating the operational disbursement for earlier approved projects. This could somehow reduce the economic impact on the affected MCs by way of liquidity injection to their economies as a result of their limitation to raise the required cashflow to fund the stimulus packages at favorable rate or not being able to raise fund at all, especially the non-rated MCs.

- The IsDB, through its network, leads several initiatives for the institutional coordination with development partners, especially IGOs (e.g., UNICEF, UNDP, UNOPS, WHO) IFIs and bilateral donors (e.g., OECD-DAC members, ACG) for coordination/alignment purposes and to harness additional support, whenever feasible, as well as design and delivery capacity.

- Due to the impact of Covid-19 on the most vulnerable populations, IsDB has initiated programs to support the economic empowerment initiatives by combining the resources from the bank, ISFD, and APIF.

- The ISDF aims to divide its allocations into two main parts for addressing the difficulties faced by LDMCs. Part 1: to address the urgent and emergency needs of these countries, according to a scale of priorities, which is being developed by an internal task force in comparison to international organizations’ announcements, such as the World Health Organization (WHO). Centers of Excellence in the Member Countries are on the frontlines to fight this pandemic in order to support their attentiveness and enhance their capabilities. Part 2: to confront the medium and long-term health, economic and social impacts that will be reflected on all Member Countries, with special focus to MSME sectors. The Islamic Solidarity Fund for Development is working to build a set of partnerships with a variety of different implementing partners, NGOs, International NGOs (INGOs), and Civil Society Organizations (CSOs) that are qualified and interested in contributing to fight this global pandemic.

- The TADAMON Platform developed under “ISFD Empowerment for Poverty reduction Program” is to serve as a “networking platform” for citizens and the private sector, making it easier to finance the humanitarian and development work of Civil Society Organizations (CSOs). It will link NGO crowdfunding campaigns and help them use blockchain technologies to mobilize additional financing.
• The MSMEs, especially in the IsDB MCs, are not well equipped to survive an economic recession aggravated by a prolonged lockdown scenario. Considering the current situation, and in line with the global benchmarking of initiatives currently being implemented to address the financial distress faced by the MSMEs, the IsDBG has structured a Rapid Restoring Support Package targeting the MSMEs in its priority MCs.

• The aim of the Rapid Restoring Support Package is to provide Line of Finance (LoF) to IFIs that would be used to help: Restructure financings for MSMEs in distress; and Provide new concessional loans to productive MSMEs.

• IsDB is currently managing a portfolio of 54 projects, funded by APIF and OCR. In addition, few projects are in the overdue list which requires close follow up. Due to the Covid-19, the major risk is that there will be defaults for which the plan is to restructure those projects.

• To globally fund the Covid-19 related funding in general, IsDB advanced a proposal for the Smart Crypto SDR as a development currency. The SDR can be injected into the capital of Multilateral Development Banks to support sustainable development of member countries. In this manner, the currency is used for objectives directly serving the Sustainable Development Goals (SDGs) rather than budget financing which tends to depress long-term development of the country. Moreover, this approach will give better treatment to developing and least-developing countries, as their shares in the IMF are relatively small and therefore their benefits from any IMF-injected SDR will be limited.
APPENDIX 1

COVID-19 TRACKING SITES

Islamic Development Bank (IsDB)
IsDB Novel Coronavirus Dashboard tracks the pandemic in Member Countries of the IsDB, using charts to indicate the numbers of coronavirus confirmed cases, active cases, recovered cases, and deaths by country.

Organization of Islamic Cooperation (OIC)
OIC Covid-19 page provides information and updates on the OIC’s interventions to help Member Countries mitigate the impact of the Covid-19 crisis.

Johns Hopkins University (JHU)
JHU Covid-19 Dashboard maps the spread of coronavirus around the world, with country-wise data on total infections, deaths and recoveries. The dashboard also provides state-by-state breakdown of cases in the United States.

World Bank
World Bank Covid-19 Dashboard provides real-time data, statistical indicators, and other types of data that are relevant to the coronavirus pandemic. It enables country-by-country comparisons of the impact of the pandemic.

Yale Program on Financial Stability (YPFS)
YPFS Covid-19 Financial Response Tracker follows interventions by central banks, fiscal authorities, and organizations around the world aimed at restoring financial stability.

Financial Times
The Financial Times analyses the scale of Covid-19 outbreaks and the number of deaths in countries worldwide. FT also presents region-wise and country-wise data in graphs and charts.

The Economist
The Economist provides daily charts and perspectives on the key figures and issues in the coronavirus pandemic as it affects different countries.

BBC News
The BBC website monitors the coronavirus outbreak globally, with maps and charts illustrating the spread of the virus by time and by country. It also provides insights answering the basic questions related to the pandemic.

Covid-19 Visualizer
Covid-19 Visualizer, developed by two students at Carnegie Mellon University in the United States, details the country-wise spread of coronavirus around the world using a map of the globe. Users can click on the map of any country to see the details of active cases, recoveries and deaths over time.

WorldoMeter
WorldoMeter tracks reported coronavirus cases and deaths by country, territory, or conveyance in tables and charts. The website also provides a ranking of countries in terms of number of cases, deaths and recoveries.

Track Corona
Track Corona uses an animated map of the globe to track latest data on coronavirus spread around the world. The site gives information on travel and other disruptions caused by the pandemic.

Corona Tracker
Corona Tracker tracks coronavirus numbers by country and provides basic information on what Covid-19 is, the prevention measures, and travel alert.
**APPENDIX 2**

**COVID-19 BLOGS**

**CGAP Blogs** provide discussion related to the impact of Covid-19 on the microfinance institutions, the impact on access to finance and financial inclusion besides digital finance and cash transfers. The blogs are available at: https://www.cgap.org/blog

**IRTI Blogs** provide views and insights from the Islamic economics perspective on mitigating the impact of Covid-19, focusing on the required policy response in economics, financial and social dimensions. The blog posts are available here: https://blogs.irti.org/

**The IMF Blogs** provide discussion on various issues related to the impact of Covid-19 pandemic including unemployment, gender gap, financial impact of crises, digitalization etc. The top ten list of the IMF blogs is available at https://blogs.imf.org/2020/08/13/top-10-blogs-on-covid-19/

**The United Nations Blogs** provide a wide array of topics related to sustainable development and how it is affected by the Covid-19. The blogs can be accessed from: https://sustainabledevelopment.un.org/blog/covid19

**The World Bank Blogs** provide insight on issues related to the economic impact of Covid-19 pandemic on the development of its member countries. The blog can be accessed at https://blogs.worldbank.org/covid19