MSFI
Malaysian Sustainable Finance Initiative

Financing COVID-19 Stimulus through Sustainable Finance

The COVID-19 pandemic has caused unprecedented disruptions to global economy and financial systems around the world. It has brought our way of life to a near halt, transformed the way business operates, and forced us to adapt to a "new normal". Despite the negative impacts, the COVID-19 crisis presents an opportunity for businesses to focus on their environmental, social and governance (ESG) performance. For both financial institutions and investors, this could be the chance to drive positive social and environmental outcomes through sustainable finance in supporting businesses and communities through the COVID-19 recovery.

Even during these dark times, there are opportunities for sustainable finance to shine. A research by the United Nations Global Compact found that issuers have raised over US$100 billion in social and sustainable bonds in 2020, where the majority of these proceeds were channeled to fund COVID-19 responses.[1] In addition, we have witnessed the issuance of the world's largest sustainability bond in history (US$5.75 billion) by Alphabet Inc., the parent company of Google, in August 2020. The proceeds from the sustainability bond will be used to support environmental and social initiatives including support for small business and COVID-19 response, commitment to racial equity, affordable housing, circular economy and design, green energy and clean transportation, among others.[2]

Responding to COVID-19 through Meaningful Policies and Stimulus Measures

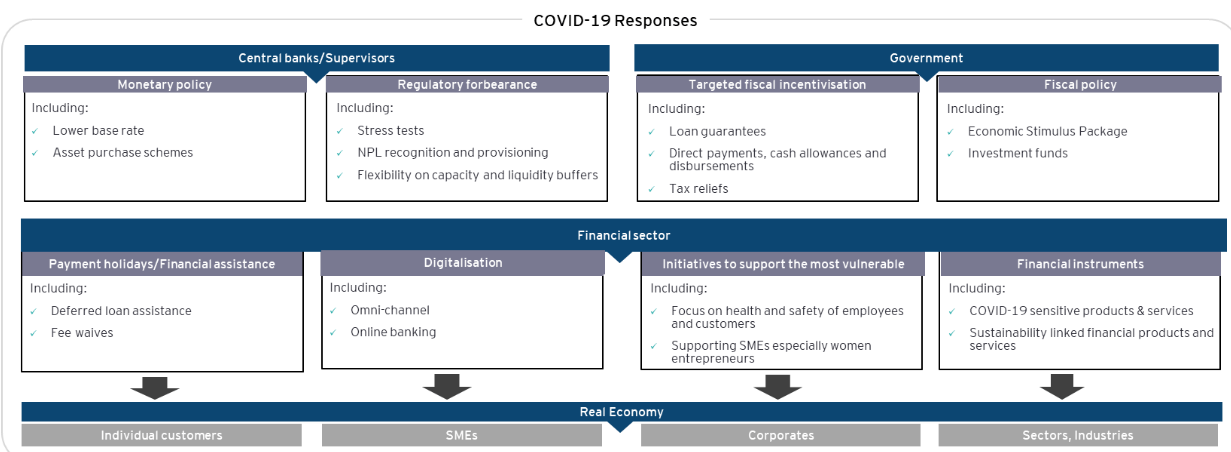

Figure 1: Examples of COVID-19 responses and measures from various parties

[1] United Nations Global Compact (2020). Covid-19 Impact Briefs https://unglobalcompact.org/take-action/20th-anniversary-campaign/uniting-business-to-tackle-covid-19/sustainablefinance
[2] Google (2020). Alphabet issues sustainability bonds to support environmental and social initiatives https://blog.google/alphabet/alphabet-issues-sustainability-bonds-support-environmental-and-social-initiatives/

Role of the Government – Fiscal Policies and Incentivisation

The global governmental stimulus response to the COVID-19 crisis exceeds US$10 trillion and countries have shown significant variation in the size of stimulus responses, with some countries like Japan, spending as much as 40% of GDP.[3] On 27 March 2020, Malaysian Prime Minister Muhyiddin Yassin announced a RM250 billion (US$57.7 billion) economic stimulus package to strengthen economic resilience and boost the healthcare response to the pandemic.[4] The country's most significant stimulus to date, equivalent to 17% of the nation's GDP, has been complemented with the decision from Bank Negara Malaysia (BNM), the central bank in Malaysia, to slash the Overnight Policy Rate (OPR) four times this year, with the first two rate cuts of 25 basis points (bps) in January and March, followed by 50bps reduction in May and another 25bps cut in July, arriving at 1.75% - the lowest rate since July 2010. The Temporary Measures for Government Financing COVID-19 Bill 2020 was approved in September 2020 to support the Prihatin Rakyat Economic Stimulus Package, Prihatin Small-Medium Enterprise (SME) Economic Stimulus Package and the National Economic Recovery Plan (Penjana).

Measures	Objectives	Target Group
Prihatin Rakyat Economic Stimulus Package (PRIHATIN)	RM250 billion package to **protect the welfare and well-being of the population**, support businesses and strengthen the economy	Malaysian population as a whole, business community including SMEs and the Ministry of Health (MoH)
Prihatin SME Economic Stimulus Package (PRIHATIN)	RM10 billion to **support SMEs** in sustaining operations, preserve jobs and economic growth	Business community including SMEs
National Economic Recovery Plan (Penjana)	RM35 billion stimulus package primarily aimed at **helping businesses recover**	Business community including SMEs

Table 1: COVID-19 measures, objectives and target groups provided by the Malaysian Government

Increased public debt as a result of unprecedented stimulus measures

As governments work on more recovery measures, it is worth taking a step back to examine how stimulus spending is financed and explore the sustainability of such financing. The coronavirus pandemic has prompted governments to issue more debt than ever, according to data provided by the Institute of International Finance[5]. Global public debt is projected to jump by 13 percentage points of gross world product in just one year, from 83% to 96%.[6] For Malaysia, the government has proposed to raise its statutory debt limit from 55% to 60% of GDP to give itself the flexibility to accommodate additional COVID-19 related spending. A rise of debt is inevitable as governments hustle to offset the economic impact of an unprecedented pandemic, but will the rapid rise of global public debt pose risks once the threat of pandemic fades?

[3] Straits Times. (2020) Coronavirus: Japan ends emergency, plans stimulus worth 40 per cent of GDP https://www.straitstimes.com/asia/east-asia/japan-to-end-tokyos-state-of-emergency-eyes-stimulus-worth-13-trillion
[4] Oxford Business Group. (2020) How will Malaysia fund its Covid-19 stimulus commitments? https://oxfordbusinessgroup.com/news/how-will-malaysia-fund-its-covid-19-stimulus-commitments
[5] Institute of International Finance (2020) Sharp Spike in Debt Ratios https://www.iif.com/Portals/0/Files/content/Research/Global%20Debt%20Monitor_July2020.pdf
[6] UN Department of Economic and Social Affair (2020) COVID-19 and Sovereign Debt https://www.un.org/development/desa/dpad/publication/un-desa-policy-brief-72-covid-19-and-sovereign-debt/

Role of the Central Bank and Regulators– Monetary Policies and Regulatory Forbearance

In response to the crisis, BNM has announced that the banking industry will offer a targeted loan payment moratorium extension and provision of repayment flexibility to borrowers affected by COVID-19 such as individuals who have lost their jobs or SME borrowers. Besides that, to ensure ample liquidity in the banking system, the Central Bank will continue to support daily ringgit liquidity through its open market operations and banks are given the flexibility to draw down on capital and liquidity buffers.[7] To affirm the resilience of Malaysia's financial institutions, BNM also conducted a multi-year solvency stress test exercise to examine the potential impact prolonged financial and macroeconomic strains on the resilience of individual banks and insurers and the overall financial system. [8]

From the capital markets perspective, Securities Commissions (SC) and Bursa Malaysia have introduced measures to safeguard and support the integrity of the capital market during this period of unprecedented volatility and uncertainty resulting from broader market impact of COVID-19. These measures relate to trading and operations, business and industry support, regulatory relaxation and report submission flexibilities and guidance on governance. The measures taken by SC include the following:

Measures	Description
Capital market trading and operations measures	• Implementation of business continuity measures to ensure continuous trading and market operations • Suspension of short selling activities until 30 June 2020 • Brokers' Margin Financing Flexibility with a broader list of accepted collateral • Waiver of Annual Licensing Fee for 2020 on the core regulated activity of all Capital Markets Services Licence (CMSL) entities with pre-tax profit of RM5 million or less during financial year 2019 • Waiver of Listing-Related Fees for 12 months for companies seeking listing on the LEAP and ACE market, and for companies with market capitalisation of RM500 million or below seeking listing on the Main Market • Pre-Retirement withdrawals from Private Retirement Scheme (PRS)
Capital market measures to support businesses and industry	• Greater fundraising access for smaller companies • Fundraising limits lifted for Equity Crowdfunding (ECF) platforms • Secondary trading allowed for ECF and Peer-to-peer lending (P2P) platforms • Additional liquidity for Alternative Fundraising Space • Broaden investment product offerings
Regulatory Relaxation and Report Submission Flexibilities	• Allowed for application to defer AGMs • Extensions for issuance of quarterly and annual reports, Lodge and Launch (LOLA)-related notices, lodgment obligation and changes to product information and other statistics • Provision of further regulatory reliefs for affected public listed companies in Practice Note 17 (PN17) classification of Bursa Malaysia's listing requirements
Governance-related	• Issuance of guideline for holding virtual general meetings • Issuance of reminder to fund management and unit trust management companies to act in the best interest of investors • Delayed commencement of AOB inspection of audit firms of PIEs

Table 2: SC COVID-19 measures

[7] Bank Negara Malaysia (2020). Covid 19 Measures https://www.bnm.gov.my/covid19/measures.php
[8] Malaysia Kini (2020). Stress test affirms resilience of Malaysia's financial institutions – Bank Negara https://www.malaysiakini.com/news/518514

Role of the Financial Sector – Support and Assistance through Initiatives and Measures

Financial Assistance

Despite the end of the automatic moratorium on 30 September 2020, banks remain committed to supporting households and businesses who need assistance. To this end, banks have introduced a range of packages for affected borrowers. These include targeted extension of the moratorium, as well as repayment flexibilities to help borrowers based on their specific financial situation. This targeted approach ensures that more resources are available to assist those who are vulnerable. It also enables the banking sector to better support the broader economy through continued lending. Besides that, individual banks have offered repayment assistance, and to date, about 500,000 applications have been received, with an approval rate of 98%.9

Digitisation

One of the biggest opportunities to come out of the COVID-19 crisis is the rapid uptake of digital banking. Stay-home orders have compelled many customers to start using online financial services. For example, to ease the financial assistance application process, banks have simplified steps and enabled online applications. According to the Visa Country manager for Malaysia, monthly contactless and digital transactions have quadrupled compared to three years ago (2017) and are likely to continue growing.[10]

Maybank has seen a surge in the adoption of its new e-wallet, also known as MAE wallet, with sign-up rates more than double since the Movement Control Order (MCO). It has also added food hawkers, especially those without the means to sell online, to its Maybank2u banking platform.[11] This trend is likely to continue as the application process for a digital banking license is anticipated to start as early as next year once the central bank finalises its guidelines.

Alternative digital financing such as ECF and P2P lending have also gained traction. ECF allows startups or smaller companies to have quicker access to capital from crowd investors through an online platform whereas P2P involves funds being lent at an interest rate over a fixed tenure (without a financial institution in between). These alternative financing platforms could allow micro, small and medium enterprises (MSMEs) to access financing that is not covered under conventional loans or financial products. At the same time, these financing platforms would attract a new generation of digitally savvy investors.

In 2019, alternative digital financing saw a 127% year-on-year growth to RM444 million through ECF and P2P financing platforms. In April 2020, SC increased the funding limits on ECF platforms to RM10 million from the previous limit of RM5 million and allow ECF and P2P platforms to operationalise secondary trading in response to this growing trend. Acknowledging the catalytic impact of financing emerging businesses, the Malaysian Government's co-investment fund (MyCIF) administered by SC, has also increased its funding matching ratio from 1:4 to 1:2 for eligible ECF and P2P campaigns (extended until 31 December 2020), to provide additional liquidity into the alternative fundraising space. This means MyCIF

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[9] Bank Negara Malaysia (2020) Transition to targeted repayment assistance https://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=5125&lang=en
[10] Bernama (2020) COVID-19 pandemic accelerates adoption of cashless transactions https://www.bernama.com/en/general/news_covid-19.php?id=1869084
[11] Star News (2020) Covid-19 outbreak steepens adoption curve of e-wallets in Malaysia https://www.thestar.com.my/news/regional/2020/04/28/covid-19-outbreak-steepens-adoption-curve-of-e-wallets-in-malaysia

will invest RM1 for every RM2 successfully raised from private investors on the MyCIF participants' platforms.

Besides, the Malaysia Digital Economy Corporation (MDEC) has also launched its funding facilitation initiative in April 2020 to promote the uptake of alternative financing for MSMEs.[12] This initiative is a partnership between MDEC and seven crowdfunding operators with support from the Registered Digital Market Association (RDMA) to help entrepreneurs and MSMEs overcome the economic challenges brought on by the COVID-19 pandemic.

Initiatives to support the most vulnerable

Banks can design initiatives that focuses to support the most vulnerable such as SME associations and individuals who are impacted by the pandemic. For example, UOB Malaysia and its Commercial Banking clients raised more than RM350, 000 to provide vulnerable children with essentials and digital remote learning tools during COVID-19. Besides that, the Association of Banks in Malaysia (ABM) also provided a direct contribution of RM10 million to assist the nation's fight against COVID-19. Funds contributed by ABM's members will be channeled specifically to "critical preparedness as well as readiness and response support actions" for the health ministry and the National Crisis Preparedness and Response Centre (CPRC).[13]

Other innovative financial instruments

Given the heightened attention to ESG management as a result of COVID-19, there is still room for financial institutions to support the economy and welfare of the society through financial instrument innovation. Local banks could seek to introduce COVID-19 related financial instruments with similar concepts as the Prihatin Sukuk. Malaysia's first-ever digital Sukuk – Prihatin Sukuk, was launched on 18 August 2020 as part of the government's National Economic Recovery Plan. The Prihatin Sukuk, which is based on the principle of Tawarruq via the Commodity Murabahah arrangement, has a total target issuance of RM500 million with a maturity period of two years. The Prihatin Sukuk is offered entirely on the digital platform via JomPAY or DuitNow through online and mobile banking platforms made available by the participating distribution banks.[14]

Examples of innovative financial instruments that address the impact of COVID-19 offered by banks include Kookmin Bank Covid-19 Response Sustainability Bond and the European Investment Bank (EIB) Sustainable Awareness Bond. The proceeds of these instruments are primarily to extend loans for SMEs affected by COVID-19.[15] [16] The Asian Development Bank Covid-19 Pandemic Response Option (CPRO) committed RM38 billion (US$9.3 billion) as at August 2020, with programmes that included gender targets to recognise that women and girls, particularly those from poor and low-income households, are among the most severely affected groups by the pandemic.[17]

[12] Mitigating COVID-19 Impact to the Economy (2020) https://mdec.my/digital-economy-initiatives/for-the-industry/fundings-alternativefunding/
[13] FMT News (2020) Association of banks donates RM10 mil to fight Covid-19 https://www.freemalaysiatoday.com/category/nation/2020/03/26/association-of-banks-donates-rm10-mil-to-fight-covid-19/
[14] Maybank Sukuk Prihatin Knowledge Pack https://www.maybank2u.com.my/iwov-resources/pdf/personal/wealth/sukuk-prihatin_knowledge-pack.pdf
[15] Nasdaq. (2020). Kookmin Bank prints Korea's first Covid-19 bond. https://www.nasdaq.com/articles/kookmin-bank-prints-koreas-first-covid-19-bond-2020-04-24
[16] European Investment Bank. (2020). EIB Group will rapidly mobilise up to EUR 40 billion to fight crisis caused by Covid-19 and calls on Member States to set up a further guarantee for SME and mid-cap support from EIB Group and national promotional banks. https://www.eib.org/en/press/all/2020-086-eib-group-will-rapidly-mobilise-eur-40-billion-to-fight-crisis-caused-by-covid-19
[17] Asian Development Bank. (2020). ADB Approves $20 Million to Support Bhutan's COVID-19 Response. https://www.adb.org/news/adb-approves-20-million-support-bhutans-covid-19-response

For the insurance industry, the Life Insurance Association of Malaysia (LIAM), Persatuan Insurans Am Malaysia (PIAM) and the Malaysian Takaful Association (MTA) have pledged RM8 million to establish a special relief fund or COVID-19 Test Fund (CTF) to support the Ministry of Health's efforts to conduct more COVID-19 tests for Malaysians. The CTF will provide a fixed cash reimbursement for the cost of COVID-19 tests (up to a maximum of RM300 per test) for policyholders and takaful participants.[18]

Delivering ESG impacts through Sustainable Finance during the COVID-19 Crisis

As a result of the radical impact COVID-19 on the global economy, this pandemic has been recognised as the 21st century's "sustainability" predicament and one that has transformed the focus on climate change, acting as a wakeup call for decision-makers to prioritise a more sustainable approach to financial instruments. As businesses prepare themselves for the future, they can no longer ignore ESG issues that have the potential to inflict damage to the global economy and place pressure on current operating models. This pandemic has sharpened the focus on several matters in the "S" category of ESG, namely employment, social stability, gender equality and human rights.[19]

Tackling gender equality and social inclusion at the same time

With a crisis of the magnitude of the COVID-19 pandemic, the global population is forced to scrutinise their daily activities to navigate through this prolonged economic downturn. However, not everyone, in every place, will be impacted by the pandemic the same way. According to research by the Institute for Fiscal Studies and the UCL Institute of Education, mothers were 47% more likely to have permanently lost or left their job, and 14% were more likely to have been furloughed since the beginning of the crisis.[20] The experience from the Ebola and Zika outbreaks between 2014 to 2016 have indicated the importance of incorporating a gender analysis to determine the preparedness and response efforts to improve the effectiveness of health interventions and promote gender equity goals. COVID-19 has proved to be no different. The success of social protection in response to the pandemic will improve if gender dimensions that affect women's vulnerability to the virus are considered and addressed.

In Women in Financial Services 2020, Oliver Wyman reiterated that financial service companies are missing out on a whopping RM2.9 trillion (US$700 billion) in revenue every year, due to the failure in meeting the needs of women as customers. As the pandemic evolves, women's financial needs will shift, too. Understanding and acknowledging the needs of women to establish a better balance could allow financial services companies to create diverse propositions as well as address a broader range of customer needs. Personalised and innovative solutions as a result of taking a social equality and gender inclusion lens will not only be beneficial to women but also to all customer segments. For example, AXA offers an online insurance calculator that takes into account the financial value of unpaid domestic work. Westpac Banking Corporation offers lower mortgage payments during parental leave and provides financial management services to domestic violence survivors. To have a clearer understanding on the implications of the pandemic on female customers as compared to their male counterparts, financial services

[18] PIAM (2020), Insurance and Takaful industry pledges RM8 million in support of Ministry of Health's efforts to conduct COVID-19 Testing for Malaysians https://www.piam.org.my/insurance-takaful-industry-pledges-rm8-million-support-ministry-healths-efforts-conduct-covid-19-testing-malaysians/
[19] ESG Global Advisors. (2020). Covid-19: Sharpening the Focus on ESG. https://www.esgglobaladvisors.com/covid-19-esg
[20] The Guardian. (2020). Working mothers interrupted more often than fathers in lockdown – study https://www.theguardian.com/world/2020/may/27/working-mothers-interrupted-more-often-than-fathers-in-lockdown-study

companies could identify the gaps in their customer data to serve the needs of both women and men separately.[21]

Conclusion

The COVID-19 crisis is forcing global economies and companies to re-examine and reflect on the ways they operate. This crisis, rather than distracting from the need to drive a sustainable future, actually reinforces that imperative. Sustainable finance presents a formidable value proposition for financial institutions and investors to focus on addressing sustainable development or ESG issues, beyond economic and business growth.

[21] Women in Financial Services 2020. https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2019/November/Women-In-Financial-Services-2020.pdf