

## **Bank Indonesia Institute & INCEIF Webinar**

Keynote Speech

Dr. Zeti Aziz

24 September 2020

Zoom platform

Bismillahirrahmanirrahim.

Honorable Deputy Governor of Bank Indonesia, Bapak Dody Budi Waluyo;

Executive Director and Head of Bank Indonesia Institute Head, Dr. Solikin M Juhro;

Rector of Indonesian International Islamic University, Prof. Komarudin Hidayat;

President of INCEIF, Prof. Dr. Azmi Omar;

Members of:

National Committee for Islamic Economic and Finance;

Islamic Economy Society;

The Indonesian Association of Islamic Economist;

Distinguished Speakers and Guests.

Assalamualaikum.

By the grace of Allah SWT, it is my great pleasure to join everyone, albeit virtually, at this webinar jointly organised by the Bank Indonesia Institute and INCEIF. This webinar is held to mark the beginning of a collaboration between the Bank Indonesia Institute and INCEIF, particularly in the area of research, with the signing of a Memorandum of Commitment this afternoon. The sharing of experience and expertise between Indonesia and Malaysia will enhance the potential to generate groundbreaking research for the global development of Islamic economics and finance.

I am pleased to learn that this virtual event has gathered about 1,000 academicians, researchers and practitioners in Indonesia and in Malaysia to discuss on 'Rethinking the Role of Islamic Economics and Finance Post Pandemic: Driving Change through Research'.

I understand that this webinar is part of the series of events that is being held in conjunction with the ISEF 2020, being the 7th Indonesia Shariah Economic Festival, an initiative of Bank Indonesia in partnership with the key stakeholders of the Indonesian Islamic economic and finance industry.

We meet as the world comes to terms with the realities of the after-effects of the health pandemic. The COVID-19 pandemic has plunged the world into disarray in the first half of this year. Entire countries have been shut down, with the imposition of movement restrictions that require the majority of the population to stay home in an effort to contain the spread of the pandemic and to save lives. Individuals, businesses and countries have had to make unprecedented adjustments to adapt to one of the most challenging and sudden waves of disruption in recent time.

The IMF has gone as far as to say that the world should brace for "the worst economic fallout since the Great Depression". This pandemic has caused a simultaneous global shock, that has extracted huge human and economic costs within an inconceivably short period of time.

During the pre-pandemic, the world was already undergoing a period of great uncertainty amidst digital disruptions and profound climate change. Yet, as history has demonstrated, periods of extreme crisis have also been strong drivers of change and innovation. One can already observe abundant creativity and innovation emerging at the national, institutional and individual levels globally.

Technology enablers have for example been used by governments to manage some of the immediate challenges that have been posed by the pandemic such as contact-tracing apps and the rapid test kits.

As social distancing becomes the new norm today, there has been tremendous growth in the use of digital financial services and e-commerce. While no one can predict what form post-crisis opportunities will take, it is commonly acknowledged that fintech — a sector that is steeped in innovation — is likely to generate new and transformative solutions. Indeed, fintechs will have an important role. And it will be through strategic partnerships across a broad ecosystem of players — that would include financial institutions, the institutions of learning, the government sector and Shariah scholars — that will provide an extensive outreach including in distributing the benefits to the vulnerable segments of the population.

The pandemic caught the world by surprise. It has therefore highlighted the importance of having the infrastructure for disaster preparedness, thereby allowing for prompt response and minimising of the cost of the crisis. COVID-19 brought us into uncharted territory. Its mitigation and resolutions will involve the search for

answers. Ultimately it will be dependent on high quality applied research, but that which is also aligned with societal goals, to yield trustworthy data and actionable information.

Adding value to the economy while also meeting societal goals are among the basic tenets of the Islamic economy and Islamic finance. As the broader economy shifts towards a recovery path, we need to be reminded yet again on the importance of supporting and serving the poorer segment of the population who have the least resources that are found in both developing and developed economies. As governments, multilateral institutions and humanitarian agencies search for ways to manage the aftermath of the crisis, financial inclusion would need to be an integral part of the new programmes so that the abject poor and low-income households will also be part of the recovery.

In Malaysia, the Ministry of Finance recently issued the country's first digital sukuk, the RM500 million Sukuk Prihatin under the National Economic Recovery Plan (PENJANA). The issuance was in response to the interest from many quarters to contribute towards the country's economic recovery efforts. Proceeds from the Sukuk Prihatin would be channeled to the Kumpulan Wang Covid-19 for the implementation of economic recovery measures that include, among others, enhancing connectivity to rural schools, supporting research grants for infectious diseases, and financing micro enterprises, particularly women entrepreneurs.

While Islamic finance already has a built-in centralised screening process that looks at the Shariah compliance, it has yet to have structures to assess the impact of such financing activity. Similar emphasis therefore needs to be placed on the assessment of the impact of such finance.

An area of applied research which may have high social impact therefore needs to be given priority. Areas in particular could include Islamic social finance tools with the objective to design potential instruments for this purpose. We need to look into the identification of potentially practical and viable value propositions that would also focus on the delivery and application of fintech for such Islamic social finance instruments. Of importance is the delivery system, the collection and distribution platform for such instruments including for existing arrangements such as zakat, waqaf and sedekah, with the objective of maximising their social impact.

Applied research should then also focus not only on such contemporary and innovative instruments, but also on how to measure the impact that the instruments have on society and to identify the limitations and gaps between the potential and actual output. This can then be followed by a framework that will enable a rigorous assessment of the impact of the various aspects covered by each type of the Islamic social finance tools.

With the financial reforms initiated by the international community post the Great Financial Crisis of early 2000s now largely in place, the imperative for future finance is not only to be stable and resilient but also to become an anchor to its bedrock —

the real economy — and to generate positive benefit for the wider society and to also take into account environmental sustainability.

On that note, let me thank you again for joining today's webinar. I wish you productive discussions ahead. All of us have a shared responsibility to use this period of disruption to reflect and ensure that what we do next is truly relevant to our lives, our community, and to the survival of our planet.

Thank you, Wassalam.

24 September 2020