

Islamic Finance's Real Economy Leadership Agenda

The global financial crisis has presented an unprecedented opportunity for Islamic Finance to establish itself as a truly global leader, thereby realizing its full, unique potential. A potential that is nothing short of reshaping the global finance industry much as Starbucks has done for coffee or Cirque du Soleil has done for the structurally unattractive circus industry. A potential that best-selling business book authors W. Chan Kim and Renée Mauborgne would qualify as the “Blue Ocean” of the finance industry.

However, in marketing terms, a large gap exists between the vision and potential of the Islamic Finance brand and the reality of its current brand attributes.

If the vision of Islamic Finance is a financial system that seeks profits while ensuring religious considerations of sharing risk and returns and supporting an ethical society with a potential to serve a global audience, then the reality of today's industry value proposition is only partially hitting the mark.

I propose here a strategic agenda for the industry that could fill this gap — God willing — by complementing its current identity with one that makes it a major driver behind select human-development-related “real economy” sectors. These sectors would include Food/Agriculture, Renewable Energy, Healthcare, Education and Sustainable Technology. Being key backers of these sectors will proactively support solving global human developmental issues while providing strong profitability potential.

Unconventional Approach to Unconventional Financing

Industry professionals familiar with conventional finance may never consider the need for a whole industry to create an identity around certain sectors since its mandate of profit maximization doesn't require it to. So it's hard for them to imagine Islamic Finance taking such a strategic stance. However, 1) Islamic Finance is unconventional, so such an approach should only be considered a means to further its own unique identity, and 2) such a strategy would not exclude it from other permissible sectors, but put a more coordinated effort around select sectors in support of its vision, identity and greater success.

Islamic Finance—Backed Real Economy Sectors

The strategy would be applied by investment and corporate financing arms of Islamic Finance driven by Islamic Private equity, other investment funds — including public equity funds — and corporate financing operations. By building a major emphasis

on a select group of industry “clusters” Islamic Finance would also benefit in its competitive positioning in these sectors due to better operational expertise developed in time and better penetration to source leads and transact within these sectors and their sub-sectors.

What's encouraging is that the sectors being proposed are identified as major global growth areas. Let's review them briefly:

Agriculture:

There is a known global crisis around high food prices driven by rising demand and lagging supplies. In a recent DinarStandard analysis, many of the poorer countries — Egypt, Bangladesh, Pakistan, Sudan, Nigeria— are some of the most agriculturally endowed in the world; however, they have dismally low productivity due to under-investment.

A Shari'ah-compliant investing example in this area is the recently announced US\$1.3bn Shari'ah-compliant fund by UK-based investment company cru Investment Management, which will focus on commercial agriculture in Africa. These investments by cru expect not only strong returns for investors, but also some much-needed investments in agriculture in Sub-Saharan Africa.

Renewable Energy:

The International Energy Agency predicts energy needs through the year 2030 will increase by 50 percent, of which developing countries, led by China and India, will account for two-thirds of the growth. Given the devastating environmental impact such a growth would drive, there are growing global initiatives toward clean-tech energy sources (production of energy from net-non-polluting sources).

In a recent DinarStandard analysis by Athar Mian, solar systems, both in photovoltaic and thermal formats, and wind power were determined to be the most viable clean-tech models for Gulf Co-operation Council (GCC) and surrounding countries.

Healthcare:

According to PwC, healthcare organizations face a growing imbalance of supply and demand. On the demand side is a large population of aging patients in deteriorating health who demand more services, pharmaceuticals and medical breakthroughs. The supply side, however, is hampered by a shrinking pool of investment capital, a shortage of willing caregivers and aging physical plants straining under the current volume of patients.

At the recent GE Healthcare Middle East Media Summit held in Dubai, Dr. Loan Cleaton Jones, a Senior Health Specialist of the International Finance Corporation (IFC), highlighted that in the GCC itself, healthcare demand is expected to rise 240 percent over the next 20 years, with health risk factors, aging, population growth and medical inflation contributing to the rise in spending. Consultants McKinsey and Company recently estimated total healthcare spending in the GCC countries will reach US\$60bn by 2025.

Education:

Similar to growing demand in food and energy, the education sector is another area that provides tremendous opportunities. Within the Arab world, it's been well established that its demographic is very young, requiring a growing need for education services.

Some examples of investments in this area include the launch of a US\$10bn education foundation by HH Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai. Also last year, Abraaj Capital acquired a "significant" stake in Dubai-based Global Education Management Systems (GEMS), which owns and manages a number of primary and secondary schools across the Middle East.

Sustainable Technology:

With Sustainable Technology, I imply technology initiatives that support services to comply with the principles of economic, social and ecological sustainability.

An example is the boom in cellular phone services and its impact on society. Highlighted in a recent DinarStandard report is Vodafone's M-Pesa mobile-banking program in Kenya. M-Pesa is an innovative system for sending both minutes and money via SMS that is benefiting the farmers in the rural areas of Kenya. One year later, M-Pesa has 1.6 million subscribers, and Vodafone is now set to open mobile-banking enterprises in a number of other countries, including Tanzania and India.

Industry-, Institution- or Government-Led

There are many ways such a strategy can be realized. When you think of German "automobile precision engineering" you realize the reputation is driven by a few of its key institutions — Mercedes-Benz, BMW, Porsche and Audi. Given this proven model, a few of the major Islamic Finance institutions could take the lead in establishing global leadership within the real economy sectors identified. Obviously, such institutions and overall reputation are not built overnight.

Conversely, an industry-wide initiative is also a viable solution. For example, in the United States, the milk industry, through a collective Milk Industry Association initiative, drives the well-known

"Got Milk?" campaign to increase awareness and adoption of milk, which benefits all milk processors and dairy farmers. Similarly, an Islamic Finance industry-wide initiative through the formation of major industry-contributed funds or institutions with a coordinated communication campaign could drive this agenda as well.

Finally, given the important role of governments in infrastructure-dependent sectors that have been identified, their participation in such a strategic initiative would be critical for effective implementation.

In the end, the objective would be to create global success stories — regardless of them being industry-driven or individual-leading-institution-driven. Just as Grameen Bank, led by Dr. Mohammad Yunus, is now considered a pioneer and leader of the micro-finance industry globally, imagine if Islamic Finance institutions were credited in a similar fashion within the renewable energy, food, healthcare and education sectors.

Challenges

Islamic Finance is, all in all, doing quite well. However, as I propose, by resting on its current laurels, the industry risks losing a tremendous opportunity to truly establish a leadership role in the global financial landscape or to even realize its full potential within its primary Muslim markets.

Taking a leadership role in key real economy sectors certainly poses tremendous challenges — however, none I feel is greater than a lack of conviction or direction. Many who have taken leadership roles within Islamic Finance institutions come from conventional banking systems. Leaders need to embrace the unconventional, spirituality-driven purpose of Islamic institutions and let that be a key driving force that produces financial results while maximizing returns to a higher calling.

Besides, by taking this proactive approach to "ethical" investing, the conversation about Islamic Finance moves from a system that just avoids unethical to one that consciously backs ethical initiatives. Such is the approach that defines leaders.

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