

The 15th meeting of COMCEC Financial Cooperation Working Group

MALAYSIA'S EXPERIENCE

Optimising role of Islamic finance in supporting SMEs in Times of COVID-19

6 April 2021

Presentation by:

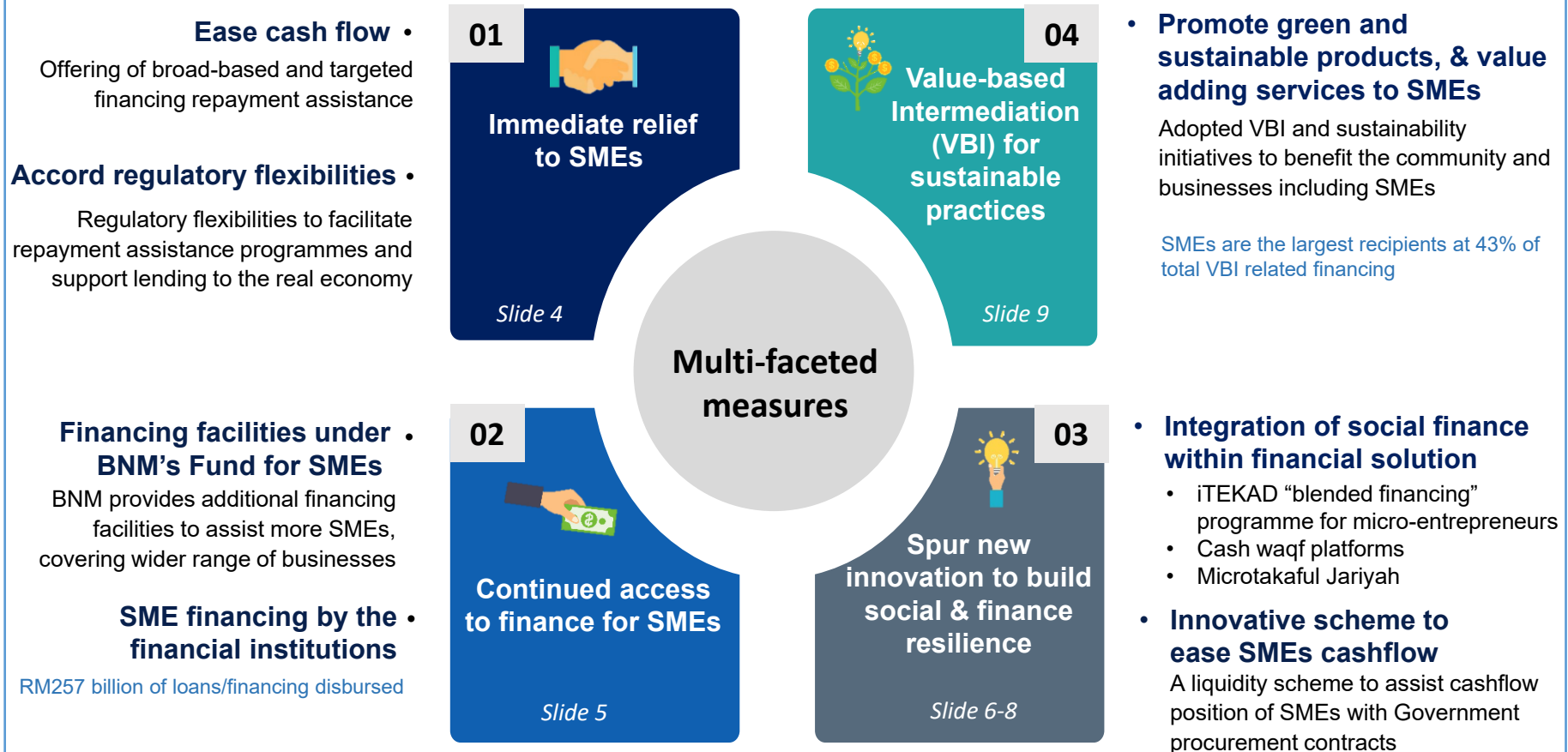
Dr. Hamim Syahrums Ahmad Mokhtar
Islamic Banking and Takaful Department



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

An overview of Malaysia's experience: Islamic finance in supporting SMEs in times of COVID-19

Multi-faceted measures to support business recovery as well as promoting long-term business, social and financial resilience of SMEs through innovation and sustainable practices



Thank you



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Measures to support Islamic Finance beneficiaries during COVID-19 Pandemic



Ease cashflow constraints

Broad-based repayment assistance

- ✓ Automatic 6 months moratorium on eligible financing repayment for Individuals and SMEs
- ✓ Conversion of credit card balances into term financing
- ✓ R&R of corporate financing

Targeted repayment assistance

- ✓ Additional 3 months moratorium for unemployed customers
- ✓ Reduction of financing payments proportionate with income reduction

Extended targeted repayment assistance

- ✓ B40 and microenterprise customers may opt for 3 months additional moratorium or 50% instalment reduction for 6 months



Regulatory flexibilities

Time-bound regulatory flexibilities to facilitate repayment assistance programmes and support lending to the real economy

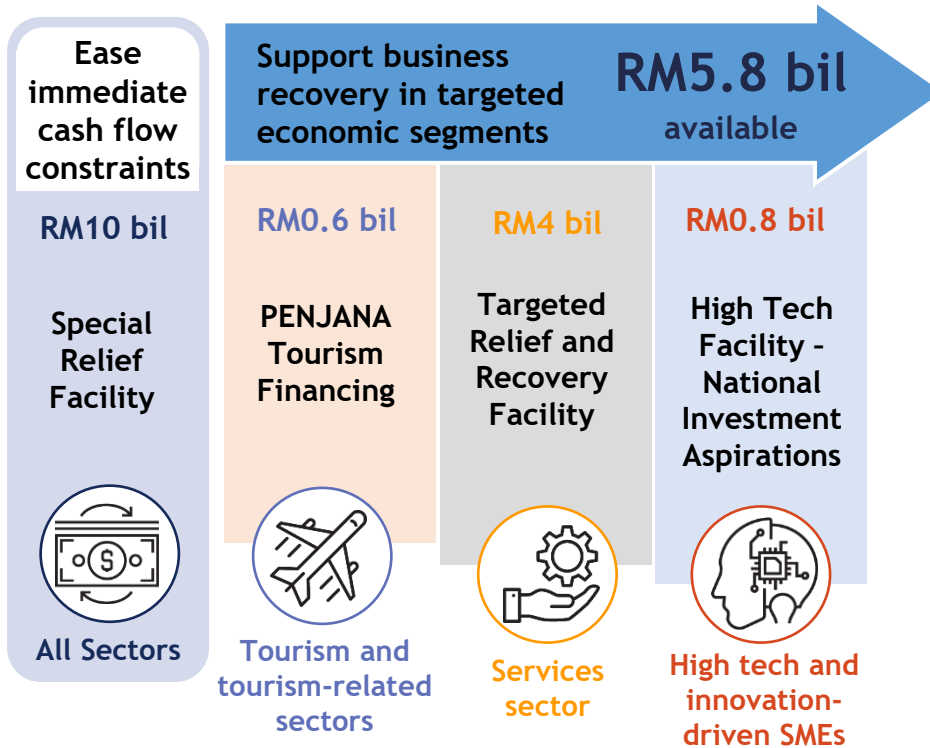
- ✓ Rationalise lending limits applied to broad property sector and share financing
- ✓ Allow drawdown of capital conservation buffer of 2.5%
- ✓ Allow to operate below LCR of 100%
- ✓ Minimum Net Stable Funding Ratio of 80% instead of 100%

Affordable financing via BNM's Fund for SMEs to complement banks' role in providing financing to SMEs

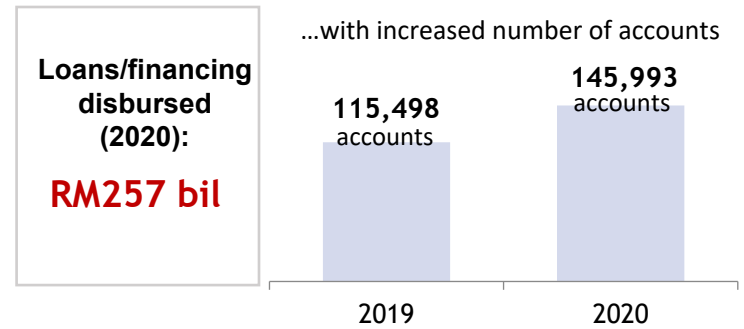
More targeted facilities by BNM amid continued challenging environment. . .

. . . complemented banks' role in providing financing to SMEs

Selected BNM's Fund for SMEs



SME Loan/Financing Indicators*



Banks continue to support new customers and underserved segments in 2020

33% of approved applications were to **new-to-bank customers**

46%** increase in financing approved to **'young' SMEs**

Supported by structured & seamless communication to the public through TV talks series/ radio interviews/ social media.

Note: As at 26 March 2020, reflecting reallocation between facilities

* Banking system and development financial institutions (DFIs)

** Growth in the number of accounts approved in 2020 over 2017-2019 average.

'Young' SMEs defined as SMEs established not more than 3 years

Source: CCRIS and Bank Negara Malaysia



Ample opportunities to optimise social finance capital towards building social & financial resilience

Risk absorbent capital that facilitates wealth sharing and capital redistribution

Versatile capital



Unique propositions of social finance

- Zakat
- Sadaqah
- Waqf



Impact-focused

SDG-aligned, targeted at enhancing socio-economic and well-being of rakyat

Transformative tool

Inculcate philanthropy culture among individuals and corporates to solve issues faced by rakyat

Roles of Islamic financial institutions

Collection agent

Wide range of banking channels such as online banking, ATMs and branches

Fund manager

Competent in managing & investing funds, with proper risk management

Platform provider

Readily available platform to leverage

Payment facilitator

Facilitate payment through multi-channel payment gateways

Underwriter

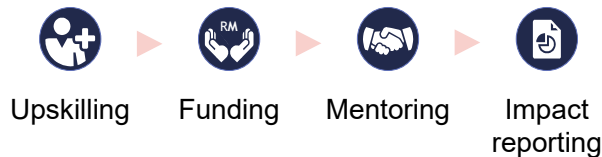
Underwrite risk fund to offer financial protection for targeted segments

... as integration of social finance within financial solution is gaining traction in Malaysia

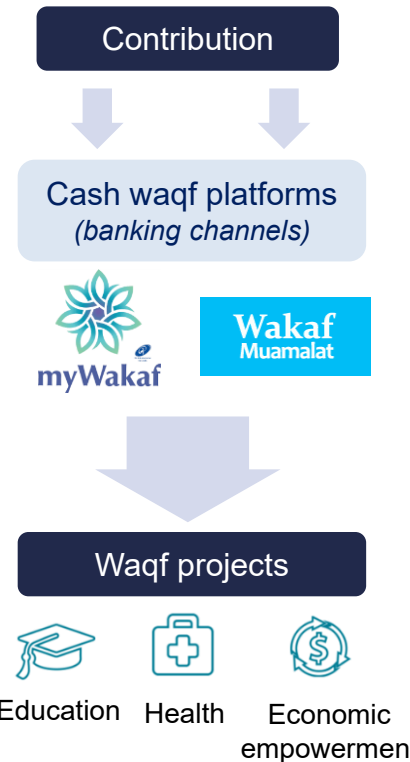
iTEKAD “blended financing” programme helps micro-entrepreneurs from the bottom 40% of income group, including those affected by COVID-19



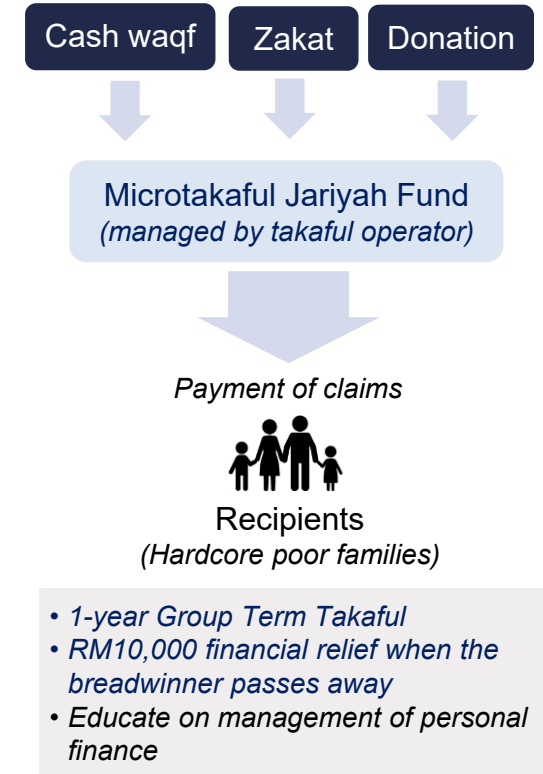
How iTEKAD works?



RM38.3 mil cash waqf funds raised since 2012 – joint collaboration with state authorities



25,000 active recipients of Mikrotakaful Jariyah – RM1.2 mil death benefit paid since 2018

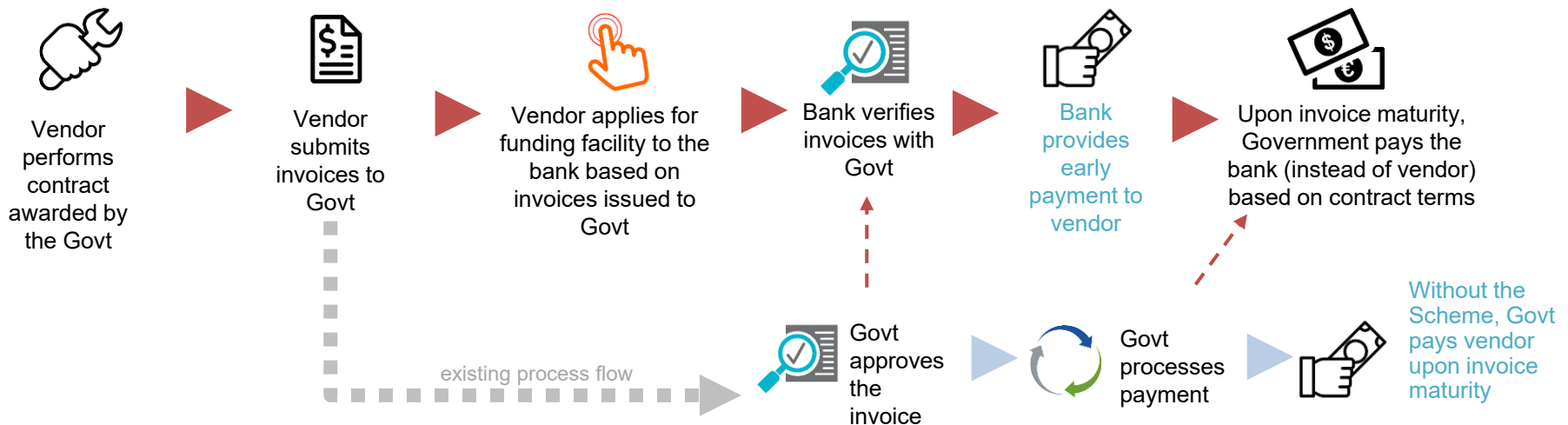


Accelerated payment to Government vendors via pilot liquidity scheme (i.e. CAKNA Scheme)

Businesses (particularly SMEs) face **cashflow constraints** following the COVID-19 crisis given:

- **Significant drop in revenue**, however need to continue paying for fixed costs
- **Reluctance to undertake more loans** given existing commitments and business uncertainties
- **Normal banking facilities may not be sufficient** given: (i) limited capacity and (ii) risk averseness to extend financing, especially for SMEs

Accelerated payment to Government SME vendors via the Pilot Liquidity Scheme



Key Benefits of the Scheme to Vendors

- Provide quick liquidity, enabling vendors to better manage their financial requirements
- Competitive pricing based on standing of Government as Principal
- Does not affect leverage position of vendors
- Enhance accessibility to banking facilities including for small enterprises
- No collateral required

Impact of driving & sustaining the momentum of Value-based Intermediation (VBI) to MSMEs and SMEs

Signatory to global networks for sustainable finance



Innovative green and sustainable products

Examples:

- Preferential financing rates for purchase of new hybrid vehicles and Green Building Index certified residential properties
- Financing for women entrepreneurs
- Issuance of world's first SDG sukuk
- Launch of Islamic index-based investment scheme complying with ESG



Collaboration and engagement

Close engagement with organisations who shared sustainable aspiration

Adoption of value-based banking practices & value-adding services

Advisory, business network and supporting infrastructures to facilitate entrepreneurship

VBI Community of practitioners as domestic champions

- 12 member banks
- Aim to increase impact on social & economic development through financial intermediation
- Knowledge-sharing platform & capacity building

The Islamic banking industry intermediated approximately RM155.6 billion in VBI-related or aligned initiatives

Impacts created by VBI to MSMEs & SMEs

More than 100,000 SMEs supported with over RM40 billion financing

By value, SMEs are the largest recipients at 43% of total VBI related financing

Member banks offer mentoring and education as well as assisting SMEs in halal industry and technology