

## The case for a debt jubilee

"You can't cross the sea merely by standing and staring at the water." — Rabindranath Tagore, Indian Poet Laureate (1861-1941)

Life-changing events can and do sometimes shake us to our core. Quite like the metamorphosis process where a pupa breaks through its once protective cocoon and turns into a beautiful butterfly, they are painful yet fulfilling.

These changes and challenges must be seen as what they truly are: opportunities to remake ourselves and our society; to evolve our economy and generate whole new epochs of growth and prosperity.

We are now presented with yet another one of these monumental moments — handled well, this seemingly unconquerable pandemic and its accompanying turbulence will reshape virtually every aspect of our lives, from how and where we live, to how we work, to how we invest in individuals and infrastructure, and how we shape our cities and regions.

But we must call into question long-held beliefs about the nature of the system we live in, reinvent our economy and reform our society. Managed well, the present period of "new normal" and "creative destruction" can be among the most fertile, in terms of innovation, invention and energetic risk-taking in our nation's history.

The 2021 Budget proposal of RM322.5 billion is the largest in Malaysian history. It could well cripple the generations to come that have to pay for it. But for right now, it is a fit-for-purpose proposal that intends to meet the immediate needs of the country and encourage recovery, growth and investment. Interestingly, it did not propose any new taxes nor were any existing taxes increased.

Responses to the budget proposal are still streaming in even as I write. In fairness, the proposal attempts to address the immediate needs of the most vulnerable, through continuation of targeted stimulus measures. But critics are even saying that this is a case of too little, too late. The plight of the lowest strata of our economic class is dire and requires unconventional thinking to rebalance

the growing wealth and income inequality. These critics may be right, and they are insisting that the government muster the political will to do more. Enter the debt jubilee.

For the uninitiated, a debt jubilee occurs when a bank or large organisation cancels debt and clears it from the public record. This slate-cleaning, balance-restoring step recognises the fundamental truth that when debts grow too large to be paid without reducing debtors to poverty, the way to hold society together and restore balance is simply to cancel the bad debts. Interestingly this time, the call for targeted debt forgiveness is championed by a deputy minister in the government no less!

PPBM Youth chief Wan Ahmad Fayhsal courted celebrity and controversy when he recently called on banks to implement a targeted debt jubilee, which will see the clearance of debts, particularly for those in the B40 group. "We are in trying times and banks have been making large profits for years, so a debt jubilee will be ideal," he said, "but we understand that not everyone will require debt forgiveness, so it should be targeted and done gradually."

Wan Ahmad Fayhsal's call for banks to forego interest payments and debts is controversial to say the least. Sacrilegious, say people in the financial sector, but before you judge his proposal absurd and half-witted, let's take a walk through history.

Studies by Prof Michael Hudson, distinguished professor of economics at the University of Missouri, have discovered that from the beginning of recorded history in the Near East, it was normal for new rulers to proclaim a debt amnesty upon taking the throne.

In times of economic strife, under Mosaic Law, the ancient kings would blow the yobel, a wind instrument made of a ram's horn, to signal debt forgiveness for their people to



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start anew. They would do this every 50 years, hence the jubilee (after the yobel).

We now understand that these rulers were not being idealistic and kind in forgiving debts. They were in fact, being very practical. If the economic imbalance was not reset, there was a danger their kingdom could fall. The debtors would fall into bondage (and debt prisons) and the kings would have lost their labour force and much of their army!

Many debtors would have run away too, much like what happened as recently as 2008, when the Greeks emigrated in the thousands to more prosperous parts of Europe during their country's sovereign debt crisis. We know, of course, that Germany and the more prosperous nations in Europe came to their rescue between 2008 and 2017.

But history also tells us that prosperous Germany too was a beneficiary of a debt jubilee. After its disastrous loss in World War II, the burden of war debts and reparations bankrupted Germany and caused untold hardship to the population. Their cities lay in ruins, their once-famous plants and industries bombed out, and starvation was rife.

However, the economy slowly strengthened and began to rebound after the victorious Allied powers granted them a debt jubilee in 1948 when a new currency, the deutsche mark, was introduced to replace the pre-war reichsmark. Through that change, 90% of all government and private debt was wiped out. Germany emerged an almost debt-free country, with low costs of production that jump-started its modern economy. The debt jubilee created what we now call the German Economic Miracle.

The parallels to the current moment cannot be discounted. Our B40 and much of the M40 have debts that leave little income available for consumer spending. Many are in despair. Our present struggling economy — let's call a spade a spade — presents a great opportunity to write down the mortgages

and consumer debts that burden these low and middle-income families.

The debts in deepest arrears in Malaysia and most likely to default are credit card debt, vehicle loans, housing loans and general consumer debts that the banks eagerly hawked during better times. These were after all, the more profitable products in their portfolio. But these forms of easy credit have a downside: they reduce the funding available for the small and medium enterprises that create "real" goods and services, thus shrinking the "real" economy. A write-down of these non-commercial debts in a targeted manner would be pragmatic, not simply a show of moral sympathy for the less affluent.

Some economists and most bankers will warn of a creditor collapse and ruinous costs to the government. The approach of "if it ain't broke, don't fix it" is not helping.

Well, I beg to differ. I believe our financial system is strong and flexible enough to absorb the cost of foregoing these debts. Collectively our banks made north of RM30 billion in more prosperous times. And for private lenders, only bad loans need be wiped out. Much of what would be written-off are accruals, late charges and penalties on loans gone bad.

Until now, the basic ethics we adhered to was that all debts must be repaid. But it is time to recognise that many debts now cannot be paid — through no real fault of the debtors in the face of today's Covid-19-induced economic disaster. This coronavirus outbreak can serve as a mind-expansion exercise, making hitherto unthinkable solutions thinkable. Debts that can't be paid won't be. A debt jubilee may just be the best way out.

To sum up, I am reminded of the words of Christine Lagarde when she was managing director of the International Monetary Fund, "The goal of the financial sector must be not only to maximise the wealth of its shareholders ... but to enrich society by supporting economic activity and creating value and jobs — to ultimately improve the well-being of people."

A debt jubilee, I posit, does just that. ■

Zakie Shariff is a director of Universiti Malaysia Pahang

## Supply chain finance to alleviate SME cash flow issues

Back in June, the government introduced a much-welcomed move to provide relief cash flow to small and medium enterprises (SMEs), which form an important part of the supply chain for government-linked companies (GLCs) and large corporates. The larger players were encouraged to accelerate their vendors' payment terms, under the short-term economic recovery plan (Penjana).

I wrote an article on this topic in this Forum section (Issue 1324, June 22), suggesting that large corporates, especially GLCs, consider a supply chain finance (SCF) programme, guided by the Penjana announcement. The article shared how SCF could be a mutually beneficial solution for both the GLCs and large corporates, as well as their SME vendors (trading partners) while supporting the Penjana initiative in a sustainable way using the most common forms of SCF today, which are supplier finance (or reverse factoring) and dynamic discounting.

In Budget 2021, the government an-

nounced that Exim Bank Malaysia would provide RM300 million to drive the national supply chain finance platform, known as Jana Niaga. This is a progressive move to help alleviate the cash flow problems of SMEs that supply to the government and GLCs.

It will be implemented together with Petronas and Telekom Malaysia, before being rolled out to other GLCs, ministries and government agencies. Although there are no further details available at this time on the mechanism of Jana Niaga, this is certainly a step in the right direction to encourage wider-scale SCF adoption by corporates, SMEs and funders.

In the past, we have seen industries with more complex supply chains and financial disparities being beneficiaries of SCF programmes. Automotive, F&B, retail and



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fast-moving consumer goods (FMCG), telecommunications, manufacturing, logistics, electronics and pharmaceuticals are some of the many industries that have witnessed increased SCF rollouts. Malaysia now joins the list of countries where the government is actively driving and championing SCF. Similar initiatives have been introduced by governments in the UK and US, and going forward, we may see more countries promoting SCF as a stimulus measure to stabilise supply chains and improve the financial well-being of SMEs.

How to get started on your SCF programme?

Given that SCF is still in its early days in Malaysia, corporates and GLCs alike need to spend time thinking about the "why", or the intended objectives, of launching their own SCF programme.

For most corporates, the "why" would

be to stabilise and increase the resilience of their supply chains, whereas for suppliers, the "why" is typically to get access to financing at advantageous rates. The "how" (implementation) is where things may get tricky for corporates in Malaysia given the novelty of the concept here.

As a start, GLCs and corporates must strive to design a fit-for-purpose SCF programme and choose the right SCF instrument which makes sense for their trading partners. Having a robust digital SCF platform to anchor the SCF solution to is another key factor that will enable ease of onboarding and subsequent transactions.

On the financing front, a multi-bank SCF programme is increasingly preferred to reduce the dependency risk on a few financiers and also to cover a larger number of supply chain or trading partners by having more funding providers. As such, GLCs and corporates need to think through the above considerations carefully and consult where required to improve the adoption and

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## More people want systemic reforms

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corruption but they placed trust in individuals driven by the nationhood mission and didn't do enough to build safeguards. It was actually apparent quite early on that corruption was seeping in, but it got worse in the 1980s as competition for political positions and spoils within Umno and BN increasingly took precedence over nation-building.

The system is no longer fit for purpose and Malaysia is in dire need of another system reset. I will leave it to historians to argue about when and why the system fell into decline. But since the AFC of the late 1990s, we have been under-firing economically, growing apart as communities, losing our best talents and falling behind newly emerging countries like Indonesia and Vietnam for FDI. The 4th Industrial Revolution will only compound under-performance of economies that are not leveraging their best talents, struggle to attract quality investments and defer to vested interest and incumbents — where innovation and entrepreneurship are stifled.

When Pakatan Harapan (PH) came to power in 2018, many — including myself — were hopeful that they would follow through with their reform agenda as articulated in their election manifesto. But they did very little of it, unable even to implement UEC recognition or sign the International Convention on the Elimination of Racial Discrimination, both relatively benign reform initiatives they promised. And while the end of BN's dominance was rightly celebrated as a triumph for democracy, there was no guarantee that a more stable democracy would emerge. The political scientists among you may even point out that academic literature on plural societies would predict quite the reverse. Indeed, the collapse of the PH government after 22 months and the fragility of Perikatan Nasional (PN), its replacement, are not encouraging early signs.

For me, the PH experience reaffirmed that our system is like a badly written play. You can change the cast and have the world's best actors but the play will still be bad. The system sets incentives for politicians and political parties to behave in a certain way and sadly, our system encourages them to be too divisive, too vulnerable to monetary incentives and too deferential to power.

Another way of saying the same thing is: Our system has evolved to become one run by a three-headed monster — identity politics, money politics and power concentration. I don't have the time to discuss how this came to be, it is more important to use the minutes left to talk about how we could fix it.

During my visiting fellowship at Oxford and now in partnership with some academics and civil society, I am pursuing the idea that we need a system reset. We have embarked on a six-month study to gather the views of Malaysians across the various spectrums of society, and are also soliciting ideas from the wider public at mybetterfuture.org. One basic question is whether we should advocate the setting-up of another National Consultative Council, which was the deliberative platform used back in 1970 where a fairly representative group of 67 people — communal leaders, politicians and people from the civil service, trade unions, media, religious groups, business, professions and small minorities — debated and endorsed systemic reforms.

I don't think we should just copy what worked then, but we can learn from that experience. We can also learn from the recent trend of deliberative platforms across Western democracies such as the national assembly in Ireland, which successfully dealt with the hugely controversial issue of abortion. Deliberative platforms can complement representative democracy. In fact, it can be a purer form of democracy compared to one where vot-

ers delegate their voice on all issues to one person until the next election. And then there is a question of whether there can be a better Malaysia at all? Whether these frustrations and failures that I mentioned are just part and parcel of democracy and growing pains of a new nation, it is therefore important that we conceptualise key reforms and whether in sum, they would make for a better Malaysia.

I believe the case is compelling even if we just imagine (1) new institutional rearrangements to have an effective referee to political competition; (2) clear separation of business, government and politics; and (3) electoral reforms. And I am sure many would agree that if our best minds and leaders deliberate our intercommunal social contract, education system and affirmative action in safe spaces instead of the toxic theatre that is party politics, they would arrive at some new formulas and trade-offs that are more suited for today's Malaysians and Malaysians.

In short, at the risk of pre-empting the conclusion of our study, I for one am convinced that there can be a better Malaysia. I hope I have outlined enough of my thoughts on "Making of a better Malaysia" to stimulate a conversation. The stakes are huge, the stakes are especially huge for your generation.

On behalf of mine, I would apologise that we have allowed this nation that we all love to be in the state that it is today. For what it is worth though, I am actually quite optimistic because I sense that more and more people want systemic reforms, not least due to the widespread dependency with today's politics. In the end, politicians will respond to the people so long as the people are heard. ■

**Datuk Seri Nazir Razak** is a former CIMB chairman. The article was his speech presented at the Chevening Alumni leadership talk on Nov 16.

## Strong intent needed in SCF

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success rate of such programmes.

The Covid-19 pandemic has clearly shown us that companies cannot function and succeed on their own if their supply chains are not stable. The collective well-being of supply chain partners is important to keep the entire ecosystem functioning well. Granting suppliers access to advantageous financing via SCF will be the right step towards improving supplier (financial) stability and eventually benefiting the corporates by making the overall supply chain more resilient.

SCF also plays a crucial role in the implementation of a sustainability strategy. We have seen a strategic push by companies, especially in the apparel industry in the US and Europe, to meet the demands of customers that want goods manufactured in a socially responsible way while fostering stronger relationships with suppliers. These companies use SCF as a reward mechanism to drive sustainable supplier practices. Suppliers who abide by higher environmental, labour and safety standards are rewarded with access to lower-cost credit via SCF programmes.

### Lessons learnt from SCF implementations globally

SCF is in its early days in Malaysia but given the wider use of SCF programmes globally, there are several key lessons Malaysian corporates can learn from them to avoid repeating costly mistakes. A few key lessons worth highlighting are:

### Onboarding of trading partners.

For an SCF programme to be deemed successful, corporates must strive to increase the supplier coverage under SCF. In many cases, SCF programmes are rolled out only to large key suppliers while the tail suppliers, which are smaller in size and have restricted access to financing, are left out. Deploying a focused team to drive onboarding of the smaller or tail suppliers in a more inclusive manner will improve the adoption rate.

**Cost of financing.** Financing rates offered to suppliers should be kept in check for the programme to gain traction. Though the credit rating and spend volume of the corporate offering of an SCF programme are a key determinant of financing rates,

there are ways in which the effective rates can still be kept in check.

**Payment practices.** In a post-shipment SCF model, one of the most compelling benefits for suppliers is the certainty of getting paid faster. For this to happen, the organisation needs to approve the invoice quickly to trigger the SCF financing option for the supplier. This step is critical as the supplier can apply for and receive payment faster, depending on how quickly the invoice is approved by the GLC or corporate. SCF programmes fail to take off if the corporates' procure-to-pay process is not SCF-ready, which often results in failure to approve the invoices at a reasonable time.

### Cross-functional collaboration.

Our experience shows that whether it is treasury, finance, IT or procurement that is driving the SCF programme, buy-in and participation by key stakeholders and functions are critical to drive continued usage and adoption of SCF among the trading partners.

### A fit-for-purpose SCF programme design.

Multiple SCF instruments can be used to initiate an SCF programme, the common ones being supplier finance, dynamic discounting, distributor finance and inventory financing. Similarly, there are multiple SCF technology providers, P2P providers and financial institutions with their own SCF offerings. However, the onus is on corporates to come up with a fit-for-purpose SCF programme which makes sense for themselves and their trading partners. Announcing SCF programmes without putting sufficient thought into the programme design and which SCF instrument works best usually results in a lukewarm response from suppliers.

In conclusion, for GLCs and corporates, the intent behind rolling out this initiative must be clear and strong so that the SCF programme establishes trust and properly benefits the trading partners in the supply chain ecosystem, enabling a lasting win-win outcome for all stakeholders. ■

**Ganesh Gunaratnam** is working capital management leader at PwC Malaysia



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