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From the Selected Works of Karen Hunt Ahmed

January, 2009

Where is Islamic Finance Going? Ethical Investment Strategies

Karen Hunt Ahmed, *DePaul University*



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January 2009



WHERE IS ISLAMIC FINANCE GOING?

Ethical Investment Strategies

GROWING PAINS
Islamic Finance Evolves
From its Beginnings

SECRETS TO SUCCESS
A New Investment Style
for Islamic Investors

**BRIDGING LOCAL NEEDS
WITH GLOBAL CAPITAL**
Reflections on India &
Islamic Finance

UNTAPPED UP NORTH
Shariah-Compliant
Financing for Canadian
Public Infrastructure

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Attracting Middle East
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**THE WORLD ISLAMIC
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Inclusive Report on the
Islamic Finance Industry

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Karen Hunt-Ahmed provides a low-down on how to invest in ethics. She says, 'so, let us keep doing what we are doing: strengthening the Islamic finance industry by innovation and growth in high-profile investing. And let us invest some of our prosperity into building an economically viable community at all income levels and in all communities'.

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Findings have it that there has been no material difference between Shariah-compliant structures and conventional structures in a distress situation.

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42 UNTAPPED UP NORTH

Islamic banks and others with an arrangement capacity may well wish to consider this asset class and participate in the significant publicly-supported Canadian infrastructure investment currently under way.

48 MUMBAI, MUSLIMS AND MANIA

Interesting reflections on India and Islamic finance. Douglas Clark Johnson believes that "India represents an unprecedented opportunity to bridge local needs with global capital, especially in the Islamic space."

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Opportunity often rises out of chaos. That has never been more true than it is today in the international financial markets. However, creating Middle East investor confidence in American-based projects will depend on U.S. business' ability to establish and maintain a reciprocal level of trust built on transparency, collaboration, harmonized cross-cultural contracts and clear systems of operational control.

56 EXCLUSIVE INTERVIEW WITH MR. DAVID PACE (CFO, UNICORN INVESTMENT BANK)

Business Islamica spoke to Unicorn's Chief Financial Officer, David Pace, at the World Islamic Banking Conference in Bahrain, and got to hear first-hand his views and thoughts on a various array of issues.

60 THE WORLD ISLAMIC BANKING CONFERENCE 2008

Business Islamica unravels the full story behind the auspicious event in the Islamic finance industry. One of the most important events at the WIBC was the launch of the 2008/2009 McKinsey competitiveness report in Islamic finance, which was eagerly discussed in an interactive session which kicked off the event as a whole.

66 ISLAMIC INVESTMENTS 2008 GLOBAL SURVEY

Investors globally are seeking a safe haven from sub-prime debt, excessive volatility, out of control inflation and central bank meddling, but not if you're talking to Islamic investors. Produced by terrapin, you'll find an inclusive detailed overview of Islamic Investments for 2008.

chalkedout

"Islamic banking and finance is underdeveloped in India, due largely to political sensitivities, but current global conditions may change this landscape."

Douglas Clark Johnson,
(CEO & Chief Investment Strategist
for Calyx Financial)



"Experts at the Treasury Department have been learning about the important features of Islamic banking."

Robert Kimmitt,
(The US Deputy Secretary
of the Treasury)



"With many new projects coming into the pipeline, and reduced competition from conventional finance, now could be the perfect time for Middle Eastern investors to consider Canadian infrastructure investments structured as Shariah-compliant PPPs."

Guy David,
(Partner & Head of Islamic Finance,
Gowling Lafleur Henderson LLP)



"Sensible risk management is built into Shariah-compliant financial structures, as the Islamic finance institution pays special attention to both the asset being financed and the individual receiving the funds."

Dr. Karen Hunt-Ahmed,
(Assistant Professor of Finance &
Management, DePaul University)



"The Shariah indices have generally outperformed their conventional counterparts in the year to June 2008. This is another little-known secret and a major competitive advantage for Islamic investors."

Charles Peal
(Chairman of the BLME Umbrella Fund &
Founder, Warnborough Asset Management)



"Almost every discussion of financial affairs these days needs to have some mention of the sub-prime crisis and the accompanying credit crunch, and a discussion of Islamic finance is no different. Could the sub-prime types of problems occur in the Islamic finance space?"

Isam Salah
(Senior Finance Partner,
King & Spalding's New York & Dubai offices)



"Many GCC investors will increasingly only invest in Islamic instruments, so if you do Sukuk, the advantage is that you have to whole world to sell to, as conventional banks buy Sukuks as well as Islamic banks, whereas Islamic buyers don't buy bonds."

David Pace
(CFO, Unicorn Investment Bank)



"Opportunity often rises out of chaos. That has never been more true than it is today in the international financial markets. However, creating Middle East investor confidence in American-based projects will depend on U.S. business' ability to establish and maintain a reciprocal level of trust built on transparency, collaboration, harmonized cross-cultural contracts and clear systems of operational control."

Dr. Steven R. Watts
(President, Zurich Global
Consulting Group)

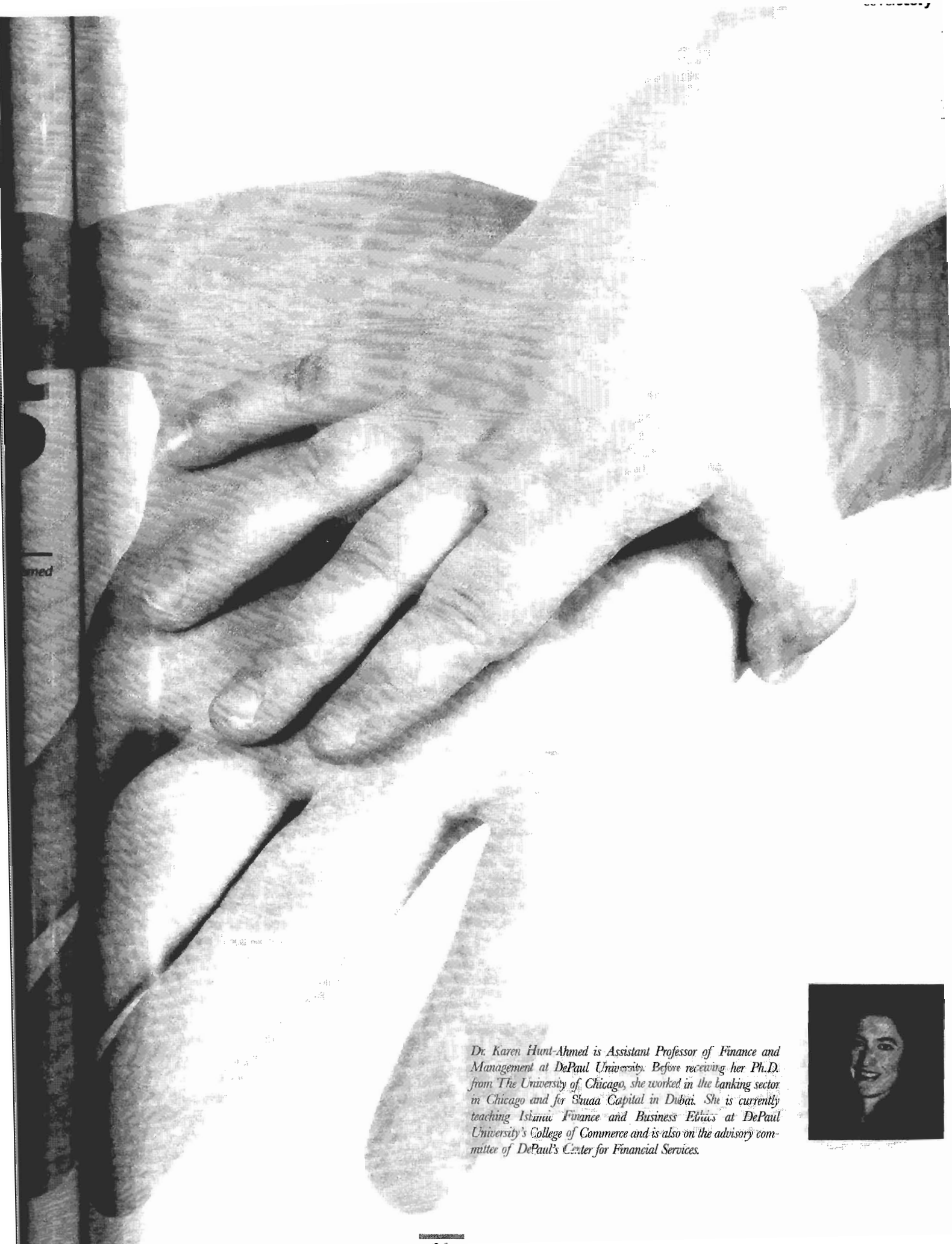


investinginethics

What Does Islamic Finance Want to Be When It Grows Up?

By Karen Hunt-Ahmed

During his opening remarks at the Islamic Finance World Summit in New York last October, Mike McMillen challenged us to consider how our industry will move forward and develop in today's market and in the future. He urged us to engage in constructive self-criticism and to assess the industry's strengths and opportunities as we face the challenges of building a world-class industry based on combining the principles of international finance and Shariah law. I would like to use this opportunity to step back and reflect on the industry as a whole and to think about how we can establish the solid authenticity of an ethical Islamic finance industry in the global marketplace.



Dr. Karen Hunt-Ahmed is Assistant Professor of Finance and Management at DePaul University. Before receiving her Ph.D. from The University of Chicago, she worked in the banking sector in Chicago and for Shuaa Capital in Dubai. She is currently teaching Islamic Finance and Business Ethics at DePaul University's College of Commerce and is also on the advisory committee of DePaul's Center for Financial Services.



As I attend and speak at various industry conferences around the world, I am always struck by how many people define the industry as being in its “infancy” and remark about the industry’s “youth” as a way to think about how to structure and market Shariah-compliant products globally. It is helpful to think about the industry as being an “infant” as we work out the kinks and establish a solid base of current and potential practitioners and innovative financial products. However, although I am always happy to hear the industry being described as “young” (it was, after all, established in my lifetime), I would like to posit that the industry has actually moved past its infancy stage and may now be considered an “adolescent.”

Adolescence is a time during which a person (or an industry) must look to the future and figure out what kind of adult he or she wants to be. It is a time for consolidating the values learned from family and society and deciding which of those values to integrate into the psyche in order to formulate a meaningful and successful approach to life. In other words, an adolescent asks: “Who do I want to be when I grow up?” It is time for us as an industry to step back and reflect on who we want to be when we grow up.

During my research into the Islamic finance industry in the GCC countries and in the United States, I have had the privilege of talking to numerous industry executives. The overriding theme I have uncovered in these conversations is that of social justice, the dimension of Islamic finance that I think is most crucial to establishing the worldwide legitimacy of the industry. From its inception, the Islamic finance industry has been built on the concept of Adalah, or social justice. The goal of Islamic finance is to maintain “balance, distributive justice and equality of opportunities” amongst all people, as Sheikh Muhammad Taqi Usmani has written.

However, although there is a lot of talk about social justice, there is less action as we become entranced by the big-money, internationally recognized deals. Much attention has been paid to proving that investing in Shariah-compliant products is a worthy and profitable investment choice. This is good. This is necessary, even, to put our industry on the worldwide map of legitimate and

powerful investment alternatives in a competitive world market. We absolutely need to focus on high-profile opportunities as one way of authenticating our industry.

However, it is time to authenticate our industry from another angle: that of grassroots economic development. Remembering and paying homage to the critical principle of Adalah will not only solidify the industry’s legitimacy in the international financial markets, it will provide us with the competitive advantage we need in order to prove ourselves a worthy and viable alternative to conventional financial management. Islamic finance is most definitely based on ethical investment. In today’s marketplace, that is our competitive advantage.

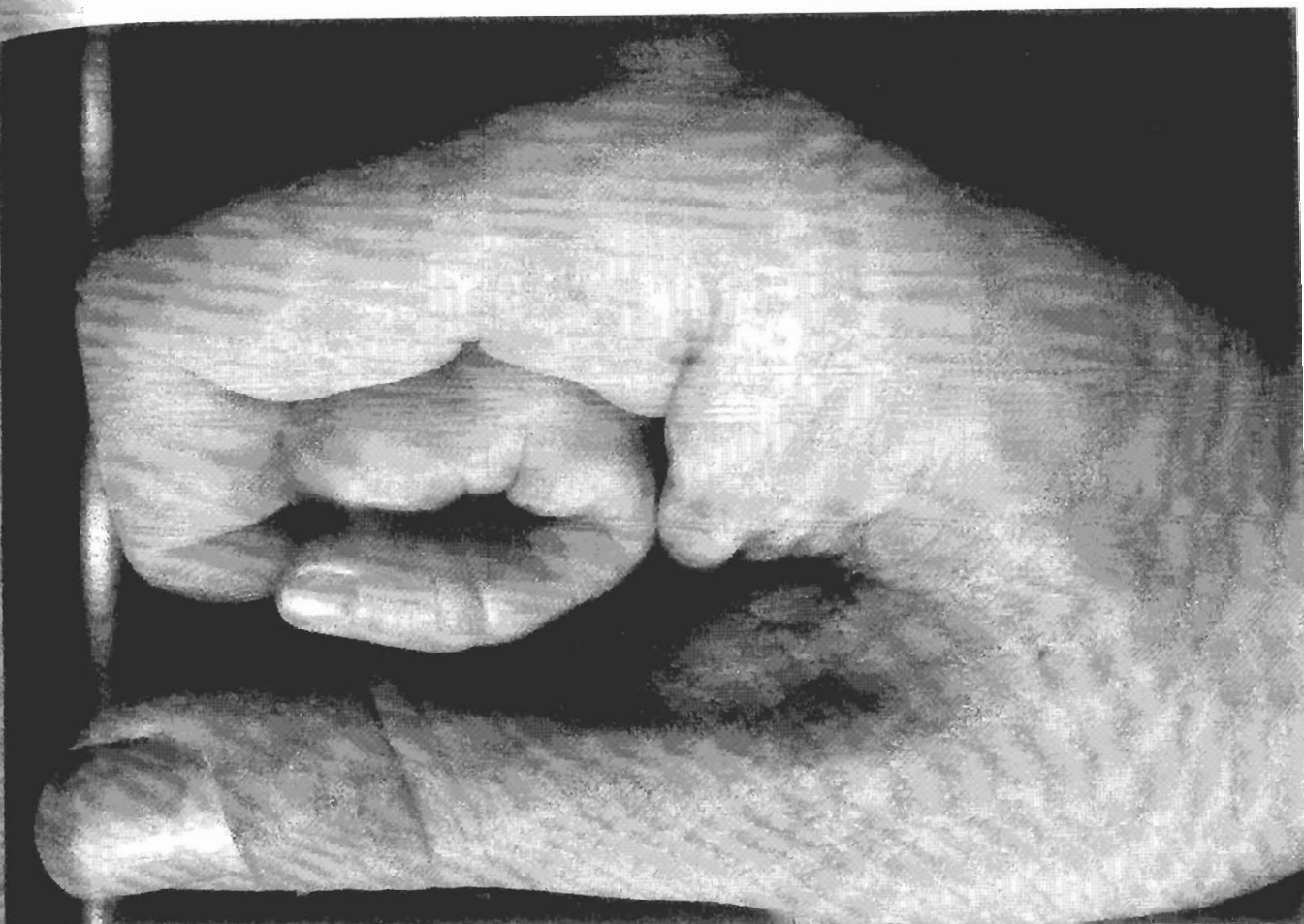
Ethical Investment Strategy

Now we must ask two questions: “What have we done to position ourselves as an ethical investment vehicle?” and “What can we do to take the industry to the next level of maturity as an ethical industry?” To answer the first question, we have begun to build a strong base of ethical investment strategies. Rushdi Siddiqui and his colleagues at Dow Jones introduced the first Islamic Index screening process for stocks in 1999. Now virtually all of the major rating agencies have a comparable index. Interested investors can turn to one of hundreds of funds to meet their personal Shariah-compliant investing needs. Most, if not all, Islamic financial institutions (IFIs) collect and distribute zakat. Business models promoting environmentally and ethically sustainable business practices fit naturally into the Islamic finance industry’s commitment to purifying and improving upon a conventional business model.

Now that the industry has established its credentials both as an ethical business model and – no less importantly – as a powerful and flourishing financial market, it is time for us as researchers and practitioners to take a more active role in building sustainable economic development models that will benefit underserved and underbanked populations in our own communities. I am not talking about giving away money or distribution of zakat funds – although they may certainly be used for what I am proposing – but of investing in growth opportunities that will build and sustain our communities in good and bad economic times.

One way to assist communities in developing a business base is to offer microfinance opportunities for entrepreneurs. Grameen Bank is the leading example of this kind of program that offers small amounts of interest-based, or conventional, financing to entrepreneurs in less-developed communities around the world. Shariah-compliant

Although there is a lot of talk about social justice, there is less action as we become entranced by the big-money, internationally recognized deals.



products such as *mudaraba*, *murabaha* and *ijara* lend themselves particularly well to a microfinance model, and are already being used by many NGOs and nonprofit organizations in the United States and around the world. There is no reason why this kind of business model could not be used as a profit-making investment vehicle. The kind of model I envision could advance the industry's stated *raison d'être* of social justice and still provide a profit for investors.

We as an industry are blessed with relatively high liquidity. In the current economic climate, it might seem counterintuitive to talk about investing in relatively risky small businesses. But I argue that investment in the community—both the Muslim community and our broader community—at the grassroots level is exactly what is needed to build a strong, sustainable economic environment for the future. Secure business and property ownership provides stability and sustainable economic growth and can serve to insulate a community from the devastating effects of economic crises. Sensible risk management is built into Shariah-compliant financial structures, as the Islamic finance institution pays special attention to both the asset being financed and the individual receiving the funds. This makes the Islamic finance

model a sound and stable way to mitigate the risks inherent in small businesses so that we might avoid undesirable situations such as the subprime mortgage crisis that is deemed to be responsible for our current situation. Our investment into community development will not only make us “feel good,” but is a smart business strategy completely in line with our industry’s stated competitive advantage of *Adalah*.

So, let us keep doing what we are doing: strengthening the Islamic finance industry by innovation and growth in high-profile investing. And let us invest some of our prosperity into building an economically viable community at all income levels and in all communities. One of the great strengths of our industry is the close attention we pay to fairness and equality. Indeed, those are two of the principles upon which our industry was built. Our current task as adolescents is to take a good look at our founding principles and decide who we want to be when we grow up. We are well on our way to being a great competitive, ethical alternative to conventional finance. Only when we have moved toward providing justice for all will we truly be able to say we are a legitimate, mature and grown-up industry with a truly ethical competitive advantage.