

GREEN RECOVERY APPROACH OF ISLAMIC BANKS IN COVID-19 REGIME

**DRAFT PAPER
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Segment-1: Relevance and Essentially of Green Approach in Islamic Banking

The complex multi-crises situation¹ started causing huge challenges for the banking and financial industry, and Islamic banking and finance is no exception (AAOIFI, 2020a). More specifically, the current environment characterized by acute business and financial interruptions; uncertainties with future business conditions; fears and lack of confidence amongst entrepreneurs and clients; and skepticisms with legal liabilities have created an extremely risky atmosphere for all forms of banking activities including Islamic banking. Globally, Islamic banks are responding with business continuity and contingency framework. However, the most critical question is, how the root cause of this Covid-19 crisis and the resulted economic and banking devastations can be handled in a sustainable manner? What should be the approach of Islamic banks to align with this? How should the Islamic banks deliver in the economic recovery and their own retrieval efforts in this Covid-19 situation? Why recovery approach should be the starting point of the newer face of green banking for the Islamic banks?

Who is/are responsible for this pandemic i.e. for this devastation? There is a single species that is responsible for the Covid-19 pandemic i.e. ‘we’- the human being and our extremely ambitious development efforts (IPBES, 2020). The overambitious intervention of humanity depleted the natural ability of the environment to balance itself and disrupted ecological cycles. In addition, some new technologies altered the way that the people interact with their natural environment, and some of the fundamentally unnatural interventions resulted in a huge debate. In spite of several benefits, there are opinions that these highly debated unnatural interventions like genetically modified crops and animal cloning have threatened the natural order.² Practically, all these over exploration efforts; hasty development attempts; rapid modernization endeavors; and over ambitious policy interventions without respecting the natural order appear to be the responsible factors for today’s misery- the Covid-19 Crisis. The Islamic view of the natural order and the environment, like everything else that is Islamic, has its roots in The Holy Qur’an where the concept of environment is distinct enough with given values to unity, balance, order, and harmony (Shah, 2020). Environmental protection is an important aspect of Islam. Islamic finance, defined by the implementation of principles of Shariah and Islamic law derived from The Holy Qur’an, The Hadith and other founding elements of Islam (Usher and Daouda, 2020), must not resort to any action that is harmful to the environment and against the natural order. Aligning with this, Islamic banking activities must contain the environmental and social considerations so that their activities respect environmental and natural order. The need for the initiation of such an approach, called ‘green approach’ is particularly relevant and essential in the current situation when the global economies are confronting a severe natural payback- ‘Covid-19’.

¹ Published recently in the Harvard Business Review, an article placed the existing and upcoming situation as a combination of Real Recession; Policy Recession and Financial Crisis (Carlsson-Szlezak et. al, 2020).

² Sharia scholars prohibit certain activities that include transactions based on interests, production or certain food and beverage industries etc. and also unnatural interventions like cloning (Jamaldeen, Faleel, Dummies: <https://www.dummies.com/personal-finance/islamic-finance/seven-prohibited-industries-in-islamic-financial-investments/>).

Alongside quick responses for handling contamination risk, the government of Bangladesh has undertaken several recovery measures, and the Islamic banking industry of the country is engaged in adapting the unprecedented scenario. However, these policy interventions, recovery drives, adaptation, and readiness must integrate environmental concerns for a sustainable solution. The paper is an attempt to discuss the necessity of adopting green recovery approach in the Covid-19 regime by the Islamic banks of the country for the sustainability and long term benefits. The paper draws heavily on recently published resources on the related issues and analyses of the published information on green banking activities in the country. Initiating with the background in segment-1; the subsequent segments 2 and 3 dealt with causes and dynamics of the crisis, and the relevance of green banking for the Islamic banking industry in the global context. Segment-4 is about the Covid-19 challenges of the Islamic banks in Bangladesh and the relevance of green approach. And finally, segment-5 puts forward suggestions on the green approach of the Islamic banks of the country.

Segment-2: Causes and Dynamics of the Catastrophe as Part of the Resolution Drive

Logical connections between nature and human health are well recognized.³ Nature is the life-support system, and healthy natural systems provide so many essentials like water, clean air, fertile soils and a stable climate; they also give people food, medicines and materials; and directly underpin livelihoods (UNEP, 2020c). Treating animals with respect is crucial to humanity's own safety. The Holy Qur'an contains many examples and directives about how Muslims should treat animals.⁴ Islam strongly asks Muslims to treat animals with compassion and not to abuse them; all living beings – humans, birds, animals, insects, etc. - are worthy of consideration and respect (Suliman, 2020). Referring to The Holy Qur'an, GreenFitree (2013) notes, people have their social groups and animals have theirs; there are beauty and majesty in the innate construct of swimming shoals of fish or flocks of birds dancing in the skies. However, it is a sad reality that animal rights are grossly violated throughout the world, and violence like hunting for skins or tusks means that several animal species are extinct (GreenFitree, 2013). IPBES (2020) rightly notes, uncontrolled expansion of agriculture, intensive farming, mining, and infrastructure development, as well as the exploitation of wild species have created a 'perfect storm' for the spillover of diseases from wildlife to people.⁵ Climate change is another key force which in the longer term is likely to be a growing driver of the emergence of zoonotic disease outbreaks (WWF, 2020a). The most fundamental way

³ According to the WWF (2020b) 'everything on our planet is interconnected and we are part of the equation'.

⁴ "There is not an animal that lives on the earth, nor a being that flies on its wings, but they form communities like you. Nothing have we omitted from the Book, and they all shall be gathered to their Lord in the end" (The Holy Quran 6:38).

⁵ While the origin of the Covid-19 virus is yet to be established, 60% of infectious diseases originate from animals, and 70% of emerging infectious diseases originate from wildlife. The Globe have lost 60% of all wildlife in the last 50 years, while the number of new infectious diseases has quadrupled in the last 60 years. It is no coincidence that the destruction of ecosystems has coincided with a sharp increase in such diseases (World Economic Forum, 2020).

to protect ourselves from these zoonotic⁶ diseases is to prevent the destruction of nature, where ecosystems are healthy and biodiverse, they are resilient, adaptable, and help to regulate diseases (UNEP, 2020c). The pandemic is a reminder of the intimate and delicate relationship between people and the planet (WHO, 2020). To help prevent the next pandemic, it is essential to transform human's relationships with nature (WWF, 2020b).

Unfortunately, the Covid-19 scenario brought in even more environmental disruption in certain fronts. For example, poaching and deforestation have increased since Covid-19 restrictions went into effect; bush-meat and ivory poaching incidents have become more frequent in Africa; Amazonian deforestation in Brazil has reached a nine-year high since the pandemic began (Price, 2020b). Another unpleasant truth is that the corona crisis is interrupting the ongoing green and sustainable development agenda like the implementation efforts of the UN (United Nations) Sustainable Development Goals or SDGs.⁷ Considering the threat of attaining UN SDGs and 2030 Agenda, the UN Secretary-General Antonio Guterres states that “the recovery from the Covid-19 crisis must lead to a different economy.” Reconciliation of public policy and green growth or pursuing economic development in an environmentally sustainable manner - is crucial for that recovery process (Green Finance Platform, 2020). The Islamic attitude towards the environment and natural resource conservation is not only based on the prohibition of over-exploitation but also on sustainable development (Al-Banna, 2020).⁸

Environmental concerns and the necessity of green recovery approach are clearly reflected in the publications and advocacies of the civil society organizations, health and research entities. For example, referring to the calls of health professionals⁹, Health Policy Watch (2020) suggested for recovery packages to prioritize investments in public health such as in clean air, clean water, and low-carbon development. Country or area specific surveys¹⁰ and activities¹¹

⁶ Zoonotic diseases are infectious diseases that are naturally transmitted between animals and humans. General strategies for preventing zoonotic diseases include reducing deforestation, ending the illegal wildlife trade, and improving hygiene in settings where interactions with animals are commonplace (Connors, 2020).

⁷ There are evidences that SDG-2: Zero Hunger; SDG-3: Good Health and Well Being; SDG-6: Clean water and Sanitation; SDG-7: Affordable and Clean Energy; SDG-13: Climate Action; SDG-17: Partnership for the goals are getting affected (UNIDES, 2020).

⁸ Environmental awareness and protection of natural resources is an integral part of Islamic beliefs; as humans, people are keepers of all creation, including soil, air, water, animals and trees; a major objective of Islamic teachings and traditions is to build and maintain a healthy and clean environment which is devoid of any source of pollution and misuse (Al-Banna, 2020).

⁹ More than 40 million health professionals from 90 countries worldwide have issued an open letter to G20 leaders and their chief medical advisors, urging them to support climate smart development in their plans for economic recovery from Covid-19. The appeal to the Group of 20 of the world's most industrialized countries, supported by some 350 professional organizations, including the World Medication Association, says green growth is medically mandated – to save lives both from climate and air-pollution related threats which would also make societies more resilient to pandemics such as Covid-19 (Health Policy Watch, 2020).

¹⁰ In a survey conducted by Ipsos across 14 countries in April, 65% of respondents said it was important for their government to prioritize climate change mitigation actions in their post-Covid-19 recovery strategies. The figure was as high as 81% in India and 80% in China and Mexico, and fell as low as 57% in the US, Germany and Australia (Oxford Business Group, 2020).

¹¹ An informal alliance has been launched in the European Parliament to propagate for green recovery from the Covid-19 pandemic. The ‘green recovery alliance’, has been launched in mid-April at the initiative of a French

also came up with strong opinions in favour of green and sustainable recovery measures. Researchers and academicians are strongly coming forward in favour of green recovery initiatives in many instances. Like, the ‘COP26 Universities Network’ has drawn on certain research activities and analyses to create a briefing for policymakers outlining a path to net-zero emissions economic recovery from Covid-19. They suggest for reshaping the national and global recovery from the coronavirus pandemic in a way that supports the response to climate change and other environmental threats and emphasized on: renewable energy; reducing industrial emissions through carbon capture and storage; investment in broadband internet to increase coverage; and electric vehicles and nature-based solutions (Allan et. al, 2020). Recently, an assessment by the University of Oxford prescribes for green policy initiatives for recovering from the Covid-19 crisis. Based on a survey¹² outcome and lessons of the 2008 crisis, the study concludes that green projects/fiscal policy types¹³ create more jobs, higher short term return per currency unit spend¹⁴ and lead to long term cost savings, by comparison with traditional fiscal stimulus. In this context, the desired policy interventions of the study include building efficiency retrofit spending; clean research and development spending; natural capital investment for ecosystem resilience and regeneration; and investment in education and training to address immediate unemployment from Covid-19 alongside unemployment from de-carbonization. For developing countries, rural support scheme spending, such as investment in sustainable agriculture, has been highly ranked (University of Oxford, 2020). If stimulus packages simply return countries to where they were before Covid-19, the world will face the same problems of high pollution, climate crisis, and more serious health emergencies (Miller, 2020). “Some will claim that, in times of crisis, developing and emerging economies would not be able to afford the ‘luxury’ of green or sustainable investments, but this is a very short-sighted view” (Oxford Business Group, 2020).

Looking ahead, it is crucial that humanity rebalance its relationship with nature to secure a sustainable future for people and the planet (WWF, 2020b). Future pandemics are likely to happen more frequently, spread more rapidly, have a greater economic impact, and kill more people if policymakers are not careful about the possible impacts of the choices they make today (IPBES, 2020). Thus rationally, environmental concerns and natural orders should be aligned with all ongoing economic recovery and future development efforts. In this connection, any activity and business, operated following the principles of The Holy Qur’an,

lawmaker (who chairs the European Parliament’s committee on environment and public health) with 79 parliament members from across the political spectrum. The alliance also brings together civil society groups, including 37 CEOs, 28 business associations, the European trade union confederation, 7 NGOs and 6 think tanks with the appeal for the European Green Deal to be placed at the heart of the EU’s post-pandemic recovery plan (Simon, 2020).

¹² They catalogued 700 stimulus packages into 25 groups and survey 232 senior officials of 53 countries that include finance ministers and top officials of the central banks.

¹³ Results of April 2020 survey of leading global economists, testing 25 fiscal policy types.

¹⁴ When designing stimulus packages, governments often look to two key metrics. First, how long it takes for policies to have an economic impact, and second, the effect of the investments on longer-term national income, measured by the ‘economic multiplier’. Investments with a higher multiplier have greater economic impact per dollar spent (Calleghan and Hepburn, 2020).

must show even more responsible behaviour.¹⁵ Bounded by the Shariah ideology, Islamic banks are not expected to compromise with the philosophy of protecting environment and the nature in their banking ventures.

Segment-3: Covid-19 Implications and Relevance of Green Banking for the Global Islamic Banking Industry

The Covid-19 pandemic led to a major change in terms of growth, pricing, and products in the global financial and banking sectors (FSB, 2020). Liquidity challenge and cash crunch became strongly visible throughout the globe amongst businesses (IMF, 2020a). The coronavirus pandemic presents a historic challenge in credit markets as spreads skyrocketed, especially in risky segments, and a number of factors amplified asset price moves,¹⁶ contributing to a sharp tightening of financial conditions at unprecedented speed (IMF, 2020a). The crisis situation is affecting the equilibrium cost of funds to a downward push, as perceived. A tendency for holding cash increased and the tendency is causing pressure on deposit growth of banking institutions. In the global context, the economic slowdown led to a rise in nonperforming assets (Ozili and Thankom, 2020). According to Goodell (2020), though, demand for certain online banking increases, contraction of banking services, and lower fee collections causing further fall in banks' income (FSB, 2020). There is no doubt that today banks are better positioned with higher capital and liquidity than in the past in response to the stringent compliance requirements of the central banks. However, the resilience of banks may be tested in many countries (IMF, 2020a). The overall depressed global business and financial market situation have become challenging for both conventional and Islamic banks.

Regarding macro responses to the Covid-19, Islamic finance have the required elements to the economic recovery efforts. UNDP has been supporting and guiding countries to prepare, respond, and recover, where Islamic finance can be part of the Covid-19 response through a range of financing instruments well-suited for various stages: emergency and short term, medium term and long term. Zakat¹⁷ can be an important component of national emergency support programs.¹⁸ The financing of equipment, vehicles, and other sources of livelihood and trade finance are key mechanisms by which Islamic banks and financial institutions can support recovery in the medium term. Aligning their financing activities with the SDGs is a

¹⁵ Being stewards of the earth, it is the responsibility of Muslims to care for the environment in a proactive manner; Muslims are encouraged to reflect on the relationship between living organisms and their environment and to maintain the ecological balance created by Allah (Al-Banna, 2020).

¹⁶ In April, it took just 15 days for the USA and some other big stock markets to drop into bear territory that squeezed up credit markets significantly (World Economic Forum, 2020).

¹⁷ Zakat, which is effectively a Muslim 'wealth tax', is a sacrifice of wealth; this is not just charity - it is a core duty and one that 'purifies' the rest of our wealth (Iqbal, 2020).

¹⁸ UNDP's partnership BAZNAS, Indonesia's national Zakat collection agency, has been in place since 2017. This collaboration is an example of how Zakat stakeholders can systematically link their projects with the Sustainable Development Goals, including in response to crises. UNDP's recently-announced partnership with the Dubai Islamic Economy Development Center is a reflection of how UNDP can support private-sector companies on social impact.

significant opportunity for Islamic banks.¹⁹ Sukuk especially that are SDG linked²⁰ can be an important source of long-term capital for governments and companies engaged in the Covid-19 response and recovery; Waqf endowments can, in many contexts, be important contributors to long-term resilience which can be an important way for stakeholders to contribute to social infrastructure that serves the SDGs and, in the words of the UN Secretary-General, help countries ‘recover better’ over the long term (Rehman, 2020).

Regarding the challenges in banking operations, over USD 2.4 trillion Islamic finance industry²¹ with some 1,400 institutions spread across 80 countries are confronting unprecedented barriers driven by the global Covid-19 pandemic (Domat, 2020). Given the downturn posed by the Covid-19 pandemic, the volatility in oil prices, and the uncertain macroeconomic environment, the Islamic finance industry faces an unprecedented challenge to its development (Brown, 2020). According to Al-Natoor (2020), other than the contamination risks which is common, Islamic banks’ risk factors and mitigations vary from country to country. In Indonesia, while Islamic banks are likely to be affected to a similar degree as conventional banks, those with significant exposure to the tourism sector are likely to be more affected. If the outbreak prolongs, there is a potential downside risk to the sector’s growth and asset quality. In Malaysia, Islamic banks’ credit profiles are expected to remain broadly steady, with adequate loss-absorption buffers, though asset quality and profitability might be affected should the Covid-19 outbreak be prolonged. In Turkey, asset quality pressures faced by Islamic banks are significant (Al-Natoor, 2020). In the Gulf Cooperation Council (GCC) countries²², Islamic banking is an integral part of the banking system, and unlike their Asian or African counterparts, Islamic banks in the Arab world depend largely on government spending²³ which means the unprecedented drop in energy prices has serious implications for them (Domat, 2020).

In many Asian and African countries, Islamic finance has a large market share in microfinance, small and medium enterprises (SME), and retail lending.²⁴ The pandemic would have a more severe and deeper impact on Islamic finance markets, as the current crisis

¹⁹ In 2018, the Al Baraka Banking Group launched a collaboration with UNDP that seeks to align over USD600 million of its financing portfolio with the SDGs in the Middle East, Asia, Africa, and Europe. The coronavirus pandemic makes such initiatives all the more urgent.

²⁰ Government of Indonesia’s Green Sukuk of 2018, is a prime example of how the venture may have great SDG impact (Rehman, 2020).

²¹ Since the inception of the Islamic finance industry in the 1970s, there has been a steady growth in demand for sharia-compliant products and services and the industry’s total assets reached US\$2.5 trillion globally in 2019 (Brown, 2020).

²² For example, in Saudi Arabia about 80% of financing is Sharia-compliant (Islamic banking + Islamic windows of conventional banks) and in Kuwait the share of Islamic banking is around 40% of total banking sector assets. Each bank’s expected performance is subject to their standing in terms of asset quality and liquidity and their exposure to different sectors (Al-Natoor, 2020).

²³ “In the Gulf Cooperation Council, the asset mix is different, much of the economy is driven by government spending on infrastructure and there is more exposure to real estate; a decline in oil revenue means a cut back on these projects that affects all financial institutions,” remarked Hassan Amin Jarrar, CEO, Bahrain Islamic Bank, the oldest bank in the country (Domat, 2020);

²⁴ Compared to conventional banking, Islamic finance has a larger exposure to SMEs, microfinance, and retail lending, especially in Asia (Brown, 2020).

is affecting SMEs as well as low income and minimum wage individuals particularly hard. With the most government imposing social distancing rules and shop closures, “we see a big impact on SMEs, low income and minimum wage individuals while corporates have large cushions of capital and government support” according to the CEO of the Islamic Corporation for the Development (ICD).²⁵ And he adds, “We have to think out of the box”. As commercial banks across the world find themselves on the brink of crisis, the Islamic banking system faces unconventional challenges; and Covid-19 establishes a new platform for evaluating how Islamic banking responds to economic chaos (Royt, 2020).

Nevertheless, Covid -19 is also shifting the dynamics in the industry and the outbreak may create new opportunities for Islamic finance markets by accelerating trends such as socially responsible investing, sustainability, and digitalization (Brown, 2020) The aftermath of Covid-19 may also create new opportunities for Islamic banking, particularly with the rise of socially responsible investing and the growing popularity of ESG.²⁶ Not only will improving ESG risk management benefit the bottom line, but the strategic shift towards responsible finance will also unlock new opportunities for Islamic banks to differentiate itself from peers and unlock new business opportunities in the post-Covid environment (Brown, 2020). According to Usher and Daouda (2020), Islam’s promotion of social trust, cooperation and solidarity mean that Islamic banking products are well suited to SDG impact, and the Covid-19 situation demands to resort on these ventures to a greater way (box -3.1).

Box 3.1: Integration of Green and Welfare Approach in Islamic Banking
Policymakers and Islamic banks should come together to ensure SDG impact metrics and reporting are agreed upon that are both sharia compliant and in line with international standards which will open up global investment opportunities
To better support the SDGs, leaders must develop a range of Shariah-compliant impact investing tools and instruments that are attractive to large investors. ²⁷
Make SDG-compliant Zakat investments the norm to channel funds to the local SDG projects. These include renewable energy projects in underserved communities. ²⁸
Create pro-poor and environmentally sustainable initiatives to attract investment from the public and private sector stakeholders with success indicators that can be and measured
Islamic finance institutions needs to ensure that the vulnerable communities are adequately equipped and empowered by strengthening their technical and managerial capacities, identifying and addressing climate risks, accessing markets, and building partnerships. ²⁹
Note: Authors’ compilation based on Usher and Daouda, 2020.

²⁵ A branch of the Saudi-based Islamic Development Bank Group dedicated to the private sector which covers 55 countries.

²⁶ Environmental, Social, and Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business.

²⁷ Under the Youth Employment Support (YES) program, IsDB pioneered venture capital financing (Restricted Mudaraba) for micro and small businesses operated by youth. Through risk-sharing, the Restricted Mudaraba financing facilitated financing to youth micro and small businesses.

²⁸ In Palestine, Zakat funds support SMEs through Islamic microfinance structures.

²⁹ In Tunisia, IsDB has invested in Zitouna Tamkeen, a unique microfinance institution with an innovative approach to achieve socio-economic impact objectives by funding economic empowerment projects with high potential value chains and supporting greatest number of beneficiaries.

Using technology and innovative approach is particularly crucial for green ventures. It is commonly said that online and technology driven banking is the starting point of the green banking. One of the many issues this pandemic has shown to the globe that survival depends heavily on the investment in technology and innovation in all economic, development and financial arenas (Bicer, 2020). Beyond its immediate economic implications, Covid-19 is also forcing the Islamic banking industry to adapt the rapidly evolving market conditions and speeding up the pace of emerging trends such as digitalization to mitigate the impact of the outbreak (Brown, 2020). The global Islamic banking software market size is expected to grow by USD 461.83 million during 2020-2024, and the report³⁰ noted that as a whole the market impacted and new opportunities created due to the Covid-19 pandemic (Technavio, 2020). It should be the ‘technology-driven-environmentally-sustainable-banking’ practices that are required to get optimum impetus in the strategic changes of Islamic banking in this covid-19 and post-Covid-19 situation.

Segment-4: Covid-19 Challenges and the Relevance of Green Approach of Islamic Banks in Bangladesh

‘Banking’ is the core component of the financial sector, and the Islamic banking industry is a very important segment³¹ of the banking industry of Bangladesh, which is in a difficult business environment and uncertainty in the Covid-19 regime. Disruption in the domestic economic sector³² and external businesses³³ have already affected the Islamic banking sector

³⁰ According to Technavio (2020) the Middle East (MEA) region led the Islamic banking software market share with application in different segments (retail, corporate and others) in 2019, followed by APAC, Europe, North America, and South America respectively. During the forecast period, the MEA region is expected to register the highest incremental growth due to factors such as the high concentration of Muslim population, and a high penetration of vendors offering Islamic banking software solutions in the region.

³¹ As of end December 2019, Bangladesh’s 8 full-fledged Islamic banks have been operating with 1273 branches out of total 10578 branches of the whole banking industry. In addition, 19 Islamic banking branches of 9 conventional commercial banks and 88 Islamic banking windows of 8 conventional commercial banks are also providing Islamic financial services in Bangladesh. Islamic banking industry holds almost one-fourth share of the entire banking industry in terms of deposits and investments at the end of the quarter under review (BB, 2020); Among the top 35 jurisdictions in terms of domestic market share of Islamic banking, Bangladesh is ranked 10th", according to the latest country report of Islamic Finance News (IFN), world's leading Islamic finance news provider (<https://thefinancialexpress.com.bd/stock/bangladesh/islamic-transactions-snare-25pc-of-countrys-total-banking-assets-1581828990>).

³² A number of domestic economic sectors are getting punch and might be severely affected if the outbreak goes long. In line with the global trends, tourism sector, airlines, retail sector, and some of the manufacturing might be hard hit. Size matters in the short run, and MSMEs are facing cash crunch. Especially, micro and small businesses of the non-essential items are in trouble. However, comprehensive impact on these enterprises obviously would depend upon the duration and the severity of the outbreak in the coming weeks/months. Agriculture and farm sector, the food suppliers, have some temporary challenges that necessitates fund injection and reconstructing the supply chain (Habib, 2020).

³³ In the context of the vulnerability of external sector, domestic production of certain export destinations of the country are concerning. According to the IMF’s recent projection (May 2020), USA, the largest destination for Bangladesh’s export products, will face 5.9% negative growth this year, while Germany, the second largest destination of Bangladesh’s garment products, will face 7% decline in GDP. An estimation by Lu (March 2020) shows that the demand for apparel consumption in the EU and USA, the world’s top two apparel consumption markets, is expected to drop sharply; and China could be hit the hardest followed by Bangladesh. With the 5-10% decline in GDP in USA and EU, Bangladesh’s exports could decline by 6-17% to USA and 4-12% to EU; and the resultant job cut might be by 4-9% in the RMG factories. According to a recent technical note by UNCTAD (April, 2020), a 2% reduction of Chinese exports in intermediary inputs may cause USD 17 million

of the country. Though opportunities are being created for certain businesses³⁴, practically, at this moment the industry has an adverse environment with all the elements that may result in significant risks of different types in Islamic banking operation. Contraction of banking activities and underperformance are clearly visible in the Islamic banks of the country. Islamic banks are not in a position to maintain their regular deposit growth, rather withdrawal of deposits and the tendency of holding cash might cause additional liquidity pressures in the upcoming months. In-person banking is severally affected, the traditional habit of the country's Islamic banking industry; and these are underperforming in their customer services, and there are fears of the erosion of customers' confidence. The investment deals³⁵ that are becoming overdue due to customer's inability to pay in time are causing concern to the Islamic banks of the country. Islamic banks may lose profit as under the Bai mode there is no scope to draw profit for the overdue period. Regarding other modes of investments, trends of non-payment have also been problems in the Covid-19 situation. Alongside supporting and responding to the national policy objectives of the effective implementation of the recovery packages³⁶ and injecting liquidity to respond to the BB's initiatives³⁷, Islamic banks of the country have to show their idealistic face in line with the Shariah principles. And to that end, it is the sustainable and green banking that may deliver. Sustainable banking activities of the Islamic banks covering no-frill accounts for low income classes; agricultural and small and micro enterprise financing; and green financing are confronting halts and disruptions. However, this is time when sustainable banking drives should receive greater momentum for the quick recovery of the economy and also for their own. An Islamic bank has also great scope now to reshape itself for availing opportunities created in the online and technology driven banking in the context of Covid-19.

Regarding the current status and efforts of the green banking ventures in Bangladesh, most of the initiatives are policy driven where both conventional and commercial banks have mainly been responding or complying. Green financing received significant impetus in the country following the issuance of two key circulars in the year 2011 by the Bangladesh Bank: 'Policy Guidelines for Green Banking'³⁸ and 'Guideline on Environmental Risk Management (ERM)'³⁹. In 2017, BB redesigned ERM and named Environment and Social Risk Management Guideline (ESRM) which covered both social and environmental risk issues in

trade loss to Bangladesh. This is concerning when leather, RMG, wood products and furniture have considerable dependence on Chinese intermediary goods (Habib, 2020).

³⁴ Automotive production might be affected, however, e-commerce may boost. In spite of supply chain challenges, telecom, technology and pharmaceuticals are likely to get lift (Habib, 2020).

³⁵ Islamic Banks in Bangladesh are mostly engaged in investment activities using Bai mechanism.

³⁶ Government of Bangladesh came up with economic stimulus packages initially in two declarations on March 25 and April 05, 2020; and by mid-May, a total number of 18 stimulus packages worth BDT 101117 (3.6% of the country's GDP) crore have been announced (Habib, 2020).

³⁷ As the monetary policy authority of the country, BB responded to the market needs with several efforts of liquidity injection that includes buying-back of government securities; reduction of Cash Reserve Requirement (CRR); increasing Investment-Deposit Ratio (IDR) of banks (BB BRPD Circulars: <https://www.bb.org.bd/mediaroom/circulars/circulars.php>).

³⁸ BB BRPD Circular No-2, February 27, 2011.

³⁹ BB BRPD Circular No-1, January 30, 2011.

bank's investment. Bangladesh Bank introduced refinance schemes⁴⁰ for renewable energy, energy efficiency and some other green financing schemes of BDT 200 crore from its own source to offer term loan facilities that are very much relevant and usable by the industrial units. The BB refinancing for renewable energy and green financing schemes have been made available through Islamic banks since 2014⁴¹, which is funded by the excess liquidity of the Shariah based banks and financial institutions.⁴² The fund is available for 51 green products/initiatives under 8 categories for Islamic banks.⁴³ In addition, there are green refinancing funds for supporting industrial and infrastructure development in the country.⁴⁴ BB's Corporate Social Responsibility (CSR) related initiatives may also be tagged with the promotion of green financing.

Islamic banks of the country responded to the policy and regulatory initiatives to a great extent, though outcome has not always been up to the level of expectation. As per BB requirement, Islamic banks have established 'Sustainable Finance Unit', and all have their approved Green Banking Policy Guidelines and Green Office Guide, as claimed. The data on disbursement of total finance by both conventional and Islamic banks show evidence of increasing trends. However, as a whole, the exposure of the banks in green financing remained less than 2%.⁴⁵ Green financing is complementing the government's efforts to attain other development goals like financial inclusion.⁴⁶ Responses to a good number of industrial units and business houses are also encouraging.⁴⁷ Islamic banks are increasingly getting involved in the environmental risk rating in the process of financing, supporting green ventures, and setting up solar powered branches, ATMs and agent outlets etc. Islamic banks have also been using a portion of their growing CSR funds for addressing environmental and climate risks. In terms of performances, the status of conventional and Islamic banks are more or less uniform. And, as a whole a lot to be achieved.

⁴⁰ BB SFD Circular No-3, dated march 16, 2017 (the Master Circular declared all the previous circular on the schemes since 2013 as void excepting the circular on the refinance schemes by the Islamic banks issued in 2015).

⁴¹ In 2018, BB issued comprehensive master circular on this scheme (SFD Circular no-02, 2018).

⁴² BB GBGCSR Circular-No 6, 2014.

⁴³ During October-December 2019, BB disbursed BDT 1521 million for 'Working Environment and Fire safety' of a factory.

⁴⁴ Bangladesh government constituted a loan fund in BB to support the RMG and other export oriented factories through medium to long term finance under the 'Program to Support Safety Retrofits and Environmental Upgrades' under which participating financial institutions (PFIs) are offered pre-finance for disbursing the credit to eligible industrial units SMESPD Circular No- 01, March 31, 2019). In a very recent initiatives (April, 2020), BB has introduced Euro 200 million Green Transformation Fund along with the existing USD 200 million to set up environment-friendly infrastructures (<https://thefinancialexpress.com.bd/trade/bb-introduces-200m-green-transformation-fund-1586956071>)

⁴⁵ According to the BB's October-December, 2019 quarterly report, green finance to the banks funded finance was 1.43% (BB, 2020).

⁴⁶ For example, government is working to implement National Financial Inclusion Strategy (NFIS) which is clearly aligned with the goals of sustainable and green finance.

⁴⁷ The country now has 108 green factories and establishments, of which 95 are in RMG and textile sector; and of the top 10, six are in the country. Green factories are also getting popularity in shipyard, shoes and electronic industries (Prothom Alo, September 02, 2019).

It is good that Bangladesh has been working for creating a supportive policy framework⁴⁸ for promoting green venture and green banking. The green banking policy frameworks are also Shariah compliant having key elements of governance, environment risk in investment management, in-house environment management, climate risk fund, training, awareness and green events, disclosure and reporting and green financing.⁴⁹ Proving the Shariah compliance of the green banking policy guidelines and supports in Bangladesh, Taslima et al. (2016) opine that as the green policy is Shariah-compliant, Islamic banks should not have any complications to successfully implement it; they should take it very seriously and, before every financing decision is made, should consider the environmental risk assessments as a vital tool because, by doing so, they can fulfill the need of ‘dharuriyyat’,⁵⁰ to protect life, family and property. Green financing or green banking is not only about supporting or promoting environment friendly investment, rather very importantly it means not to invest in environmentally harmful ventures and economic activities. There are opinions that the focus on sharing profits and taking communities into consideration means that the Islamic way of banking⁵¹ is better for the planet; and building on this, it could be argued that investing in ecological harmful projects is prohibited since according to the Islamic principles, Allah has appointed humans as protectors of nature and thus free exploitation is not permissible.⁵² In line with the Shariah principles and the Holy Qur’an, environmental damage through financing by the Islamic banking institutions cannot be acceptable.⁵³ In addition, in line with Shariah approach, green and environmentally responsible financing is greater than simply giving funds for investments, and very much a responsible approach of investment with accountability by the banking institutions. The Covid-19 is obviously the reminder of all of these desired behavior on the part of Islamic banks. In the context of Covid-19, the expected macro approach of green economic recovery and showing due respect to the environment must be reflected in the financing activities of the Islamic banks.

⁴⁸ The development approach underlying the Seventh Five Year Plan (7th FYP) of the country is consistent with the global agenda for higher growth in developing countries with appropriate measures to protect environment; in 2015, the honourable Prime Minister of Bangladesh Sheikh Hasina has been announced as one of the winners of the United Nations highest environmental accolade, in recognition of Bangladesh’s far-reaching initiatives to address environmental issues.

⁴⁹ Shariah compliancy of the green guidelines of Bangladesh has been judged by Taslima et al (2016) and finds that all the aspects of green policies are very much in line with Maqasid-Al-Shariah by quoting various relevant verses of the Quran and Hadith’s of the Prophet Muhammad (pbuh).

⁵⁰ The Muslim scholars have classified the entire range of maqasid-cum-masalih into three categories: the daruriyyat (the essential), the hajiyyat (the complementary) and the tahsiniyyat (the desirable or the embellishments); the essential masalih are enumerated as five: life, faith, intellect, lineage, and property. These are seen as absolute requirements to the survival and spiritual well-being of individuals, to the extent that their destruction or collapse would precipitate chaos and the demise of normal order in society (<http://ilmuislamuallaf.blogspot.com/2015/03/daruriyyat-hajiyyat-and-tahsiniyyat.html>).

⁵¹ Islamic finance is clearly in a position to have a positive impact on the environment (Aburawa, 2011).

⁵² Aburawa (2011) notes, Islamic finance is seen as a ‘greener’ alternative of the economic systems that put the human need for consumption above everything and nature is seen as a free good for free exploitation.

⁵³ The Holy Qur’an instructs humans to be conservative in their use of natural resources and also warns that environmental damage and mismanagement of natural resources is not acceptable (Ally, 2016).

Segment-5: Suggested Green Approach for Islamic Banks of Bangladesh Integrating Welfare and Sustainability Concerns

Islamic bank managements need to install organized strategy to offer optimum support to the policymakers and to be ready to face the upcoming banking and societal challenges where environmental concerns should receive great impetus. It is the right time for the Islamic banks to reflect due patience and sacrifice.⁵⁴ The crisis management process must be an integrated approach in line with the 'Enterprise Risk Management'⁵⁵ fundamentals and within Shariah laws and principles. Board, Shariah Council, Top management, departments, branches, and regions need to be integrated with the ongoing transformation process of the banks. This is time for survival during the crisis and revival for future businesses.

All Islamic banks must handle contamination risks at their workplaces and branches as an urgency. Hygiene and cleanliness must get top priority.⁵⁶ One aspect of coronavirus prevention that comes very naturally to the followers of Shariah principles is personal hygiene.⁵⁷ Technology adaptation, a green and cost saving approach, to facilitate and support work from home, service delivery, internal communication, meeting, and capacity development is the need of the time. An 'investment plus approach' like green and financing cannot be delivered effectively if employees are not highly motivated. Employee incentive and motivation became a critical challenge to the banking institutions in Covid-19 regime. Employees might be confronting the fear of job-cut, and thus banks need a strategy to address their fear to ensure optimum productivity and efficiency. It is particularly essential for the Islamic banks to let their customers know that Islamic banks are truly sensitive about their depositors, investors, the common people, and the factors responsible for the ongoing global disruption- 'Environmental and natural destruction'.

Economically and environmentally desirable activities should be particularly addressed and supported by Islamic banks. Sustainable banking ventures related to financial inclusion, small and micro enterprise financing, and agricultural financing are particularly desirable. These have proven advantages of offering high economic, social,

⁵⁴ Patience and sacrifice are in the DNA of Islam. The most obvious symbol of Muslim faith practice - the five daily prayers - is a sacrifice of time that reminds us of life's fleeting nature and "purifies" the rest of our daily activities (Iqbal, 2020).

⁵⁵is a structured approach that aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the uncertainties the enterprise faces; it is a forward looking approach to manage all key business risks and opportunities (Deloach, 2000); boards have leadership roles to play.

⁵⁶ Not only has Allah informed us that we will face circumstances that we will regard as hardships, but the Almighty, has shown us how to face them. "You who have believed, seek help through patience and prayer. Indeed, Allah is with the patient." (The Holy Qur'an 2: 153); Hygiene and cleanliness (tahara) is so integral to Islam that it is actually a major sub-branch of Muslim faith; without physical hygiene, prayers are broken (Iqbal, 2017).

⁵⁷ Health organizations and experts promote personal hygiene to limit the spread of coronavirus, especially washing hands frequently for at least 20 seconds. Islam has been encouraging personal hygiene for centuries. The Quran instructs followers to keep their clothes clean in one of the earliest revelations (74:4), remarking "God loves those who are clean" (2:222) (noted in the Conservation, 2020).

and environmental long term returns. Certain innovative Islamic financing modes to invest in projects aligned with SDGs might help the economy and community the most. The country's green financing activities have been particularly supportive of the low income people of the rural areas of Bangladesh and thus demand special attention and escalation.

As the situation demands, the recovery efforts and upcoming investment by the economic agents like Islamic banks should be integrating 'environmental concerns and natural order' in their operations and functional areas in the context of addressing the root cause of the Covid-19 crisis. It is not about allocating additional efforts and resources on 'green banking' activities as a separate branch of banking, rather it is about incorporating environmental risks in all banking actions. It is not only about supporting environmentally sustainable projects for restoring natural and environmental orders, it is also about arresting activities that are harmful to the environment and nature. Guided by their boards and Shariah principles, Islamic banks are expected to play leading roles in the country's upcoming green banking and the green growth movements in the post-Covid-19 situation; and for that, the recovery approach of the Islamic banks needs to be 'green and environmentally sustainable'.

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