

Financial challenges for IFI due to the pandemic

1. Liquidity

- i. The Covid-19 pandemic has increased banking sector risks significantly and across the board.
- ii. Due to strong lockdowns and uncertain health situation, the default rate is expected to rise considerably.

2. Default risk and profitability

- i. The immediate impact of the payment deferments of principle and markup will be on the credit growth.
- ii. 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.

3. Business Failure

- i. The pandemic is placing enormous strains on corporates cash flows as business operations have temporarily ceased.
- ii. Banerjee et al. (2020) estimate that 50% of firms in 26 advanced countries do not have enough cash to cover total debt servicing costs over the coming years.

3. Governance Challenges for IFIs during the pandemic

1. Role of the board of directors
2. Payment of Moratoriums
3. Shari'ah Governance
4. Human resource management
5. Corporate Social Responsibility

4. AGEB Guidance for Governance during Pandemic

1. Board and executive directors are recommended to implement crisis management plans. Such crisis management plans should cover reporting practices and governance issues.
2. Boards are recommended to emphasize stakeholder needs and ensure transparent reporting of transactions arising due to the pandemic, for example, moratorium payments.
3. Boards are recommended to emphasize ethical considerations while developing strategies to handle the pandemic.
4. Shari'ah boards are advised to develop pro-active measures to ensure Shari'ah compliance.

4. Shari'ah issues during pandemic

1. Delays in installment payments.
2. Restructuring existing contracts.
3. Risk of Shari'ah non-compliance.
4. Internal Shari'ah audit

7. Opportunities for IFIs

1. Social safety net – IFIs need to develop fiscal plans for a sustainable future. These plans might be divided into:

- a) Contamination phase
- b) Recovery phase

2. Islamic Social Finance – Several tools are available for IFIs:

- a) Qard Hassan
- b) Social Responsibility Investment (SRI) Sukuk
- c) Waqf
- d) Zakat

3. Fintech

- a) Mobile banking
- b) Shari'ah compliant crowdfunding
- c) Islamic microfinance
- d) Smart Contracts