



Komite Nasional Ekonomi dan Keuangan Syariah

“Islamic Finance Strategies during the Pandemic Covid-19”

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A.

The COVID-19 Outbreak and Its Impacts on Indonesian Economy

Total cases of COVID-19 globally and in Indonesia

Coronavirus disease (COVID-19) outbreak situation globally

7,553,182	423,349	216
Confirmed Cases	Confirmed Deaths	Countries, areas or territories with cases

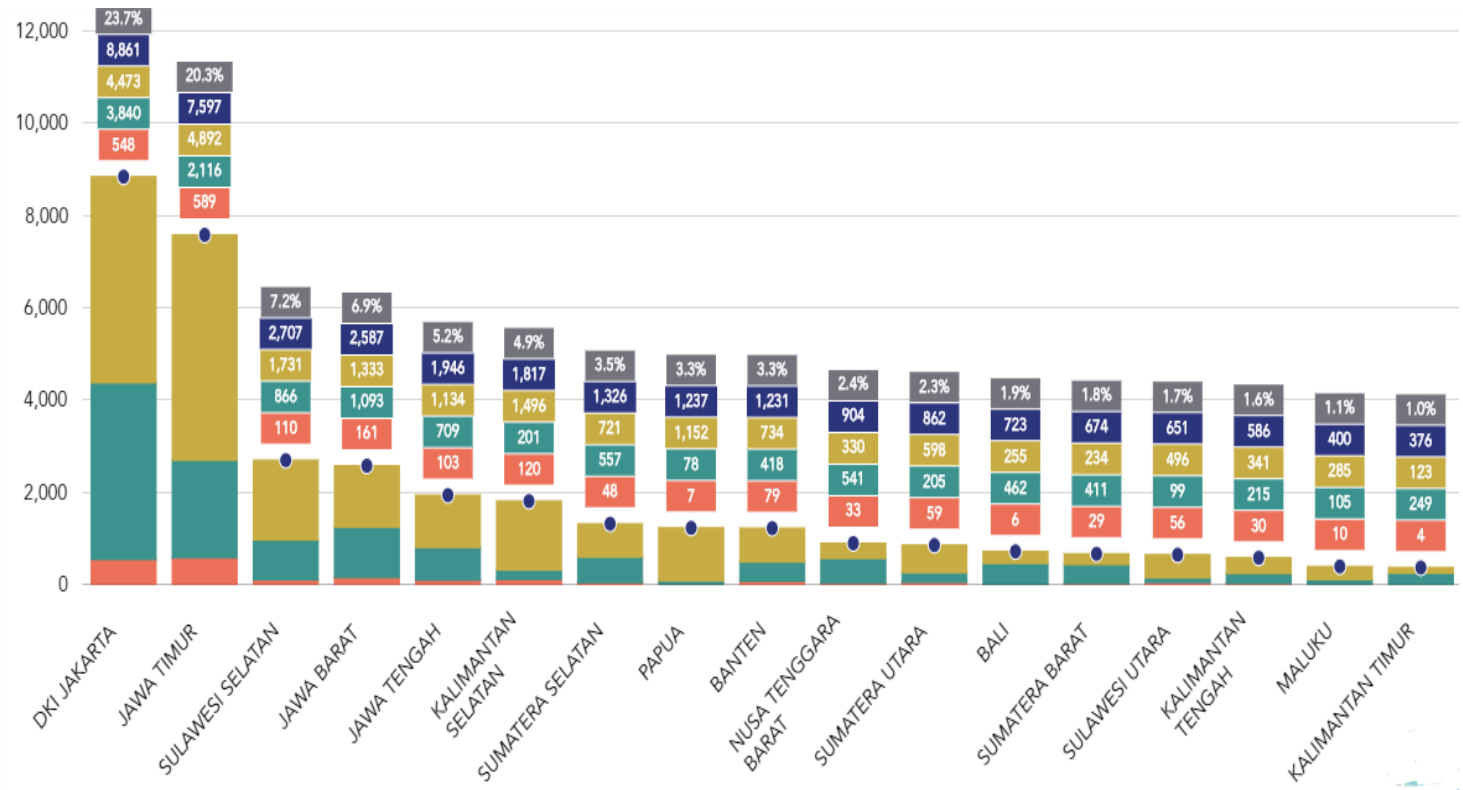
Case Comparison

WHO Regions

Americas	3,638,525 confirmed cases
Europe	2,378,958 confirmed cases
Eastern Mediterranean	737,641 confirmed cases
South-East Asia	439,348 confirmed cases
Western Pacific	196,715 confirmed cases
Africa	161,254 confirmed cases

Coronavirus disease (COVID-19) outbreak situation in Indonesia

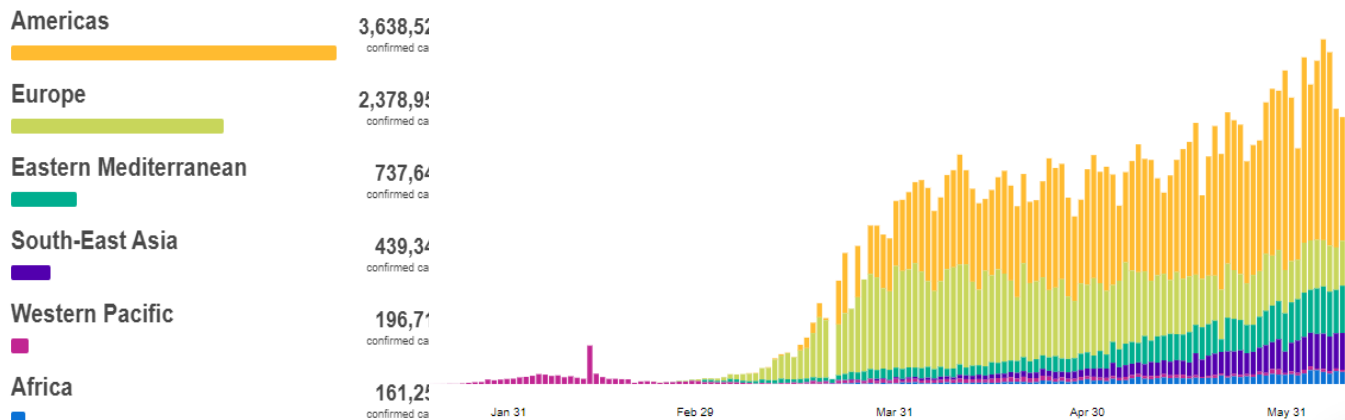
37,420	21,553	13,776	2,091
Confirmed Cases	Treatment Cases	Recovery Cases	Confirmed Deaths



- **Public health crisis** of COVID-19 has affected 216 areas/regions globally according to World Health Organization.

Case Comparison

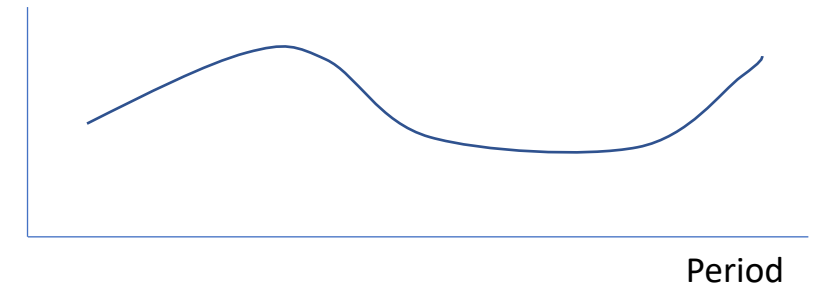
WHO Regions



- The trend is still increasing in many countries (including Brazil, United State of America, Russia Federation, United Kingdom) but starting to decrease in few others (i.e. New Zealand, Taiwan, Vietnam, Malaysia)
- Globally, we expect the curve will flatten. But no institution has come up with credible prediction when will it happen.

- **Economic Impact** of the corona virus Pandemic can be described in two possible scenarios – a V-shaped scenario and U-shaped scenario.
- Many global institutions predicted that the world economy will face a U-shaped growth trajectory in the aftermath of COVID-19 pandemic. That is, we will face an impending downturn with slow recovery.

GDP



- McKinsey & Company and Oxford Economics suggest that the World Economy will suffer -5.7% contraction and recover in Q4 2022.
- If this scenario comes to reality, we should expect many industries will suffer in the coming years or so.
- What is our best preparation?

Source: WHO, John Hopkins University

Potential Winners & Losers in the Short Term



The COVID-19 pandemic has a significant impact on the Indonesian economy and financial sector stability

The COVID-19 pandemic continues to spread globally

The disruption of the global supply chain as a result of COVID-19 is predicted to affect Indonesia's exports due to the unavailability of intermediate materials produced in other countries.

COVID-19 pandemic has increased uncertainty which leads to **reduction of investor's interest in making direct investments**. Consequently it will lead to a decrease in the flow of foreign capital into Indonesia.

- This condition will **reduce investment in goods and services**, and **private consumption and investment**.
- Private consumption is predicted to decline in 2020 in the range of **4.6-5.0%**.
- Reducing the economic performance of the **tourism, trade, manufacturing**, and then propagating other sectors.
- **Threats to financial sector stability**: stock market volatility, Rupiah depreciation, NPL increase, liquidity issues and insolvency.

Supply and Demand shock cause a decline in Indonesia's economic growth to 2.3% in the severe scenario and continue to -0.4% in the very severe scenario.

Banking

- Liquidity issues especially for smaller banks
- Increase in NPL and financial restructuring activities
- Decrease in profit causing profitability ratios such as ROA and ROE to suffer
- In the long-term, may result in reducing bank's capital. Thus, affecting its ability to disburse financing or conducting specific type of business
- Decrease in financing quality of Rural Banks (BPR), particularly for SMEs business and hajj & umrah-related business which may lead to surge in NPL
- Customers' transactions shift to mobile & internet banking
- Banking operation shift to internet-based activities with WFH policy may affect its productivity, esp. related to financing e.g. customer survey (OTS)

Capital Market

Capital Market:

- Increase in the total capital outflows. In Indonesia, from January to April 2020, the capital outflows is amounted at Rp171.6 T (SBN Rp157.4 T & Stocks Rp13.3 T)
- Majority of mutual funds recorded negative NAV's growth (MoM) in exception for money market mutual funds that showed positive growth.

Sukuk:

- Sukuk issuers in the Covid19's affected sectors may have difficulties in meeting their due liabilities.
- New sukuk issuance may require higher cost due to an increase in expected yield

Non-Banking Financial Institutions

- **Life & General Insurance:** Increase in claims particularly for life & health insurance; decrease in premiums' payment including travel premiums from hajj & umrah; declining portfolios' value in capital market instruments.
- **Multifinance:** increase in restructuring activities, drop in financing growth (Indonesia -15% (YoY))
- **Pension Fund:** regular contribution may not be made in time/postponed; declining investment value in capital market portfolio
- **Rahn (Pawnshop):** Delay in due payment
- **Credit Insurance:** increase in financial reserve for preventing default cases

The COVID-19 pandemic has an impact on the capital market

As of June 12th, 2020

Indonesia Stock Exchange Composite Index Movement

4,831.78 -22.98 (-0.47%)
As of 11:30AM WIB. Market open.



Source: Yahoo finance

The COVID-19 pandemic has an impact on exchange rate

As of June 12th, 2020

Exchange Rate Movement of Indonesian Rupiah against US Dollar

USD/IDR (IDR=X) ☆

CCY - CCY Delayed Price. Currency in IDR

14,009.0000 0.0000 (0.00%)

As of 3:42AM BST. Market open.

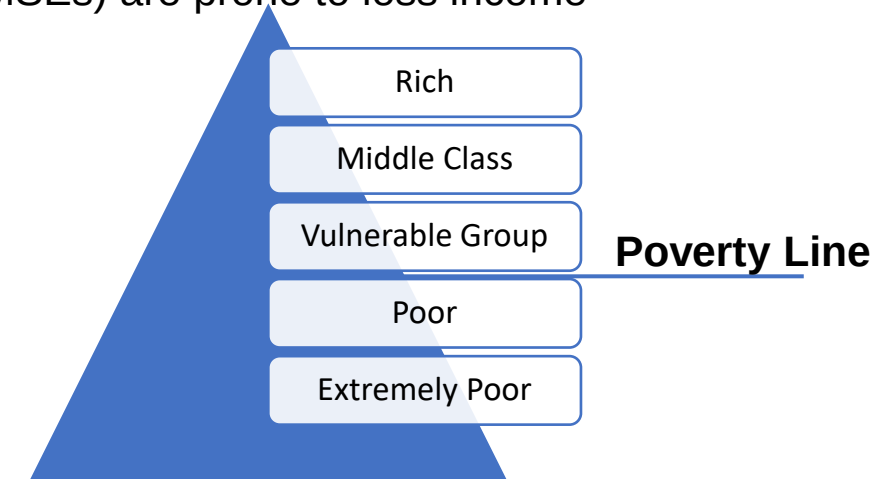


The COVID-19 pandemic has also created a direct impact on the decline in people's welfare, particularly to those in the micro and informal business sector

According to experts' predictions, **business sectors that depend on daily liquidity** will suffer the greatest impact from the COVID-19 outbreak (Hawariyuni and Sakti, 2020)

- ❑ The micro-small business sector is the dominant sector in Indonesia's economic structure.
- ❑ Based on data from the Ministry of Cooperatives and SMEs in 2018, the number of micro, small and medium enterprises (MSMEs) is **approximately 64 million or 99.9%**. This sector absorbs more than 113 million workers or 93.88% of the total workforce

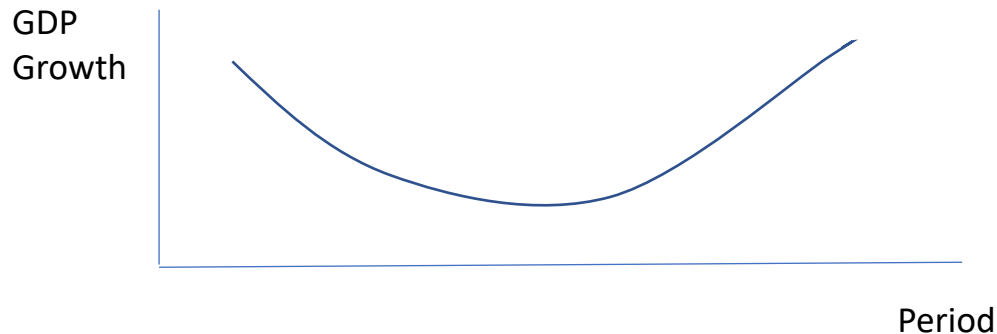
Threat: Poor households and micro and small enterprises (MSEs) are prone to loss income



- ❑ Most of MSEs are categorized as vulnerable group that occasionally can fall below the poverty line when crisis occurs
- ❑ Unemployment rate will drastically rise especially in countries that are dominated by MSEs entities
- ❑ The number of poor people will increase steeply, while middle class will decrease significantly

Best Scenario

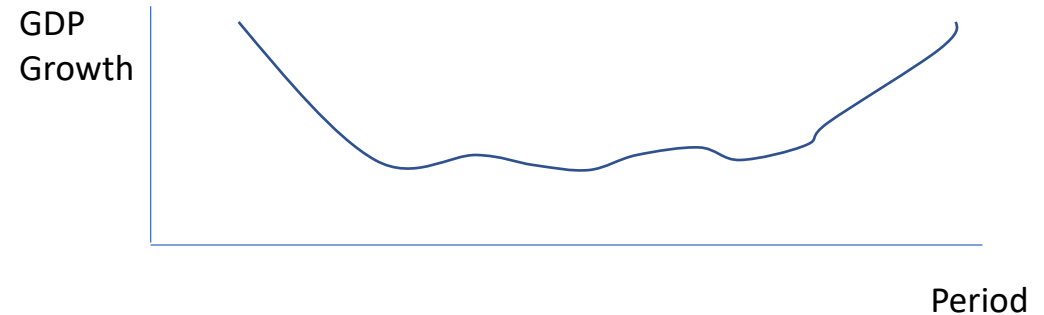
- For Indonesia, the best scenario would be a flattened of pandemic curve by Q3 of 2020, and Covid-19 would be contained in Q4 – and the spread is limited only in few large islands.
- With this scenario, we could expect the economy to recover and return to pre-pandemic growth in Q2 of 2021.



- To ensure the best scenario to prevail, we need to take all necessary and stringent measures, by imposing mobility restrictions or containment.
- The stimulus package that has been issued by the government should be supported by business community, politicians and all Indonesians at large.

Worst Scenario

- The worst scenario is a prolonged crisis with a possible wide spread of Covid-19 across Indonesia's vast archipelago.
- This is the scenario that we want to avoid at all cost.
- With a widespread cases, it will take much longer for the infectious cases to flatten. We will face a longer pandemic in the country, and a prolonged economic crisis.



- The only way to experience this long ride to recovery is by allowing freedom of movement from Covid-19 epicenter to other regions across Indonesia.

Government Regulation (PERPPU) No. 1 Year 2020

- Total fiscal support is amounted of IDR 686.20 trillion.
- From the total fiscal support, the amount of IDR 87.55 trillion will be allocated for health programs and the amount of IDR 598.65 trillion is for the National Economic Recovery (PEN).

National Economic Recovery (PEN) includes:

- | | |
|--|----------------------|
| ○ Social Protection | IDR 203.90 trillion |
| ○ Business Incentives | IDR 120.61 trillion |
| ○ Support for MSMEs | IDR 123, 46 trillion |
| ○ Corporate Financing | IDR 44.57 trillion |
| ○ Sectoral Support of Ministries/Agencies and Local Government | IDR 106.11 trillion |

Total: 598.65 trillion

National
Income



10%

- Tax revenues decrease due to weaker economic condition. The support of tax incentives and individual income tax cut are needed
- Non-Tax National Income falls due to falling commodity prices

State Budget
Deficit 2020

- Estimated to reach **6.27% of GDP**. The budget shortfall now is expected at 1,028.5 trillion rupiah (\$69.3 billion)

- Government's efforts to restructure the State Budget for Covid-19 leads to the rise of national debt



- Government needs **alternative source of fund** to help fiscal deficit, especially for social purposes



Islamic Economy and Finance could relieve government's burden *in facing Covid-19*

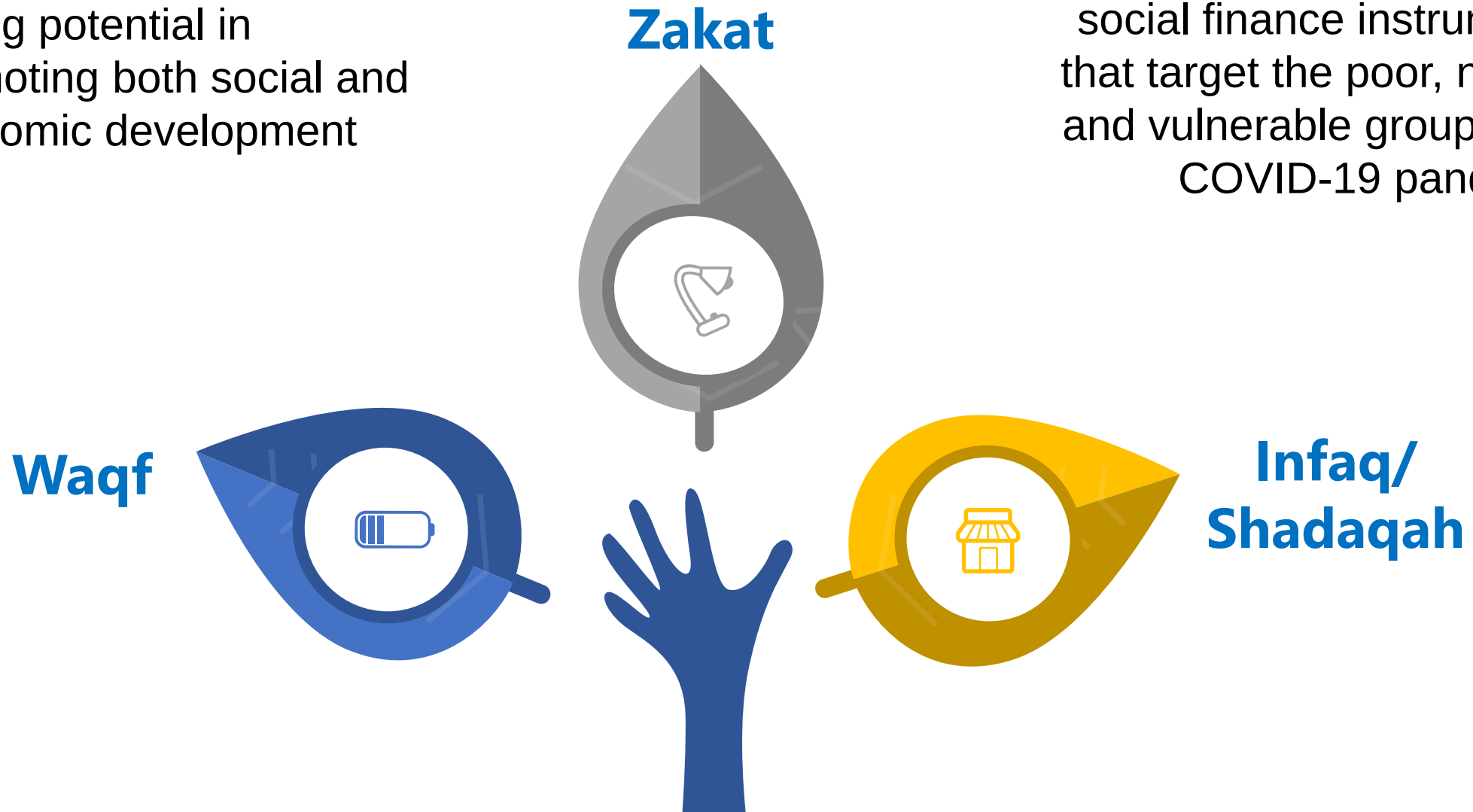


B.

**Solutions to the Crisis from Islamic
Finance Perspective**

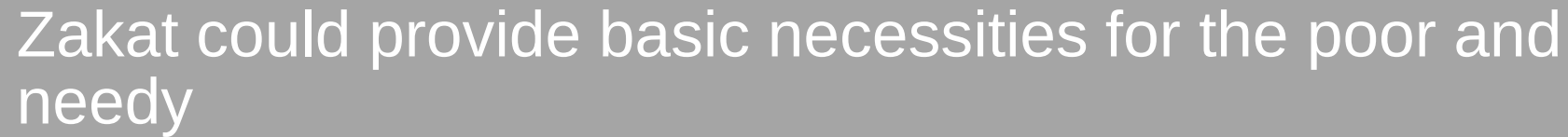
Islamic finance has strong potential in promoting both social and economic development

Islamic finance also offers social finance instruments that target the poor, needy, and vulnerable group amid COVID-19 pandemic



- Zakat has huge potential in **reducing government fiscal cost** in facing Covid-19 especially for the basic needs of the poor, needy, and affected communities
- Indonesia is one of the **most generous** countries in the world, this award is related to faith-based charity (World Giving Index 2019)
- Indonesia is the largest Muslim-majority country in the world with 87% Muslim populations
- The potential of zakat collection in 2019 is **IDR 233,84 trillion** or **US\$14,9 billion**, while the actual collection is around **IDR 10 trillion** through formal Amil.
- The collection of Zakat, Infaq, and Shadaqah in Indonesia keeps increasing with average growth of 36,2% during 2002-2019

Zakat could provide basic necessities for the poor and needy



Zakat generates additional demand and simultaneously will generate supply, and so forth

MSEs empowerment program including introducing online market mechanism to MSEs

Zakat contribution to finance development programs might exceed US\$500 billions per year. This is about 20 times more than total global humanitarian aid (UNDP, 2017)

Implementation of Digitalization on Zakat will Increase its effectiveness in terms of Collection, Management, and Distribution

Collection



Operational



Distribution



Zakat Utilization:

- Digital payment
- Ride-hailing services
- Crowd funding
- Mobile banking

Payment Channels

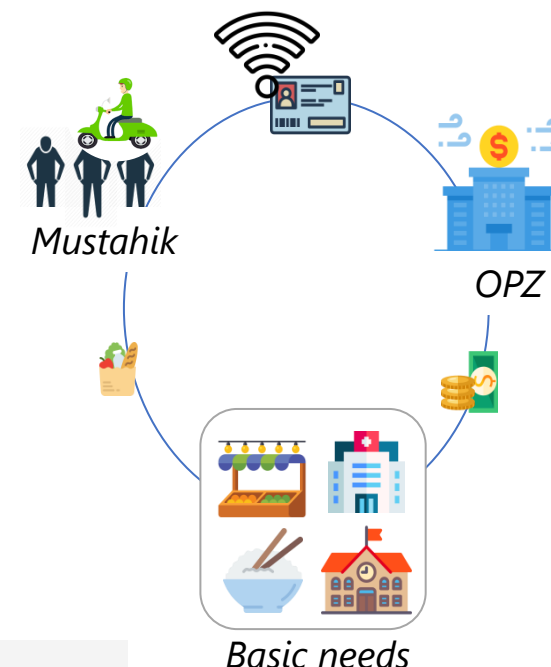
Zakat Information System



- SIMBA (BAZNAS)
- ZAINS
- SANDRA (Dompot Dhuafa)
- Self-developed Platform



Database Integration of zakat program can be linked with the government's social and development program

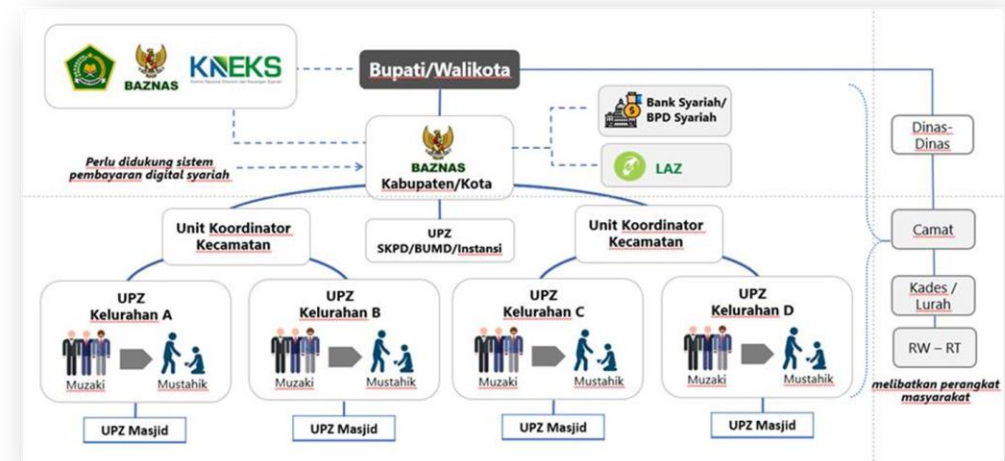


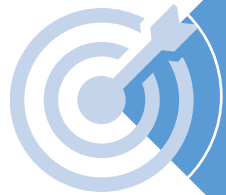
Innovations of Digital-based Ziswaf Collection have made it easier for Muslims to have a lifestyle of sharing and helping disadvantaged people

Current Situation



Special development of ZIS funds (Zakat Management Program by Region)





As the complementary for zakat and waqf, shadaqah can be used to provide basic needs for the vulnerable who turns out to be the new mustahik amid this COVID-19 pandemic



Could be used to purchase masks for common people and the vulnerable group or protection equipment for medical officers and nurses



Infaq/Shadaqah are eligible not only for the poor and needy but also for all people in general as long as it could create *mashlahah* in the society



The collection of shadaqah nowadays is much easier with technology (i.e. Mobile banking, e-Wallet, crowdfunding, ride-hailing services apps)

In longer term, shadaqah could also be used for Qardh Al-Hasan or interest-free-loan to finance the MSEs affected by COVID-19 and lift them up from poverty trap (Ascarya, 2020)

Free healthcare
system for the
poor

- Waqf could **provide free healthcare services** to suspect and affected citizen, and it is able to accommodate the poor and needy who suffer many other illnesses.
- Example: Indonesia and Turkey built Hasyim Ashari Hospital and Shishli Hospital respectively by productive waqf

Fulfill the lack of
supply from
imported goods

- Build emergency firms to **produce import substitution goods**, will ultimately lead the country to the self-sufficiency
- **The profits from the firms** built by the sources of Waqf can be used for social purposes, including to **cover the operational costs** of MSEs empowerment program

The study of Mohd, *et al* (2015): Waqf can manage and control the federal government debt with Malaysia's social safety net program. The program are financed by cash waqf instead of tax revenue/public debt. Therefore, it enables government savings and can be channeled to pay government's debt



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Thank you