



THE COVID-19 CRISIS AND ISLAMIC DEVELOPMENT BANK

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ABSTRACT

The Covid 19 pandemic has affected the Islamic banking sector tremendously just like the conventional banking sector. The magnitude of damage has been much larger and widespread across the world when you compare it with the 2008 subprime loan crisis. The Islamic Development Bank group has been taking sincere efforts to uplift the member countries from the adverse effects of the pandemic with the products of Islamic finance. The study aims to find out the efforts taken by the Islamic Development Bank Group (IsDB) to revive the member countries from the crisis. The paper delves in detail the 3R (Respond, Restore and Restart) programme of IsDB and the funding mechanism of the group to quickly recover from the down phase.

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INTRODUCTION

On March 11, 2020 the world came to a standstill when World Health Organisation declared Covid 19 as a pandemic. The high death toll and quick spreading of the virus has inculcated a widespread fear in the minds of people. The immediate solution to this was global lockdown and freezing of economic activities. This has in turn affected every sector of the economy especially the small and medium scale industries. Most governments and international financial institutions have announced stimulus packages to counter the pandemic. The Islamic finance which is spread over more than 80 countries has the bulk of it concentrated in the gulf region. IsDB is a multilateral development financial institution with fifty-seven member countries concentrated in four continents, namely Africa, Asia, Europe and Latin America. It was established with the objective promoting human development, tackling poverty, promoting Islamic banking and finance and ensuring cooperation among its member countries. The mission of the bank is to foster economic development in the member countries and Muslim communities with strict adherence to the Shariah principles. Many of the IsDB members are extremely vulnerable to this situation because of their weak health care system and their limited capacity to tackle the negative repercussions of the crisis.

Also, these countries lack adequate resources to put up an effective action plan in response to the outbreak. In addition, these countries rely a lot on the tourism industry and foreign capital inflows to run their economy. Hence, they are severely damaged due to this health crisis. As an immediate response to the pandemic, the IsDB has announced USD 2.3 billion relief package to fight against the pandemic. The funding is carried out through different stages of a program known as 3R: Respond, Restore and Restart.

Objectives

-) To analyse the 3R program of IsDB to tackle the crisis
-) To understand the funding arrangements of the 3R program

RESEARCH METHODOLOGY

The study is conducted with the help of secondary data collected from the publications of IsDB, world bank, research articles, journals etc

The 3R: Respond, Restore and Restart: The IsDB group announced USD 2.3 billion package to its member countries in support of their efforts to overcome the adverse effects of the crisis. This program has a holistic approach where they cover short term, medium term and long-term problems of the

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member countries. The package consists of a 3R program which are respond, restore and restart.

Respond: The respond track comprises of three sub components to address the specific needs of member countries. This is the initial and immediate response to the COVID-19 pandemic. They are healthcare emergency response, food emergency response and strengthening healthcare systems. The program covers a wide range of activities from prevention, diagnosis to treatment. The program assists the member countries in supplying COVID-19 related medical items, training the medical staff, creating awareness among the citizens and so on. The food emergency response ensures that food chain supply is uninterrupted during the crisis times. They provide emergency food aid and trade incentive and also ensures that there is an increased local food productivity. The strengthening of the healthcare systems mainly includes assessing the capacity gaps and developing contingency plans. The program supports the member countries in scaling up the production and supply of vital medicines with the help of private industries. In this regard they seek the help of Organisation of Islamic Cooperation (OIC) to operationalise the various trade agreements that would help the member countries to procure enough medical supplies. In April 2020 IsDB approved another program called Strategic Preparedness and Response Program (SPRP) along with the 3R. They allocated 2.28 billion USD towards this. The main aim of the program is to help the member countries in reviving their crisis situation due to the pandemic.

Restore: The restore track mainly concentrates on the small scale industries and trade activity to sustain the supplies of health and food sectors. ICD (Islamic Cooperation for Development) and ITFC (International Islamic Trade Finance Cooperation) acts as the group execution agent for the lines of finance towards small scale industries and trade finance operations respectively. The project involves a time frame of 12 to 18 months and this support would be in accordance with the IsDB pricing guidelines. The IsDB uses commodity Murabahah based line of finance for liquidity support and Wakalah based LOF for short to medium term. Murabahah is an alternative to the traditional loans and is referred as cost plus financing where the seller and buyer agree to the cost and mark up of an asset. Wakalah denotes an agency contract where one party empowers another party to perform a legal action for a specified fee. ITFC (International Islamic Trade Finance Corporation) is considered as the executing agency for trade finance operations. ITFC carry out the operations with a deferred payment arrangement. It purchases the commodities from the supplier and sell them to the concerned buyer. ITFC engages closely with the government and other stakeholders to soften the economic fallout due to the pandemic.

Restart: The key objective of the restart track is on economic resurgence to kick start the economy. This track specially focuses on large scale infrastructural projects to enhance global value chains. A special project preparation vehicle is established under this track to carry out the infrastructural activities. The initial activity would be to study on the key industries and projects that can revamp the economy in the post pandemic phase. Those projects which are identified as potentially bankable that is which are likely to attract private sector investment would be added in the project preparation vehicle. The project preparation vehicle would then tailor these projects as per the needs of the private investors.

Moreover, a strategic resource allocation model was developed to assist the member countries in carrying out these projects.

Funding Arrangements for the 3R Program: One of the biggest challenges of the 3R program is the financing of the entire three phases. The IsDB has started the issuance of Covid 19 Sukuk and has sought partnership with multilateral development banks in carrying out the projects. IsDB is planning a Covid 19 related Sukuk with 3/5 years maturity period at the time of issuance. Sukuk is an Islamic financial certificate which is compliant with the shariah laws and are similar to the conventional bond. IsDB issued Sukuk for USD 1.5 billion which is listed on Nasdaq Dubai to support Covid 19 related activities. The fund raised through this will be used for social, medical and business projects of the member countries. This can help in the speedy recovery of industries and thereby improving the lives of people. Since the onset of Covid, IsDB has initiated several partnership funding efforts based on the principles of 5Ps: public, private, philanthropy and people partnership. IsDB is working on joint procurement and co-financing with the partners mainly because of two reasons. First, procurement is one of the major hindrance for deploying assistance. Second, the high demand for medical accessories worldwide has led to significant hike in prices which makes it difficult for the developing countries to finance it. Arab coordination group, G -20 and the UN system are three of their major partnership efforts. The Arab Coordination group consists of a total of ten institutions of which four are national institutions and five are regional organisations along with Arab Monetary Fund. They have offered a package of USD 10 billion in response to the Covid 19 crisis. The multilateral development banks offered a commitment of USD 200 billion during the G20 finance ministers and central bank governors meeting on 15 April 2020. Also, some series of agreements has been set with the UN system on Covid 19 related issues.

Conclusion

The IsDB through its network has initiated several projects in coordination with international financial institutions to uplift the member countries from the adverse effects of the pandemic. They extend support to the member countries at different stages of their recovery trajectory. The liquidity injection and accelerating the operational disbursement of approved projects are the two key strategies of IsDB. With this kind of support from IsDB, it is predicted that Islamic financing growth would outpace the conventional lending in GCC (Gulf Cooperation Council) region in near future.

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