Islamic personal financing for post-pandemic economic recovery in Malaysia

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ABSTRACT

The COVID-19 pandemic has started to subside across the world. However, many developing countries including Malaysia are finding it challenging to restart their economies due to the large damage to all sectors of the economy. The governments in these developing countries are contemplating different methods to revive their economies and resume normal economic activities. In this regard, Islamic personal financing (IPF) instruments may play a crucial role in rejuvenating economic activities. The main purpose of this study is to investigate the potential of IPF to restart economic activities in Malaysia after the COVID-19 pandemic. First, this study analyzes the impact of the pandemic on different economic indicators such as economic growth, gross domestic product (GDP), trade, employment, and investments. Second, this research proposed three IPF tools namely Service Ijarah, Murabahah/Service Ijarah Line-of-Credit with Wakalah, and Murabahah/Service Ijarah Credit Card to restart the economy by fulfilling the financing needs of individuals, businesses, and industries. This study contributes to offering a policy roadmap for governments considering different options to restart their economies in a sustainable way after the Covid-19 pandemic.

Keywords: Covid-19; Islamic Financing; Personal Financing; Post-Recovery

1. INTRODUCTION

The World Health Organization declared COVID-19 as a global pandemic on 11 March 2020 (Wang et al., 2020). Initially, the first few cases of COVID-19 were identified in China’s Wuhan city in December 2019. COVID-19 is caused by a highly contagious SARS-CoV2 virus which creates respiratory sickness and serious health problems (Lai et al., 2020; Lu et al., 2020). After the declaration of COVID-19 as a global pandemic, many countries including Malaysia also started to report positive cases. The Ministry of Health (MoH) Malaysia diagnosed a patient (returning individual after meeting Chinese delegates) with COVID-19 on February 03, 2020 (Ahmad, 2020). However, COVID-19 spiked in Malaysia from case number 26 (an individual had a traveling history to China and had recently attended a large religious gathering) as all the close contacts of this case were diagnosed positive (Abdullah, 2020a). The Malaysian government decided to implement serious measures after realizing a large number of COVID-19 cases were reported among the Bruneians who had attended the religious event in Malaysia (Abdullah, 2020b).

Despite having the second-highest number of COVID-19 patients in Southeast Asia, the Malaysian MoH displayed excellent preparedness to contain the COVID-19 outbreak. MOH
ensured that individuals were screened at key entry points throughout the country by installing thermal scanners (Md Shah et al., 2020). The close collaboration between MoH and the Malaysian government strengthened hospitals’ capacity as COVID-19 patients received effective treatment across the country. MoH suggested various control measures to the government including the imposition of Movement of Control Order (MCO) across the country which significantly helped in curtailing the pandemic in Malaysia. The government also provided stimulus packages (PRIHATIN) in four different phases to offer financial support for different sectors of the community while the pandemic was ongoing. Finally, after 4.54 million COVID-19 cases, 35,732 deaths, and after fully vaccinating most of its population, Malaysia decided to ease COVID-19 restrictions and reopen its economy in phases. This included removal of travel restrictions, social gathering, pre-Covid testing, reopening of public places, etc.

Initially, the COVID-19 pandemic expanded at an exponential rate; within a few months, nearly every continent had reported multiple cases, and it is projected to pose severe economic concerns. Global economies have significantly declined, with the United States’ gross domestic product (GDP) falling by 4.8 percent in the first quarter and a 5.0 percent contraction anticipated to tip the country into a recession by 2020. (Mckibbin & Fernando, 2020; Fernandes, 2020). The European region’s GDP declined by 7.25 percent in 2020, and all euro economies were projected to enter a recession (European Commission, 2020). Similarly, developing Southeast Asian countries are more sensitive to economic recession as a result of declining business activities, tourism, and foreign direct investments. According to the IMF (2020a), the ASEAN-5 (Indonesia, Malaysia, the Philippines, Thailand, and Vietnam) economies will decrease by 0.6 percent, a highly rare case scenario in the last 50 years.

While the world is facing numerous implications of COVID-19, the economic consequences appear more devastating. Similar to the rest of the world, Malaysia is also facing twofold economic damages due to COVID-19. The external economic spillover affiliated with low demand and a highly uncertain global economic situation contributed to these economic damages. The internal damages were caused by a large reduction in the production capacity of industries following COVID-19 control measures. The recent edition (Surviving Storm) of the World Bank’s Economic Monitor in Malaysia warned that the Malaysian economy is projected to decline by 3.1% in 2020 due to reduced economic activities in the spirit of prevention of COVID-19 infection. The World Bank has forecasted that the Malaysian economy may rebound in 2021 by 6.9% provided COVID-19 subsides. The looming uncertainties about the global situation of COVID-19, dynamic marketplace, and geopolitical unsustainability demand revamping of the Malaysian economic system through established tools (World Bank, 2020a).

Scholars and practitioners have recognized that the massive economic shocks of COVID-19 will surpass the global economic crisis (GFC) triggered in 2009. The emergence of the GFC can be linked to the housing bubble that first disrupted the demand side before influencing the supply side. Whereas, the ongoing economic crisis is affecting the demand side by lowering consumption and investment as well as creating a shortage of supply of goods and services due to the closure of businesses and unavailability of labor. The World
Bank (2020b) projected in April 2020 that the world economy will drop by 5.2% in 2020, which would be nearly three times worse than the GFC-caused contraction in 2009. Furthermore, as the pandemic worsens, economic activity may face even greater pressures, potentially leading to slower economic growth than anticipated. International organizations' recovery forecasts have altered over the course of the pandemic as they attempted to quantify these extraordinary potential repercussions. The thinktanks projected a consistent and brisk economic recovery in their earlier projections as COVID-19 containment measures were believed temporary. Ironically, the economic recovery process was further delayed due to an escalation in the number of cases. Currently, the recovery process appears challenging and complex as the world faces global trade tensions, poor economic conditions prior to the pandemic, protectionism rhetoric, reduction in productivity, and sluggish economic performance of many countries (Azis, 2018; Gunnella & Quaglietti, 2019).

Nearly two years into the COVID-19 pandemic, the combination of effective vaccines and evolving viral variations is placing more emphasis on what the "new normal" would look like. The rapid spread of the Delta variant this year, even among the vaccinated, has questioned the effectiveness of some countries' "zero COVID" plan (Hinojales & Kho, 2021). Economic recovery following the COVID-19 pandemic is expected to be comparable due to a number of variables such as slower growth, underlying uncertainty, cautious optimism, and unequal growth. Various governments, particularly in poor economies, have tasked their thinktanks with devising instruments that can potentially enable the reconfiguration of economies in a sustainable manner.

As stakeholders in the country's post-COVID-19 economic reform strategy, Islamic financial institutions (IFIs) have the capacity to play a crucial role. To address the needs of this function, IFIs must adapt to the fundamental developments in the post-pandemic way of doing things. One noticeable feature in Malaysia during the pandemic was the increasing usage of digital channels for reducing physical distance. As a result, the way things are done nowadays has shifted. Previous research has found that IFIs play an important role in delivering social benefits in Malaysia's recovery strategies. During this pandemic, assistance and support from IFIs can help to revive the economy (Yusuf et al., 2020). To summarize, IFIs can play a major role in safeguarding the well-being of Muslims and non-Muslims equally.

The remaining study discusses the literature review in section 2 followed by the methodology in section 3. Section 4 highlights the operationalization of Islamic personal financing instruments for economic recovery after Covid-19 and finally section 5 concludes this study.

2. LITERATURE REVIEW

Numerous studies have concluded a significant negative impact of the COVID-19 pandemic on the economic growth of the countries. A detailed study conducted by McKibbin and Fernando (2020) revealed that pandemics generally affect household income, governments, and businesses by increasing businesses' operational costs,
expenditure on public health, and unavailability of workers due to fear of death and infection. Further, COVID-19 control measures negatively affect the food supply chains which include the production, distribution, processing, and consumption and vulnerable agriculture commodities such as meat and vegetables (Nicola et al., 2020; Siche, 2020; Toreno, 2020).

A plethora of studies have analyzed the profound impact of COVID-19 on domestic and global economic indicators of poverty, public expenditure, economic growth, government deficit, and labor supply (ILO 2020; Nicola et al., 2020; Sumner et al., 2020; UN-Habitat & WFP 2020). However, the actual effect of virus outbreaks and lockdown measures on household income needs further investigation. Also, the economic effects of COVID-19 are projected to have a varying influence on people and societies with different household incomes, job arrangements, market access, etc. Accordingly, it is essential to understand the pandemic’s effects on household income and underlying factors as a support system contributing to overall income.

The effect of COVID-19 on the household income of two East African countries was investigated by Kansiime et al. (2020) through an online survey data drawn from 442 respondents. The findings revealed that COVID-19 had poised serious economic shocks on the income of more than two-thirds of participants. The findings further delineated a deterioration in food security and nutritional quality and the food insecurity among Kenyan and Ugandan respondents has increased by 38% and 44% respectively. Finally, the findings of probit regression revealed that respondents with low household income and relying on labor-based income were more vulnerable to economic shocks and had consumed relatively less food during COVID-19.

Another study attempted to estimate the effect of COVID-19 restrictions on smallholders in India and determined certain differences in the effect of COVID-19 on agriculture-based activities, income, and food security (Ceballos et al., 2020; Harris et al., 2020). The study conducted by Ceballos et al. (2020) focused on disruptions in the production of agricultural food caused by COVID-19. The data was drawn from 1,515 agriculture food producers located in the Haryana and Odisha states of India. The research results confirmed significant variations in the effect of lockdown measures on the farmers of these two states mainly due to structural differences in the market infrastructure and state-specific COVID-19 control measures. While Harris et al. (2020) examined the influence of COVID-19 shocks on the production, sales, prices, earnings, and the diet of vegetable farmers in India producing and consuming nutritiously dense vegetables in India. The findings of the data retrieved from 448 farmers from four states established that most of the farmers have experienced a decline in production, sales, prices, and income. About 80% of farmers confirmed a significant reduction in sales and the remaining 20% reported almost no sales during COVID-19. Similarly, 80% of farmers reported a reduction in prices and 50% disclosed a reduction in prices by more than half. While the revenue of most (90%) of the participants declined and 60% disclosed a 50% reduction in their revenue. The findings also noticed higher susceptibility among female and small-scale farmers to the risk of earning and nutrition which implied the need for a distinct support system for the continuation of these farms. Also, these farms disclosed the use of different coping tactics for maintaining their
sales and reducing the effects of negative income. The findings suggested that farmers may consider utilizing their home-grown vegetables to overcome the food and nutrition issues to maintain a balanced diet during this pandemic.

A large number of studies have evolved in the context of COVID-19 effects on the economies of different countries. However, there are no significant studies offering a policy direction to restart the economy especially tools required for economic recovery are missing. Based on this argument, this study is expected to add to the growing body of literature on the impacts of the COVID-19 pandemic by examining its implications on economic indicators in Malaysia and recommending policies for economic recovery by explaining the role of Islamic personal financing instruments. The results should contribute to guiding policy discussions on the provision of necessary measures to cope with the potential negative impacts of the COVID-19 pandemic.

2.1. Malaysian Economy Amidst COVID-19

The researchers have separated the impact of COVID-19 into three different categories. First, the pandemic’s effect on the general public and their spending, and many workers were laid off from their jobs and were unpaid during COVID-19. Second, COVID-19 containment measures including temporary closure of businesses, schools, public places, and travel restrictions had a massive economic impact. Third, decreasing economic activities slowed down economies and many countries reported negative GDP growth. These crises are similar to GFC in terms of global consumers’ and businesses’ wait-and-see approach to restarting their economic activities. During a recession countries’ economic growth and plummeting purchasing manager indexes (PMIs) become negative. Despite its effect on numerous health and economic sectors, the effect of COVID-19 is unevenly shared within the economic systems of the countries.

The World Bank (Malaysia) Economic Monitor’s latest edition (Surviving Storm) claimed a 3.1% decline in the Malaysian economy in 2020 due to COVID-19. This economic downturn is linked to the decline in economic activities caused by COVID-19 prevention measures. However, a strong economic rebound of 6.9% was projected in 2021 provided COVID-19 subsided in Malaysia. However, the emergence and exponential growth of the Delta variant invalidated these projections and the economic growth further decreased to 3.6% in the fourth quarter (3Q-2021). The unprecedented nature of COVID-19 and resumption of economic activities by 2022 demand upscaling recovery process through a reliable support system to rebound the country’s economy.

Cheng (2022a) determined that external trade links were the main source of COVID-19 shocks in Malaysia. Particularly, draconian lockdown measures worldwide had significantly affected the global demand for Malaysian exports which were already facing challenges due to uncertain global trade escalated by trade tension between US and China. The lockdown measures coupled with global trade tension enhanced the vulnerability of the Malaysian economy to face trade and global value chain shocks in Asian and Pacific regions. Internal sources including lockdown measures can be categorized as another source of economic shocks. These lockdown measures swamped economic activities forcing...
businesses to close down, deteriorating consumption and investments, and irreparable damage to the supply chains.

COVID-19 had a massive impact on the economic growth of Malaysia as it shrunk by 17.1% in the second quarter of 2020 which is a rare case scenario after the Asian Financial Crisis in 1998. The progressive lifting of COVID-19 restrictions further reduced Malaysian GDP by 2.7% in the third quarter of 2020. During GFC, the Malaysian economy rebounded as its GDP growth returned to the pre-crisis level however, the ongoing situation indicates a slow and gradual resumption of GDP growth (Cheng, 2020b). The economic recovery seems challenging compared to the recovery after GFC as Malaysia managed to maintain its GDP growth to the pre-crisis level only within a year after GFC. However, the current situation categorized by high energy prices, low demand, a rise in inflation, and declining investments due to low-interest-rate indicate that a ‘V-shaped’ economic recovery is less plausible.

Among many shocks of COVID-19 shocks, the Malaysian labor market perhaps was one of the most affected areas contributing to low economic growth. MCO and strict COVID-19 regulations created massive unemployment in the country and the unemployment issue received a significant spotlight as Malaysia has never experienced such a situation in decades. Despite gradual relaxation in MCO, the unemployment rate continued rising as most of the businesses were still closed (Cheng, 2020c). Even though COVID-19 in Malaysia mostly increased unemployment among women, teenagers, and less-educated workers yet, the educated males also expressed serious concerns about their job security. As the pandemic has significantly subsided, the Malaysian government is likely to encounter a major challenge of reduction in unemployment by ensuring readily available jobs for most of its people. Whereas, most businesses are yet to become fully operational due to a lack of demand and capital.

In terms of impacts on investments, the news of the COVID-19 pandemic in Malaysia immediately forced investors to withdraw and cut their investments as the aggregate investments fell by 4.6% in the first quarter of 2020. Currently, the significant improvements in the COVID-19 situation indicate optimism about increment in investments which may contribute to economic recovery. However, the recent political conflict between Russia and Ukraine, and the reeling of global economies towards recession may not represent an ideal situation for investors. Therefore, Malaysia is in need of an alternative financing mechanism that can effectively contribute to its economic recovery process.

2.2. COVID-19 AND ECONOMIC RECOVERY RESPONSE OF MALAYSIA

The global communities across the world implemented both health and economic control measures in response to COVID-19 which include nationwide lockdowns to halt to spread of infection, rigorous testing, contact tracing, and financial stimulus to minimize the economic impacts. The developed, developing, and underdeveloped countries are likely to experience different recovery processes due to underlying differences in public health policies and economic policies for containing the virus and minimizing the economic shocks of the pandemic. However, the effectiveness of economic policies relies on the
health policies for containing and minimizing the spread of COVID-19 infection which is projected to further exacerbate the economic burden on countries.

Similar to other countries, the Malaysian government reserved approximately RM 305 billion to provide fiscal and non-fiscal support to mitigate the health and economic effects of COVID-19. It is notable that the cumulative reserved COVID-19 budget was only 20% of the GDP while the actual fiscal support was RM 55 billion which is equal to 3.8% of Malaysian GDP. The remaining budget of RM 250 billion was expected to offer non-fiscal or quasi-fiscal support for different sectors of the economy including debt-repayment, moratoriums, and loan guarantees. The government planned to reimburse this support to the public through government-linked entities such as banking channels instead of using the federal government to carry out this task. The data from different publicly available reports revealed that the COVID-19 stimulus package offered by the Malaysian government in comparison to its GDP was second-lowest in the ASEAN region after Vietnam.

Understanding the limited availability of support from the government, the unprecedented nature of COVID-19, and differences in the impact size on sectors and communities, it is crucial to design integrated policies through sustained financing tools so that the health and economic effects of COVID-19 can be reduced (Cheng, 2020c). Further, as the country has headed towards endemic after vaccinating the majority of its people, the question remains whether the economic recovery process will even start and what are the available tools to start this process.

3. RESEARCH METHODOLOGY

This is a qualitative study based on secondary data sources obtained after reviewing and systematically evaluating various sources (Bretschneider et al., 2017). Document evaluation facilitates gathering background information and following changes and new developments in the case under investigation (Bowen, 2009). Documents pertaining to Covid-19 and its economic implications in Malaysia, as well as current literature on the capabilities of Islamic personal financing (IPF) mechanisms to propose solutions to mitigate the economic effects of the pandemic, are specifically studied. First, this study examined publications from the Bank Negara Malaysia, the World Bank, the IMF, and the OECD to define the economic consequences of Covid-19 in Malaysia in order to develop background material for the case under review. Second, the outcomes of continuing research on Islamic personal financing tools to control the economic consequences of Covid-19 are used to recommend economic recovery solutions.

4. IPF FOR POST-COVID-19 RECOVERY

Apart from its health implications, Covid-19 has reinforced economic inequalities among people all over the world. Recent research has focused on understanding how disparities may propagate Covid-19 (Ahmed et al., 2020), how these inequalities may result in a higher death rate in a certain location or society (Gross et al., 2020), and assessing Covid-19 impacts on household consumption and poverty (Martin et al., 2020). According to these studies, despite great ambiguity regarding the real impact, Covid-19 might cost the world more
than $10 trillion and push 10 million people into poverty. The covid-19 pandemic will exacerbate economic difficulties, perhaps increasing unemployment and endangering the health and social security in countries with poor welfare and safety nets. The circumstances that contribute to the vulnerability of poor populations during pandemics are untapped in recent studies. As the pandemic is heading towards endemic, people, corporate, industries, and governments in many developing countries are in need of cash financing to lift people out of poverty and restart economic activities. In this regard, Islamic personal financing and the shariah-based cash instruments such as Service Ijarah, Murabahah/Service Ijarah Line-of-Credit with Wakalah, and Murabahah/Service Ijarah Credit Card are suggested to resolve this issue (Kahf & Mohamed, 2017). The proceeding sections overview how these instruments may help to fulfill the cash needs of different members of the society in Malaysia.

Islamic personal financing (IPF) is one such toolkit that has gained traction to respond to customers’ expectations and financial obligations, as well as market-driven dynamics, in order to compete effectively with traditional banks. Personal financing needs have multiple purposes and stakeholders which range from individuals, corporates, financial institutions, and governments. All these parties require different forms of financing to fulfill their obligations. For example, during Covid-19 people were unable to work and fulfill their daily needs due to draconian Covid-19 containment measures. This highlights the need for cash for people during lockdowns and to restart their economic activities. Consequently, IPF which is treated as a benevolent contract not offered by Islamic financial intermediary institutions can be an exceptional provision to fulfill the genuine need for cash. Generally, individuals should approach their relatives, friends, and charitable organizations such as Zakah and Awqaf (Kahf, 2015).

4.1. Service Ijarah

Service Ijarah is a financial contract in which an Islamic bank (IB) buys a service or usufruct from its provider then marks up through a cost-plus method and sells it to a client on a credit. Although the concept of Service Ijarah has been recognized and commonly practiced throughout Muslim history, it has only lately been introduced as a financial tool in Islamic banking however, its current implementations are scarce. Few IBs employ this structure in their asset mix to help people with special needs such as medical bills, travel and tourism, education, weddings, and similar expenses.

The Service Ijarah described in this research refers to both usufructs and services as described by Kahf (2015), i.e., buying a usufruct of an asset, appointing a person with assets or machines, and/or employing someone for his/her services in exchange for pay or salary (Ujrah). AAOIFI’s Shariah Standard No. 9 (issued in 2002) has documented the distinction between Ijarah and Ijarah Muntahia Bittamleek which highlights that the Ijarah contract intends to lease tangible property or service from respective institutions with assets and people. The provision of Shariah Standard No. 34 issued in 2008 has also covered the hiring of a person under the Ijarah contract. Further, this provision also explained key differences between various services obtained under the Ijarah contract such as hiring a private employee (Ajeer Khas) and hiring a shared staff (Ajeer Mushtarak). The hired person or
service can be defined as “a formal contract by which the services of a natural or legal person are taken in exchange for a specific amount as a remuneration.” The services may include education, health, and consultancy and can be received immediately or planned for the future based on the person’s needs however, they must be contracted in a proper legal agreement.

Despite its shariah, regulatory, legal, operational, and functional limitations, this IPF instrument can potentially help to curb the health and economic effects of COVID-19 on individuals. For example, the pandemic has affected the overall health of people by ushering in long-term serious health effects and a large number of these people are unable to finance their medical expenses to look after their health (Lopez-Leon et al., 2021). Service Ijarah financing can help these people, especially older people to cover the cost of their medical expenses including traveling, lodging, regular visiting to health clinics, and medication. From an economic point of view, Service Ijarah can be used by individuals working on daily wages looking to restart their business activities as the daily wage workers were among one of the most affected sectors of the economy. These daily wage workers may use this IPF service to buy their goods and services for resale purposes.

4.2. Murabahah/Service Ijarah Line-of-Credit with Wakalah

The Service Ijarah finance financing instrument is less robust and ineffective in addressing emergency needs for products and services, particularly services and products of immediate needs or short-notice financing. IBs may provide innovative solutions to the customers with different needs through Wakalah services which perform transactions on behalf of customers. IBs may provide a line of credit to their customers through Wakalah by appointing customers as the agents to purchase goods and services on their behalf, receive delivery of services on behalf of IBs, and then sell the goods and services to others. The Murabahah/Service Ijarah line of credit is an extremely effective tool for meeting various financial requirements, particularly for business entities, Islamic financial institutions, and governments. The founding Shariah principles of the Murabahah line of credit are similar to the Shariah principles cover Mudarabah. The sole distinction is that with a Murabahah line-of-credit provision, customers’ Murabahah financing transactions are limited to a certain financing amount for a specified term.

A Murabahah Line-of-Credit is "a comprehensive agreement between an IB and a customer for a number of Murabahah transactions to be performed by the customer on Wakalah for a specific duration and within a specified upper limit." Through Murabaha/Service Ijarah Line-of-Credit with Wakalah goods and services are purchased by obtaining financing from an IB and the terms of financing between IB and the customer are contracted in a single agreement for a specific period of time. Generally, this type of financing is useful to purchase different items or fulfill capital requirements as the flexibility of Murabahah/Service Ijarah facility allows customers to efficiently and conveniently repeat transactions while purchasing goods and services for a specified duration.

Kahf (2015) determined that this IPF tool is effective to fulfill corporates’ capital financing needs, especially its relevance is further justified in scenarios where it is difficult for the
business entities to obtain financing from state-owned financial institutions. This credit
facility may help business organizations to purchase transportation services, insurance
premiums, storage services, outsourcing services, and many others. Even though the
financing scope of Murabahah-Line-of-Credit is broad yet, certain services are not covered
under this provision due to legal and technical issues which may arise due to issues of labor
wages, rewards, compensations, and remuneration for employees during emergency
cases. Customers may obtain the Murabahah-Line-of-Credit facility to purchase goods and
services and are granted Wakalah for performing transactions on behalf of IB and even may
sell it to themselves also.

Similar to Service Ijarah, this IPF tool also has technical and regulatory limitations. However,
it has a diverse potential to fulfill the needs of corporates looking to restart their businesses
after the COVID-19 pandemic. A large number of manufacturing and service firms were
forced to close down and reduce their business activities due to COVID-19 restrictions and
most of these firms completely closed down their businesses. Since most of the countries
have declared endemic, these corporates are looking to be in business again, it is
challenging to start a normal operation due to a shortage of staff, raw materials, and lack
of funds to cover other costs. Whereas, conventional financing is also challenging due to
strict collateral requirements by the banks. Hence, Murabahah/Service Ijarah line-of-credit
can help these firms to fulfill their financing needs such as buying raw materials, recruiting
new staff, and covering any other additional costs related to the operationalization of
business.

4.3. Murabahah/Service Ijarah Credit Card

Credit card holders have the privilege of holding a certain amount of credit for a specified
duration on mutually agreed terms. Often, individuals tend to prefer credit cards over
traditional Murabahah-based-Service Ijarah Credit Line due to associated benefits and
convenience. Islamic credit cards are offered to individuals and business organizations
using Murabahah/Service Ijarah. Even though the benefits of Islamic credit cards are
numerous yet, their incorrect usage may have radical implications on both IBs and the
customers. Nonetheless, this personal financing tool is issued to an authorized person by a
bank to use for any permissible and lawful purpose and the holders are free to perform cash
transactions as well as make payments at different points of sale. Overall, credit cards are
considered a reliable personal financing tool as their flexibility and convenience allow
customers to perform a range of transactions.

The Murabahah credit card is designed using the same Shariah premise as the Murabahah
line-of-credit arrangement, however, its implementation is done through a credit card. The
cardholders (customers) act as the agents of the card issuers (usually banks) and perform
transactions on their behalf. It authorizes the customer to perform a broad range of
transactions as the bank’s agent and can be utilized for all permitted goods purchases. The
transactions performed using credit cards are similar to Murabahah with the difference
that it is based on the notion of services and usufruct facility, Service Ijarah and Murabahah
can be merged in the same card (Service Ijarah and Murabahah integrated into one credit
card and one agreement). There will be an agreement with a Wakalah that appoints the
customers as agents for purchasing/hiring services, goods, and usufructs for the IBs, collect delivery on behalf of themselves and IB and then sell/lease and take delivery of this final sale.

This IPF facility can be very helpful for individuals to buy their everyday food and health supplies during COVID-19, especially for those working in private micro, small, and medium enterprises (MSMEs) who were laid off without receiving their wages. In addition, Murabahah/Service Ijarah credit cards can be used for mortgage payments such as houses and loans by individuals facing prolonged unemployment during the pandemic. Finally, MSMEs may utilize this financing facility to buy stocks and other essential resources required for regular business operations.

5. CONCLUSION

This study has analyzed the impact of COVID-19 on different sectors of the economy such as economic growth, GDP, trade, employment, and investments in Malaysia as well as has proposed leveraging three main instruments of IPF namely Service Ijarah, Murabahah/Service Ijarah Line-of-Credit with Wakalah, and Murabahah/Service Ijarah Credit Card as economic recovery tools during the post-pandemic era. Service Ijarah as an IPF instrument can help individuals to fulfill personal and economic needs, Murabahah/Service Ijarah Line-of-Credit with Wakalah can fulfill the financing needs of corporates to restart business operations. Finally, Murabahah/Service Ijarah Credit Card can help people to survive during Covid-19 without burdening the governments.

Reference:


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