THE ECONOMIC IMPACT of COVID-19

Occupational Risk & the Urgency for Frontliner Protection
- Asst. Prof. Dr. Ziyaad Mahomed

High Time for Islamic Banks to Show They Are Indeed Value-Based Intermediaries
- Dr. Shinaj Valangattil Shamsudheen

by Assoc. Prof. Dr. Baharom Abd Hamid
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Editor’s Note
by Assoc. Prof. Dr. Baharom Abd Hamid.

COVID-19 Economic Outlook Series, Issue 1:
The Pandemic Disruptor and the New Economic Norm

COVID-19 Economic Outlook Series, Issue 2:
Occupational Risk & The Urgency For Frontliner Protection

COVID-19 Economic Outlook Series, Issue 3:
Trade-Off Between Health and Wealth?

COVID-19 Economic Outlook Series, Issue 4:
High Time for Islamic Banks to Show They Are Indeed Value-Based Intermediaries

COVID-19 Economic Outlook Series, Issue 5:
The Impact On Family Institution
Assalamualaikum wbt.

Alhamdulillah! Praises to Allah, for all the blessings that He has given and the recovery from the pandemic that He has smoothen. Malaysia is now entering the fourth phase of the 6R economic recovery plan, Recovery, after the three earlier phases of Resolve, Resilience, Restart, with Revitalise and Reform being the last two phases after this.

We are pleased to share with you this special issue which is a compilation of mini articles from COVID19 Economic Outlook Series. These articles mostly discussed and analysed the impact of COVID 19 pandemic from various angles. The COVID 19 Economic Outlook Series Issue 1, titled “COVID-19: The Pandemic Disruptor and the new Economic Norm”, discussed the effect of Covid 19 pandemic on the Malaysian household income as well as its economy in general. Interestingly, the article found there are significant changes in daily needs spending, before and during the COVID-19 outbreak. Whilst, the second issue titled “Occupational Risk & the Urgency for Frontliner Protection” discussed heavily on the impact of the pandemic towards physical and emotional well-being of the frontliners.

The ‘health versus wealth’ conundrum were eloquently discussed throughout the third issue of The COVID 19 Economic Outlook Series, titled “Movement Control Order (MCO): Trade-off between Health and Wealth?”. Amidst of all the adversities associated with the pandemic, it offers opportunity for the Islamic financial institutions to exhibit their unique social characteristics in providing financial supports for those in distress. This has been well articulated in Issue 4 “High Time for Islamic Banks to Show They are Indeed Value-Based Intermediaries”. This special issue of IF HUB, concludes with the the fifth issue “The Impact on Family Institution”. The final article deliberated on the psychological trauma and anxiety which should not be underestimated while facing the Covid 19 pandemic. It is our humble hope that these mini articles would be beneficial for all the readers.

Last but not least my gratitude for all the players who have played a key role in making this special issue of IF HUB a reality, both directly and indirectly. We would also like to thank the readers for the feedback provided.

Feedbacks and comments are most welcome.

Assoc. Prof. Dr. Baharom Abdul Hamid
baharom@inceif.org
The Department of Statistics, Malaysia (DOSM) has recently released statistics, based on their periodic data gathering and from a special survey conducted from 21st March to 31st March 2020 in order to gain insight on the financial impact of COVID-19. The findings indicate a significant shift in the economic condition of the people, and substantial changes in consumption and expenditure patterns.

Herein, we briefly review the level of savings prior to the pandemic, followed by affected income, and finally, the changes in consumption and expenditure behavior due to the Movement Control Order, from both individual and sectoral perspectives.

First, we assess the effect of COVID-19 adequate savings levels per sector, measured by period:
The statistics indicate that the self-employed group is most vulnerable during, and potentially after the severe economic shock caused by the pandemic. Private sector employees are also not adequately prepared, implying that the impact of financially fragile sectors requires more attention from government. It also signifies that savings habits may require additional reinforcement, with incentives and financial literacy programs for more effective financial planning.

Additional support may be provided by establishing financial safety nets going forward, especially in the case of contagion. From the perspective of employment duration, those in employ for less than a year, are most vulnerable, potentially managing newly acquired debt from asset financing, and possibly dealing with student debt as well.

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1 Sources: DOSM, Illustration by RMC(INCEIF)
The recent extension of the Movement Control Order (MCO) may be effective in containing the spread of the pandemic, but it is expected to have a devastating financial impact on the market. The data indicates that the vast majority of people are not financially equipped to withstand the effects of the economic effects of the extension.

Figure 2: Employment Duration

Figure 3: Financial Readiness if Movement Control Order Extended

Sources: DOSM, Illustration by RMC(INCEIF)
It is comforting to note that the Malaysian government has taken various steps to mitigate the effect of COVID-19, and the level of awareness of the financial assistance available, is strong. Research on the levels of awareness among the different groups are depicted below:

![Figure 4: Level of Awareness among the Different Groups](image)

Whilst some countries have been successful in containing the spread of the pandemic, new information on the nature of the virus is consistently released. Therefore, the overall impact is still unpredictable although lockdown efforts have seemed to thwart infection rates substantially. However, economic woes are expected to be felt for some time. Fortunately, the Malaysian government has promptly offered as stimulus package for various sectors and have effectively communicated this to the public through diverse mediums.

However, if the situation worsens and there is a need for a complete lockdown over a sustained period, the subsequent impact is expected to be overwhelming for almost all segments, having indicated substantial vulnerability.

Data from assessing segmental readiness for an enhanced MCO (total lockdown) with existing financial resources available is more encouraging, although still cause for concern. At least 1 in 2 self-employed individuals and employers are not ready for a total lockdown. Although GLC and MNC employees are better off, 1 in 4 have indicated that they were not prepared:

4 Sources: DOSM, Illustration by RMC(INCEIF)
Further insights into the released statistics assess the severity of those confronted with any financial impact during the MCO. Only 6.2% of the respondents were found to be less affected financially, in dealing with the restrictions in continuing with earning daily income during the MCO, while 52.6% of respondents indicated that they were affected during the MCO.

![Bar chart showing readiness for Enhanced Movement Control Order (E-MCO).](image)

**Figure 5: Readiness for Enhanced Movement Control Order**

With respect to state-specific impact, states have been affected economically in varying degrees. The most severely affected and vulnerable states during MCO include Sabah (66.7%), followed by Kelantan (65.5%) and Perlis (64.0%).

![Bar chart showing impact severity by MCO.](image)

**Figure 6: Impact Severity by MCO**

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5 Sources: DOSM, Illustration by RMC(INCEIF)

6 Sources: DOSM, Illustration by RMC(INCEIF)
The more startling statistics are seen in the change in employment status as a result of the COVID-19 outbreak. Whilst GLC, MNC and private employees have had a minimal impact in terms of job loss, almost 1 in 2 self-employed individuals have lost their source of income. This is supported through earlier statistics that expose this segment as the most vulnerable in the event of total lockdown or extension of the existing lockdown.

In terms of unpaid leave, more private employees have been affected, with more than 13% indicating that they had taken unpaid leave as a consequence of the outbreak. Almost half of that, or 7% of private employees managed to secure at least half of the period of lockdown to be taken as paid leave with the remainder taken as leave without any compensation.

Significant global focus has shifted to the digital economy and the use of technology to continue with virtual work as a short-term solution. For Malaysians, it was the GLC and MNC employees that adapted most to working from home. Only between 20 and 25% of these employees in fact, did not. Self-employed individuals were least capable of working from home. This may have been due to the nature of their work and potentially, inadequate resources or facilities that they had available. It may also be that the majority of those self-employed rely on income earned through services that require physical presence. They may also not have adequate technical skills or financial resources to be able to transition into online services without assistance or support. Segmented proportions of groups being able to work from home may be understood as follows:

Figure 7: State-Wise Vulnerability

The more startling statistics are seen in the change in employment status as a result of the COVID-19 outbreak.

Sources: DOSM, Illustration by RMC(INCEIF)
In terms of sectoral analysis by industry, it is clear that certain sectors are more vulnerable and fragile due to the effects of COVID-19.

Sectoral analysis in terms of effect of COVID19:

Job losses per sector and sub-sector have followed a similar trend, the fishing sub-sector most severely affected with 33% of jobs lost. 1 in 5 of workers have lost their jobs working in plantations and farming, impacting the overall agriculture sector with a concerning 21.9% of those who had lost their source of income.

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8 Sources: DOSM, Illustration by RMC(INCEIF)

9 Sources: DOSM, Illustration by RMC(INCEIF)
The industrial sector was found less vulnerable with a 6.7% loss in jobs. The construction sub-sector was the hardest hit, with 11.8%.

Impact on jobs for the services sector was on average, 15% of jobs lost. Due to the MCO, the Arts, entertainment and recreation sub-sector is severely impacted and the most vulnerable sub-sector within services, with a staggering 38% of lost jobs. With restrictions on gatherings and movement, this sub-sector was significantly exposed to income losses due to COVID-19.

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10 Sources: DOSM, Illustration by RMC(INCEIF)
11 Sources: DOSM, Illustration by RMC(INCEIF)
The food services sector has also faced considerable decline as the majority of the population has been forced to remain indoors. Whilst online food order services have continued through orders and delivery, many restaurants have closed completely over the lockdown period. With many operating informally, and others on sensitive cash flows, shocks of this nature have forced layoffs with the real impact still to be determined. The food services sub-sector shed 35.4% of jobs during the period.

The impact on income as a result of the COVID-19 outbreak has been considerable, with the almost all of the most vulnerable group (94.8%), the self-employed workers, reporting a reduction in monthly income. In contrast, only 15.9% of those working in GLCs and 14.8% at MNCs were affected with any reduction in their monthly income.

With respect to the changes in income received based on sectoral analysis, it was found that among employees in the Agricultural sector, the Fishing sub-sector recorded almost 80% of respondents experiencing a reduction in income, while only approximately 20% reporting no income changes.

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12 Sources: DOSM, Illustration by RMC(INCEIF)
13 Sources: DOSM, Illustration by RMC(INCEIF)
In the Services sector, a reduction in income among workers in the Food services sub-sector was more than 85% and only approximately 13% reporting no change in their income.

![Figure 14: Changes in Income by Sectors](image)

On the extent of income reduction among employees in the Services sector, 31.9% of employees in the Food services sub-sector reported an income drop above 90%. In the Agriculture sector, 33.3% of employees in the Livestock sub-sector registered more than a 90% drop in income received.

![Figure 15: Sectors that Suffers >90% Drop in Income](image)

**Changes in Spending Patterns of Daily Needs BEFORE and DURING COVID-19 Outbreak**

Statistics confirm that the COVID-19 pandemic has indeed changed Malaysian economic behavior. A significant change has been documented in the consumption and spending patterns of the major income groups in the country. Priorities have changed, with more emphasis on items of need. Analysis of the data indicates that the impact is felt across the demographic, across the income earning ages and levels of income. Although it is uncertain as to how long this impact will be experienced and also unknown as to its severity, when combining these with the earlier statistics of job losses and income loss, this may suggest a longer-lasting economic impact. This impact in turn, may result in a formidable change in economic behavior, with changed consumption patterns indicating a new economic behavioral norm for Malaysian citizens at least.

Overall, there are significant changes in daily needs spending, before and during the COVID-19 outbreak.

Total household expenditure (which consist of both consumption expenditure and non-consumption expenditure) dropped significantly to RM2,868 per month during the MCO, compared to pre COVID-19 figures of RM6,398 per month.

14 Sources: DOSM, Illustration by RMC(INCEIF)
15 Sources: DOSM, Illustration by RMC(INCEIF)
Once divided further into different income groups, the lower income group or the B40 decreased household expenditure from an average of RM2,942 (pre COVID-19) to RM1,514 per month or an approximate 50% reduction.

For the M40 or the middle-income group, expenditure also reduced by approximately 50%, from an average of RM6,189 (pre COVID-19) to RM2,943.

The change in expenditure patterns of the upper income group or the T20 was most significant as they decreased household expenditure from an average of RM14,053 (pre COVID-19) to just RM5,538. This is almost a third of their pre-COVID spending pattern and is expected to cause the most substantial knock-on effect on the nation’s economy.

This expenditure behaviour may be segregated further into only consumption expenditure, without considering non-consumption expenditure and other financial expenses. The Malaysian average dropped significantly by almost 50% to RM2,125 during the MCO, compared to pre-COVID-19 figures of RM4,096 per month.

Further analysis into the different income groups indicates that the B40 consumption patterns have reduced the least, by approximately 40%, from an average of RM2,280 (pre COVID-19) to RM1,352.

The M40 consumption pattern followed its total expenditure pattern by reducing by approximately 50% from an average of RM4,108 (pre COVID-19) to RM2,245 per month during the pandemic.

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16 Sources: DOSM, Illustration by RMC(INCEIF)
The T20 income was again the most substantial in reducing their consumption expenditure from an average of RM7,863 (pre COVID-19) to RM3,485.

**CONSUMPTION EXPENDITURE\***

*not taking into account non-consumption and other financial expenses*

<table>
<thead>
<tr>
<th>Group</th>
<th>Pre-COVID 19</th>
<th>During MCO</th>
</tr>
</thead>
<tbody>
<tr>
<td>B40</td>
<td>RM 2280</td>
<td>RM 1352</td>
</tr>
<tr>
<td>M40</td>
<td>RM 4108</td>
<td>RM 2245</td>
</tr>
<tr>
<td>T20</td>
<td>RM 7863</td>
<td>RM 3485</td>
</tr>
</tbody>
</table>

Figure 17: Consumption Expenditure Comparison (Pre-Covid 19 Vs. MCO Period)\(^{17}\)

Comparatively, total expenditure based on average household expenditure, which consist of both consumption and non-consumption expenditure has dropped significantly (-55%) pre and during MCO. The drop is larger in non-consumption expenditure (-69%) compared with consumption expenditure (48%).

Figure 18: Industry-Wise Vulnerability Magnitude Comparison\(^{18}\)

17 Sources: DOSM, Illustration by RMC(INCEIF)
18 Sources: DOSM, Illustration by RMC(INCEIF)
From the perspective of consumption expenditure, Food and Beverages soared to 44% from 18% previously pre COVID-19, while alcoholic beverages and tobacco expenditure remains the same at 2%, both pre and during MCO.

The most vulnerable area is Clothing and footwear (-95%), followed by Transport (-89%) and Restaurants and Hotels (-88%) completing the top three most vulnerable.

In contrast, Food and non-alcoholic beverages chalked an increment of 27%, the only area of increase, while telecommunication remains unchanged.

From the perspective of consumption expenditure, Food and Beverages soared to 44% from 18% previously pre COVID-19, while alcoholic beverages and tobacco expenditure remains the same at 2%, both pre and during MCO. Housing, utilities and other fuel dropped to 19% from 24% previously. Understandably, the Transport sector seems to be one of the biggest losers, dropping to just 3% from a previously share of 14%.

Figure 19: Industry Wise Consumption Expenditure Comparison (Pre-Covid 19 Vs. MCO Period)

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19 Sources: DOSM, Illustration by RMC(INCEIF)
The Department of Labour in the US recently released their COVID-19 Occupational Risk Score. The statistics are based on their Purchasing Power Parity, the homogeneity of the job description and the risk of exposure to COVID-19. The figure above may be used to depict a more generic occupational risk correlated with salary grades, that are experienced internationally, including Malaysia.

The Occupational Risk Score can be divided into four quadrants:

i. high income-low risk,
ii. high income-high risk,
iii. low income-high risk, and
iv. low income-low risk.

Those with the highest exposure to infection include what is now termed as the ‘frontliners’. These include doctors, nurses, and other medical officers and officials, police & army, and volunteers (RELA) entrusted to enforce the movement control orders (MCO). Immigration and other enforcement officers stationed at entry and exit points are also amongst those facing the highest levels of occupational risk.
Unfortunately, many workers continuing to operate during the MCO are often ignored. In the Malaysian context, these include the workforce providing essential services like those involved in the Gig\(^1\) economy. Food and grocery deliverers, grab drivers and care givers all fall within the high-risk category.

Although lockdowns vary from country to country in terms of intensity, geographical location and listing of essential services, the Malaysian MCO may be classified amongst countries with a particularly strict and enforced MCO, and with good merit. However, this has not only exposed many to economic loss, but physical and emotional well-being due to exposure or the potential for it has also increased anxiety and trepidation in the frontliners.

\(^1\) The gig economy is based on flexible, temporary, or freelance jobs, mostly involving connecting with clients or customers through an online platform
In gratitude to frontliners that have much to lose yet continue to place their nation’s interest above their own, it becomes a moral obligation and economic responsibility for those more fortunate to reciprocate. This reciprocation may be expressed first, through compliance with the MCO, by adhering to the restrictions in place except for necessary travel.

Spreading of information is also expected to be responsible, avoiding the dissemination and onward circulation of fake news.

The government has acted swiftly in introducing the movement control order with the intention of containing the pandemic:

Although lockdowns vary from country to country in terms of intensity, geographical location and listing of essential services, the Malaysian MCO may be classified amongst countries with a particularly strict and enforced MCO, and with good merit.

Figure 1: Frontliners against Covid-19. Let’s Protect Them.

Photo: Universiti Malaysia Sarawak
Furthermore, the government of Malaysia has taken commendable steps in introducing special allowances and incentives for those directly exposed or whose occupational risk due to COVID-19 is high, including:

<table>
<thead>
<tr>
<th>Frontline Medical Staffs</th>
<th>Registered Taxi and Tourist Drivers &amp; Other Tourism Related Frontline Staffs</th>
<th>Immigration Department Frontline Staffs</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM 600 / month</td>
<td>RM 600 one-off payment</td>
<td>RM 200 / month</td>
</tr>
</tbody>
</table>

Frontliners have not only risked themselves but have also potentially exposed their loved ones at risk as well. In addition, workers that fulfil essential needs are often required to be physically present due to the nature of their jobs. Services that are offered from behind desks as support or operational staff may easily adapt to working from home using available technology. However, this is not true for many that earn a living through manual labour or work that requires the presence of the individual. These workers are home-bound, and fall in the ‘low-income, low-risk’ quadrant. Since they may not be able to earn a living during this period, they are most vulnerable to economic fallout, even though their risk exposure probability is also low.

2 Source: CPRC, Ministry of Health, Malaysia, Illustration: Research Management Centre, INCEIF
3 Source: Ministry of Finance, Malaysia, Illustration: Research Management Centre, INCEIF
To ensure that economic contraction remains within a recoverable range, the Malaysian government could consider the establishment of a short-term social contract with the more vulnerable groups, by offering financial assistance and support. Beyond the financial assistance and allowance that the government of Malaysia has allocated for the most vulnerable group, further efforts are suggested to increase the support, ensure financial inclusion, and provide an additional safety net that would be reflective of a responsible government. Some considerations include:

**Figure 4: Some Considerations to Protect the Frontliners**

Frontliners are essential to the health of the general public. They are also the heroes that ensure the perpetuation and resilience of the Malaysian economy. They become a crucial component in reducing Malaysia’s time to economic and social recovery, post pandemic.

**Figure 5: The Exposure Risk Faced by Frontliners**

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4 Source and Illustration by Research Management Centre, INCEIF

5 Source: World Health Organisatin (WHO), Illustration: Research Management Centre, INCEIF
COMPLIMENTARY TAKAFUL PROTECTION

In efforts to demonstrate appreciation to the frontliners, the government of Malaysia could consider complimentary takaful protection in collaboration with local Takaful operators. The subscription would be gratis. Simply, takaful (also known as Islamic Insurance), is a prominent pillar of Islamic finance, a financial system that operates according to Islamic law (Shariah). The concept of social protection is inseparable from Islamic principles and aims to improve social justice through wealth redistribution and fair financial dealings. Islamic social finance aims to fulfil the objectives of the Shariah, or the Maqasid Shariah, by providing protections for the most vital aspects of a harmonious existence.

Figure 6: Maqasid Shariah

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Illustration: Research Management Centre, INCEIF
These peculiar ISF features are more sustainable and social impact focused, as they provide financial aid in the context of social disasters such as pandemics that threaten the quality of life and wealth. Hence, ISF instruments could be an effective shield to protect the frontliners and all those that may be impacted by the adverse effects of these unusual events. Proper and adequate takaful protection becomes necessary and vital to ensure financial resilience and security for this vulnerable group. This is also expected to reduce the levels of anxiety caused as a result of financial uncertainty arising from the pandemic.

Mutual assistance and joint brotherhood form the underlying principles of the takaful concept. Since the objective is to have adequate safeguards that protect society in the face of adversity, solutions that incorporate synergistic and communal safety nets that integrate sophisticated risk estimations and economic impact, become crucial. Takaful-based solutions, therefore, may be explored further in the creation of financial and non-financial safeguards for communities.
Recent statistics released by the IMF (Figure 1) provide a comparative on the significant impact that COVID-19, and the lockdown in fighting and containing the pandemic has on global economies. The IMF forecasts that the impact is expected to be more devastating than the growth experienced in the aftermath of the Global financial crisis in 2009. The Euro area is where the most severe impact is envisaged, with estimates of economic contraction at almost 8%. This is followed by the United States with an estimated contraction of 6% and Japan contracting slightly more than 5%. China and India are expected to post positive growth at 2% and 1% respectively.
It is undeniable that the COVID-19 pandemic has delivered a killer blow to almost every nation on earth. The success of humanity’s technological advances and medical breakthroughs have certainly constrained the impact, making interventions arguably the most effective in recorded history. Yet, the fragility of economies in the wake of such shocks has been devastating for developed, developing and least developed countries alike.

The Movement Control Order (MCO) or lockdown, has brought the global economy to a grinding halt. Ambiguity on the level of response of economies in facing the pandemic is visible. On one hand, some nations have been prioritizing health and the wellbeing of their citizens and have executed either partial or complete lockdowns. One of them is Malaysia. Other economies are prioritizing their economy, denouncing over-reaction to the pandemic based on statistics, and either avoiding lockdown or lifting any restrictions early.

An extended, or strict MCO suggests that containment would be easier. Concurrently however, constraints on economic activities would mean substantial losses of revenue and failing economies. What then would be the best approach that would ensure good health for citizenry and protecting from starvation or poverty at the same time? Is there a trade-off or can health and wealth be kept in balance? These would be the vexing questions raising weighty concerns of governments, medical and social scientists, with the impact of decisions pervading billions of lives.

Therefore, it is expected that there would be collateral damage due to MCOs. However, the extent in terms of magnitude and speed of recovery can only be conjecture at best. Four possibilities present themselves in how economies would react in the horizon, as illustrated below: V shape, small U or glass shape, or big U (bowl shape), and in the worst-case scenario, L shape, not recovering for a protracted period due the too crippling effect delivered by the pandemic.

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1 Source: International Monetary Fund (IMF)
The Movement Control Order (MCO) or lockdown, has brought the global economy to a grinding halt.

Observing the staggering figures of potential loss of source of income on a weekly basis, the aggregated macro-level loss of income due to loss of employment would be astonishing. While total infections reach millions, the number of people who stand to lose their livelihood is substantially larger. The recent jobless claim data in the US indicates that an additional 5 million filed jobless claims last week. The numbers accumulate in the last month (since the lockdown started in few states) to over 20 million.³

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2 Illustration: Research Management Centre, INCEIF

3 https://www.theguardian.com/business/live/2020/apr/16/markets-us-jobless-claims-covid-19-recession-imf-bank-of-england-business-live?page=with:block-5e97f02a8f08ea7431f43b8a#block-5e97f02a8f08ea7431f43b8a
It does not appear much better in Malaysia. According to World Bank data, the self-employed constituted 25% of the total workforce in Malaysia in 2019. This is 3.75 million of 15 million employed persons in Malaysia. The most recent survey findings by the Department of Statistics Malaysia (DOSM) on April 10, suggests that 46.6% of those self-employed have lost their jobs. If this finding is generalized, it means that almost 1.75 million self-employed could have lost their jobs. Unfortunately, the numbers could be much worse. EPF Chairman Tan Sri Samsudin Osman said 62% of the 22 million (this is 13.6 million) working-age Malaysians are self-employed and not covered by any formal social protection. If we estimate based on this number, then 6.3 million have lost jobs, mostly not covered by any formal social protection.

![Figure 4: Effect of COVID-19 Towards Income by Employment Status](https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=124&bul_id=dXllODRFL1RMd3hIenBSOFRSallPQT09&menu_id=U3VPMldoYUxzVzFaYmNkWXZteGduZz09)
Losing sources of income or experiencing job loss is a disturbing statistic. This is even worse so, when coupled with a significantly larger group of people receiving a reduced income due to the MCO. Again the worst affected group is the self-employed, followed by employers, whereby 95% and 86% respectively are indeed suffering from reduction in income flow. Please refer to figure 4 above.

At the aggregated micro level, forecasts from Bank Negara Malaysia show that there might be a contraction of 2% (worst case scenario) or a growth of 0.5% (best case scenario), helped by the stimulus package worth RM250 billion. Figure 5 refers.

![Figure 5: Projected Malaysia’s 2020 Gross Domestic Product (GDP) with Government Assistance/ Stimulus during COVID19 pandemic](image)

The first phase of the MCO began on the 18th of March 2020 and has now been extended to the 28th of April 2020. If losing the source of income is a setback, more concerning is news on the savings behavior of Malaysians. More than 70% of self-employed only have savings sufficient to last them for less than 1 month\(^\text{10}\) and another 18% have savings up to 2 months\(^\text{11}\). Figure 6 below shows the level of savings of Malaysians across different segments, self-employed, employers, government employees, private employees as well as those employed by Multinational companies. Another extension of the MCO may have a serious impact as “more than 75% of Malaysians find it difficult to raise even RM1,000 of immediate cash for emergencies”\(^\text{12}\).

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9 Source: Bank Negara Malaysia, Illustration: Research Management Centre, INCEIF
10 [https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=124&bul_id=dXllODRFL1RMd3hIenBSOFRSallPQT09&menu_id=U3VPMidoYUxzVzFaYmNkWXZteGduZz09](https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=124&bul_id=dXllODRFL1RMd3hIenBSOFRSallPQT09&menu_id=U3VPMidoYUxzVzFaYmNkWXZteGduZz09)
11 [https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=124&bul_id=dXllODRFL1RMd3hIenBSOFRSallPQT09&menu_id=U3VPMidoYUxzVzFaYmNkWXZteGduZz09](https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=124&bul_id=dXllODRFL1RMd3hIenBSOFRSallPQT09&menu_id=U3VPMidoYUxzVzFaYmNkWXZteGduZz09)
The statistics based on the survey by DOSM also show the low preparedness among the different segments; the most unprepared being the self-employed, and the best prepared are the MNC employees (even then, only 31.82% of them prepared).

On a positive note, Malaysia has so far successfully managed the health concerns emanating from the pandemic. The curve seems to be flattening as a lower number of cases have emerged compared to what was predicted, and a significant drop in the number of new cases was achieved on 18th April 2020 (69 cases). Refer to Figure 8 below:

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13 Source : Department of Statistics Malaysia, March 2020, Illustration : Research Management Centre, INCEIF
14 Source : Department of Statistics Malaysia, March 2020, Illustration : Research Management Centre, INCEIF
Hence, the dilemma in deciding to extend MCO or not, may therefore expose the nation to a ‘health versus wealth’ conundrum. To contain COVID-19 and sustain the gains made on containing the virus and maintain good health, the MCO would need to be extended. However, this decision would mean an inverse impact on wealth with the self-employed as the most vulnerable group. An alternate option would be a gradual opening of economic activities. Such a suggestion may work well by controlling the number of cases and simultaneously reviving the economy. However, if this arrangement backfires, and causes new clusters of COVID-19, we might have to reconsider MCO all over again.

For the sake of perspective, presented at the end of this brief report are events unfolding with our closest southern neighbours, Singapore, on the level of infected, recovered, fatalities and concise details on the financial assistance/ stimulus package offered by the government to mitigate the economic impact.

The Minister for Health Singapore has issued a Control Order on 7 April 2020 which came into effect on 8 April 2020 after the COVID (Temporary Measures) Act was passed by Parliament on 7 April 2020.

The Singapore Government has offered financial assistance to Singaporean citizens affected by the COVID19 pandemic, such as:

- Temporary Relief Fund
- COVID-19 Support Grant
- Self-Employed Person Income Relief Scheme
- Workfare Special Payments

There are various essential services that are exempted from suspension under the Control Order, as follows:

- Health, social and selected care services
- Energy, petrol and gas services
- Public and private transport services and logistic providers
- Security, facilities management and critical public infrastructure
- Banking and finance, insurance and asset management
- Food retailers, supply and delivery
- Water, waste and environmental management
- Information, communications services and providers
- Manufacturing, pharmaceutical and biomedical science
- Others e.g.: Electricians, plumbers, vehicle repair and veterinary services

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15 Image retrieved at: https://www.coronatracker.com/country/malaysia/18th April 2020
16 Source : Ministry of Health Singapore Illustration : Research Management Centre, INCEIF
The novel COVID-19 pandemic has caused an unprecedented human crisis around the globe. The necessary actions implemented to contain the virus have sparked both economic and social downturn. It shows the fragility and unpreparedness of the economy to face such a pandemic. Significant weakening of economic conditions has escalated the pressure on households, businesses and financial markets. Governments all over the globe are in the process of formulating and implementing appropriate policies to continue economic activities amidst this turmoil. Financial institutions are obligated to respond towards the policies adopted by respective governments.

Besides the Government (policy makers and regulators), financial institutions, sitting at the heart of the economy, have a crucial responsibility in dealing with the adverse effects of COVID-19. Conventional and Islamic banks, takaful and insurance operators in Malaysia have already embarked on many important measures to mitigate the financial difficulties of individuals and businesses. Financial incentives or relief provided by these institutions covers specific needs of individuals, SMEs and other relevant sectors of the economy.
WHAT CAN ISLAMIC FINANCIAL INSTITUTIONS OFFER?

Traditionally, banks and other financial institutions were considered as a mere intermediary between the lender and the borrower. Social considerations were barely present in the business portfolios of financial institutions until the introduction of ‘Corporate Social Responsibility’ (CSR), Environmental Social Governance (ESG), Socially Responsible Investment (SRI) and Impactful Investment (II). Like many other financial institutions, Islamic Financial Institutions or IFIs have become a major player in the financial markets of many countries. In Malaysia, IFIs have already provided similar incentives/relaxations that conventional financial institutions provided for the public. But what additional value or incentives can IFIs exclusively offer during this trying period?

This answer becomes more relevant for nations where Islamic finance is endemic, like Malaysia where the size of the Islamic finance industry exceeds 30% of total finance assets.

IFIs in Malaysia have realized that their role in the economy may extend beyond the conventional financial intermediation in order to hold the mantle of value-based intermediaries (VBI). Islamic banks in Malaysia began the VBI journey in 2018. Value-based intermediation (VBI) aims to deliver the intended outcomes of Shariah (Islamic law) through practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment, consistent with the shareholders’ sustainable returns and long-term interests. It seems that the pandemic has presented an opportune moment for IFIs to exhibit their unique socio-economic principles and perform their value-based responsibilities. What then can IFIs do to fulfil this role?
As shown in the figure 2, one of the important thrusts of VBI is solving common issues faced by communities. As COVID-19 has adversely impacted communities in several ways, IFIs could empower communities through provision of financial solutions that create positive impact. In the context of social obligation, those who are capable have the responsibility to assist those who are not, via effective distribution of wealth. IFIs could play a significant role in creating socio-economic impact for the communities by being a responsible intermediary.

Balanced consideration between commercial and social aspects should provide a central lynchpin for IFIs in navigating its strategic decisions, thus encouraging the practice of giving back to society, beyond corporate social responsibility activities.

Integration of peculiar features of Islamic social finance, such as Zakat, Waqf and Sadaqah could also be executed effectively during this period. The unique feature of these funds is unilateral payment, and it reduces the financial difficulties of beneficiaries as they are not required to pay back for the monetary benefit received during the period.

Figure 2: Underpinning thrusts of VBI in the context of COVID-19

Source: Bank Negara Malaysia, Illustration: Research Management Centre, INCEIF

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2 Source: Bank Negara Malaysia, Illustration: Research Management Centre, INCEIF
What follows are some suggestions that may be adopted by IFIs in the spirit of the Maqasid (objectives of Islamic law) and the premise of VBI. These suggestions, if adopted, may support society during financial distress through IFIs applying Sadaqah, Waqf and Zakat as well:

**ROUNDOING UP OF PAYMENTS PROGRAM**

This proposal refers to the process of raising money for a specific purpose by using retail transactions at either a retail store’s point of sale (POS) terminal or via an online website through rounding to the nearest unit. Whenever individuals make a transaction using an online platform, the transaction amount is rounded up to the next desired unit. The fund provider has the option for choosing the nature of fund (Zakat/Sadaqah/Waqf) and the program (e.g. COVID-19) in which the fund could be channeled to.
LOYALTY POINTS CONVERSION PROGRAM

The Loyalty Points Conversion Program consists of converting accumulated loyalty points into monetary value before disbursing it in the form of Zakat/Sadaqah/Waqf instead of using these points for personal consumption. The fund provider has the option for choosing the nature of fund (Zakat/ Sadaqah/ Waqf) and the program (e.g. COVID-19) in which the fund could be transferred to.

![Figure 5: Illustration of Loyalty Points Conversion Program](Image)

Daily lives and business activities have come to a virtual halt amidst COVID-19. The impact is felt globally by many with a shortage of medical supplies, daily essentials, source of income and shelter. The term ‘new normal’ is widely used as the way forward due to the mid and long-term effects of COVID-19. During this difficult period where unprecedented shocks are still unfolding, IFIs can collaborate to play a more significant role in bolstering support for their customers and society.

Islamic finance advocates empathy and compassion as part of the fundamental Islamic principles.

As an expression of this, IFIs can collaborate on a crowdfunding platform to create a special fund with zero profit for a predetermined short term, to cushion the impact of their customers, particularly, the micro and SME sectors.

IFIs can also crowdfund to assist in creating an emergency food bank, protective medical supplies, delivering essentials to the affected people and to provide information and resources on COVID-19. The sector can be a role model by contributing to the positive sentiment of their employees that are forced to work from home without proper support in childcare, IT equipment and internet connectivity, house and family responsibilities and financial challenges by rolling out systematic and clear remote work plans.
This mutually beneficial arrangement will restore employee productivity and boost morale.

In Malaysia, the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) stated that the outlook does not look good for IFIs. Therefore, even with adequate loss absorption buffers and stable credit profiles, the prolonging of MCO coupled with the unprecedented impact of the pandemic will dampen the financial growth of the IFI and deteriorate its asset quality. Despite having stable and diverse asset quality, the impact of the pandemic does not discriminate and is impacting all nations and businesses everywhere. The shocks are still unfolding, and the worst is yet to be seen. However, amidst all these adversities, it remains a unique opportunity for IFIs to turn it into advantage. It is now more than ever, that IFIs can exhibit their unique social characteristics, providing forms of financial support for those in distress. It is time for IFIs to hold the banner of responsible financiers high. The returns over the long-term will surely be worth it. It’s time for IFIs to walk the talk and show that they are indeed Value Based Intermediaries.
Nations across the globe are on lock down, albeit at varying phases, without discrimination of wealth, race or status. The priceless notion of freedom seems to be challenged by the precious need for safety and good health. ‘Cash is King’ rings true and maintaining strong liquidity positions has become a boon for companies and individuals, as credit begins to dry up due to defaulting debtors, even though rate policies drive the cost of funds lower. Countries are closing borders, prioritising the safety of their citizens over the economy, with some even giving up on recovery in the short term. ‘Pure madness’ some were heard saying. But contagion is real and the impact will be felt for years to come. In fact, the fallout from COVID-19 seems more formidable than our weapons of mass destruction. Many have turned to spirituality and cries for help to the Almighty have quickly become common practice again.
As nations struggle with the severe economic impact, unemployment is reaching unprecedented levels, with micro enterprises and SMEs the worst affected¹. Malaysia has not been excluded from the impact of the pandemic and has been on a Movement Control Order (MCO) since March 16, 2020, with restrictions lifting gradually through a Conditional Movement Control Order (CMCO) that became effective on May 4, 2020.

Therefore, the psychological trauma and anxiety created by the fear of death, and the prospect of financial failure should not be underestimated. The societal implications require urgent attention. Let’s not forget the impact of isolation over extended periods as this is really an infamous technique of punishment for errant prisoners! The converse is also true: forcing groups of people together for extended periods is also a recipe for chaos as personal spaces are encroached and all strengths and weaknesses become exposed.

Unsurprisingly, this has led to heightened tensions and conflict at home, work and the broader community.

As everything is available virtually, physical and social distancing for families living together is given respite only through the occasional grocery run or other permitted exits. Working from home, online schooling, video conferencing, e-commerce and food delivery all provide continuity without the need for physical movement.

The abrupt lifestyle change is forcing sudden adaptation to new social rules, habits and behavior. Financial status, however, has been a driver for increased tension in households struggling with meeting monthly obligations. Less fortunate families that live in cramped surroundings with no internet connectivity, insufficient food and with children that need special care, are forced to face additional challenges that are testing their resilience more than ever before. People have been forced out of their comfort zones and pushed into new norms of living. This tends to amplify resistance and results in loneliness, sadness, anger, insecurities, hunger, frustration and depression. Unfortunately, it is unclear for how long this will continue as it is continuously mooted as the new norm.

Data gathered from the Women and Family Development Ministry (WFDM) in Malaysia, has shown a spike in domestic violence during the Movement Control Order (MCO). An NGO in Malaysia known as the Women’s Aid Organisation, also logged a 44% increase in calls and WhatsApp enquiries between February and March 2020\(^2\). The increase in domestic violence is not peculiar to Malaysia. During the COVID 19 locked down, data showed that in France, domestic violence has spiked by 30%, in Argentina the emergency calls for domestic violence increase by 25%, in In Cyprus and Singapore their helpline have registered an increase of 30% and 33% respectively\(^3\).


\(^3\) UNWomen, “COVID 19 and Ending Violence Against Women and Girls, www.unwomen.org

\(^4\) Source: Robert Moment (2014), Domestic Abuse and Domestic Violence Help for Abused Women Domestic Survivors: Overcoming Your Past Abusive Relationships, Transforming Your Prese, the Moment Group, USA.
The Office for Prevention of Domestic Violence, New York (OPDV) described that domestic violence involves a range of behaviors which include physical and sexual violence, using coercion and threats, intimidation, emotional abuse, isolation, minimising or denying actions and blaming, using children, using male privilege, and using economic abuse. OPDV also stated that all these forms of abuse do not occur in isolation from each other, but rather occur simultaneously. The Power and Control model of Domestic Violence\(^5\) identifies power and control as the goal of the abuser to intimidate the victim, and it is done purposefully and systematically.

Huge efforts have been made by various parties to overcome domestic violence and to protect victims. The National Coalition Against Domestic Violence (NCADV)\(^6\) stated that it may seem a simple and straightforward decision for people not in the abusive relationship, but victims of domestic violence are often faced with barriers and challenges even after escaping from the abuser. It is therefore crucial for victims and supporting organisations to plan for safety and shelter prior to exiting relationships. This is to ensure safety of the victim, since studies have shown that the abuser views a victim’s leaving the relationship or their homes as an ultimate betrayal and will most likely to retaliate. Women’s Aid Organisation\(^7\) also stated that issues faced by the survivors of the domestic violence are complex and far reaching. Colorado Lawyer\(^8\) discussed the fifty obstacles on reasons for victims’ reluctance in leaving the abusive relationship or violent home environment, with some illustrated in Figure 3. Studies from the Ministry of Health also show that the majority of the abusers in domestic violence cases are the victims’ spouses.

\(^{5}\) Source: National Domestic Violence Hotline, Retrieved at: www.thehotline.org


The impact of domestic violence on children, either being abused or witnessing the violence at homes, is also damaging and may result in lifelong psychological and emotional trauma (Figure 3). Studies show that 90% of children in a violent home have witnessed violence perpetrated against their mothers (Queensland Domestic Violence Taskforce, 1988). It is said that children that have witnessed violence at homes, particularly against their mothers, often demonstrate behavioral and emotional problems later on. It is unsafe for children to live in a violent home for danger of getting caught in the middle of an assault or getting hurt by thrown objects or struck by a weapon used by the abuser.

During the COVID-19 locked down, victims of domestic violence are trapped with their abusive partners for a long period. There is an unimaginable horror in the minds of the victims.
During the COVID-19 locked down, victims of domestic violence are trapped with their abusive partners for a long period. There is an unimaginable horror in the minds of the victims. And with the announcements of the closure of majority of businesses, schools, government offices and even religious places of worship, the victims may be misled with the notion that domestic violence shelters are also closed for operations. However, there are various support mechanisms available, both governmental and through NGOs that are open 24-hours. In Malaysia, if victims of domestic violence require support, planning an exit or require emergency assistance, the following bodies are contactable:

**Figure 5: List of 24-Hour Emergency Assistance Available For Domestic Violence Victims**

- **Talian Kasih (24 hours)**
  - 15999
- **MyCare Covid19**
  - 03-8870 7519 / 7527 / 7528

**WAO HOTLINE**

- **WAO Hotline (24 hours)**
  - +603 7956 3488
- **SMS/WhatsApp TINA (24 hours)**
  - +6018 888 8058

**Proceed to Emergency Department in all major public hospitals**

- 03-8870 7519 / 7527 / 7528

10 Illustration: Research Management Centre, INCEIF

11 Source: Talian Kasih, Ministry of Women and Family Development Ministry, MyCareCOV19, JAKIM, One Stop Crisis Centre (OSCC), Ministry of Health, Malaysia, Woman’s Aid Organisation (WAO)
The victims of domestic violence may also proceed to the One Stop Crisis Centre (OSCC) in major public hospitals. The OSCC is an integrated multi-agency service in the emergency departments of most major hospitals in Malaysia with the objective to help the victims of domestic violence in one location. The OSCC comprises of comprehensive assistance for medical, psychological, social, shelter and legal support. The victim will get the necessary medical attention. A clinical and medical assessment will be undertaken by a health worker and will be later referred to other specialists such as O&G, geriatrics, pediatrics and psychiatry for relevant treatment. A medical social worker will also assess the victim to decide the safest placement for the victim if necessary.

If the victim is below 18 years old, a child protection team known as the Suspected Child Abuse and Neglect (SCAN) team will assess the case. If police reports are required, samples of blood and evidence of injuries and assault will also be taken.

The new normal is becoming a stark reality in the post COVID-19 world. Malaysia has gone from MCO to CMCO. It still remains crucial for the family institution to navigate their challenges amicably during this trying time. Various organisations have issued suggestions for people to care for each other and to manage stress during this locked down or CMCO for Malaysia. Ultimately, we need to prevent domestic violence and focus on offering assistance to the victims. What following are suggestions for people in coping with stress, anger, frustration and loneliness during the MCO, CMCO and the period of COVID19.

The new normal is becoming a stark reality in the post COVID-19 world. Malaysia has gone from MCO to CMCO.

Figure 6: Coping with Stress during the Covid-19 Outbreak

13 Illustration: Research Management Centre, INCEIF
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