

## OPINION PIECE

# A REALITY CHECK: THE SLOW PROGRESS OF DIGITAL TRANSFORMATION IN ISLAMIC SOCIAL FINANCE (ISF)



By Asst. Prof. Dr.  
**Ziyaad Mahomed**  
Associate Dean/  
Director, Executive  
Education &  
E-Learning

It is true that significant progress in poverty alleviation and social empowerment has been made over the last 30 years. For OIC member states, the percentage of the population living below the poverty line has decreased by almost half, from 41.1% in 1990 to 22.4% in 2011. However, as populations increase, the number of people suffering from hunger, malnutrition and disease remains considerable. The 'OIC – 2025 Programme of Action' stresses, in Article 1.6, that Member States must transform their approach through '*effective utilization of Islamic social finance (Zakat, Waqf) at national and intra-OIC level*' in order to address poverty. It is quickly forgotten that the celebrated 17 social development goals (SDG's) were established as a result of unaccomplished targets in the MDGs or Millennium Development Goals. UNICEF warned at the advent of the 17 SDGs in 2015 that despite rapid progress in poverty alleviation, the most marginalized children in the world's poorest populations remain so. Sub-Saharan Africa didn't meet the goal for extreme poverty reduction, with not a single country achieving the goals set for maternal mortality rate reduction. As much focus shifts to ISF, its role in reducing these nightmarish rates has increased substantially.

Achievement of the UN SDGs within the OIC countries will require support. Considerable support. Digital transformation of existing methods of collection, administration and distribution of Islamic charitable funds becomes vital.

Recent progress in digital start-ups focusing on the social imperative has been moving the sector forward, but it has not yet delivered on this most formidable task. With almost 800 million people continuing to live in extreme poverty, a more concerted effort is required. On the profit-maximization front, financial institutions are mostly in the development stage rather than executing digital transformation. In fact, a recent Hackett Group Report (2018) on digital transformation stated that management expectations have not been met relative to full projected business impact. If change has been slow where the bottom-line matters, then when will social enterprise and charitable institutions driven by less attractive ideals become more impacting on the SDG bottom-line?

It's time for a reality check. Digital implementation has been successful in specific examples but has not become universal yet, even in profit-driven business. It has been slow for social finance – even slower for ISF. The Hackett Group report indicates that the two most common obstacles in digital transformation for financial institutions include:

- An incorrect premise that digital transformation will reduce costs (rather than increase business value); and
- Allocated budget for transformation is a small portion of the overall IT budget (making it tedious, a distance away from the expectation of a completely digital world tomorrow).

Fortunately, there are initiatives that are attempting to spur change with a focus on improving lives through enabling platforms rather than getting lost in a gimmicky tech hype. 'Social Finance' for example through its 'Digital Labs' arm, is building analytical tools based on protocols and standards that synthesize strands of data to determine community needs. The result is improved services through projects that reduce youth homelessness, for example, by providing real-time data solutions ensuring effective placement of youth in emergency situations. An ISF solution in Indonesia, Angsur, promotes financial inclusion by assisting students through micro-finance based on murabaha. Angsur then removes 2.5% of the sales margin and distributes it to orphans and the poor. Unfortunately, efforts such as these fall within a handful of tech start-ups attempting to drive change in ISF.

Although start-up ideas are abundant, very few have actually been implemented or created impact in ISF. For effective and brisk digital change: integration within existing systems becomes more urgent; regulation and policy must meet the challenge of new solutions; government collection agencies must be ready to embrace inevitable disclosure and transparency; and Shariah monitoring must adapt to these changes ensuring the removal of harm and uplifting the downtrodden. Then only will digital transformation be effective, non-discriminatory and for the greater good. Once ISF embraces this enablement, we are sure to witness a better world, if Allah wills.