Global Ethical Finance Forum 2015

A recent two-day forum on global ethical finance opportunies gathered 300 delegates from across the ethical finance industry including Islamic finance, socially responsible and impact investing. Held in Scotland on the 1st-2nd September, the delegates included industry leaders, academics, students, and financial service participants from across the Middle East, Africa, East Asia, Europe and North America. SUHAIL AHMAD brings us a summary of the events.

GEFF 2015

By Suhail Ahmad

"I am at peace. If you see graft and don't speak out against it, you are part of the system that enables it. I was unable to let it continue to happen and weigh on my conscience," stated HRH Muhammad Sanusi II, Emir of Kano and former central bank governor of Nigeria, in an extraordinary live on-stage interview at the end of the Global Ethical Finance Forum held this month at the prestigious Balmoral Hotel in Edinburgh.

The candid and informal interview with the Emir of Kano described his own personal experience as the former central bank governor of Nigeria during the credit crisis of 2008. His advice for Islamic bankers was to install safeguards to eliminate corruption and to hold accountable individuals for their irresponsible actions. He outlined fears that we were heading towards another global financial crisis as many of the issues from the previous banking crisis remained unresolved.

The Emir further clarified that ethical finance must be a leading part of the future of global finance. It must not only incorporate Islamic finance and other faith groups but also provide a real value proposition that puts the customers and depositors ahead of the equity stakeholders. This is a key issue in the current financial system as current banking and financial regulations favor the equityholders of the bank, which typically account for only 10% of the assets – at the expense of the customers (deposit holders) that generally contribute the remaining 90%.

The Emir also highlighted an underlying holistic issue for conventional banking – which is also shared by most Islamic banks – the failure to contribute to the good of the society with an emphasis on fairness and social justice.

Keith Brown MSP, Scotland's cabinet secretary for infrastructure, investment &

cities agreed with the Emir, stating in his opening remarks that: "Creating a fairer society is not just a good on its own, it is also essential for long-term prosperity."

The renowned Dr Zeti Akhtar Aziz, the governor of Bank Negara Malaysia and a leading voice of emerging markets, stressed the need for sustainable economic development, saying: "The value of financial intermediation includes mobilize savings, promoting the efficient allocation of resource, reducing informational asymmetry, and manage risks. Emerging markets have benefited from transformative role of finance in the development of emerging markets in the 21st century."

The forum provided a great platform for discussion between Islamic finance and conventional finance on a unified platform of 'ethical' finance. Panel discussions included investment screening processes, green bonds and Sukuk, regulation, technology and the summary of the newly released Responsible Finance Report produced by Thomson Reuters and the Responsible Finance Institute.

The forum reaffirmed the similarities between ethical and Islamic finance but also brought to light a key issue for Islamic financial institutions that is often overlooked: Is it possible for a product to be Shariah compliant and yet not ethical?

The answer is yes. One panel discussion highlighted this very issue and discussed ways to incorporate ethical guidelines in Islamic finance products to make the product not just Shariah compliant on the surface but Islamic to its core.

A simple example helped delegates understand the issue at hand. A clothing manufacturer with no debt and which met other generally accepted Shariah screening metrics would pass as being a Shariah compliant investment. However, the company may in fact be using suppliers in Thailand that employ child labor or have exploitative employment practices. Shariah screening would fail to capture this issue – which is clearly against Islamic or Shariah principles.

Socially responsible investing employing environmental, social and governance (ESG) screening would be able to capture the issue of child labor as the screening would extend beyond the surface of the company to look at its supply chain and operational practices.

Shariah screening in many cases might fail to capture unethical practices of a business and could wrongly pass off businesses as being Shariah compliant despite their un-Islamic business practices. Panellists at the event suggested that Shariah scholars could be given a broader mandate which would include assessment of the business operations. Perhaps we could even see Shariah scholars sit on the boards of financial institutions or companies so they can ensure that board and management decisions are being made in an ethical responsible manner.

Steps such as this would surely assist in solidifying ethical and Islamic finance by ensuring that every Islamic finance product is truly ethical, meeting the requirements of responsible Muslims and non-Muslims alike.

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