After the credit crunch: the future of Shari'ah compliant sustainable investing

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Abstract

Purpose – The purpose of this paper is to examine the role of Shari'ah compliant sustainable investing in the light of the credit crisis and catastrophic climate change.

Design/methodology/approach – The paper discusses that the climate change, natural resource shortages, fuel crisis and global financial crisis, etc. will not go away just because there is a recession. In this regard, Shari'ah compliant finance has a broader responsibility to consider societal goals and should be preparing for the post-credit crunch world. The paper evaluates the performance of Shari'ah compliant sustainable funds using the traditional measures of performance in relation to risk-adjusted benchmarks to see if there is any ethical effect.

Findings – The paper advocates that preventing future market meltdowns and avoiding catastrophic climate change requires a new era of longterism in Shari'ah compliant sustainable investing. The study assesses the performance of the Shari'ah compliant sustainable investing. The result shows that Shari'ah compliant funds outperformed the conventional benchmark and therefore, the challenge for Shari'ah compliant sustainable investing is not to become like conventional investing but, rather, to replace.

Research limitations/implications – Shari'ah compliant sustainable finance is a recent phenomena and therefore, rigorous analytical predication of Shari'ah compliant sustainable investing variables are at present not possible using evolutionary and complex system approaches; however, such system can be fruitfully studied in future through simulation methods and certain types of econometric modeling when the long-term data will be made available.

Originality/value – As the credit crunch has evolved into a full-blown economic crisis, many have turned to the Shari'ah compliant finance to provide a route map out of recession. With an increasing number of conventional banks and corporations struggling to find funds to support their businesses, Shari'ah compliant financial institutions represent a potential solution to bridge the liquidity gap in the global markets.

Keywords Natural resources, Islam, Economic sustainability, Investments, Recession

Paper type Research paper

1. Introduction

The global economy is facing a "triple crunch"[1]. It is a combination of credit-fuelled financial crisis, accelerating climate change and the looming peak in oil production, spread throughout wider economy. These three also overlapping events threaten to develop into a perfect storm, the like of which has not been seen since the Great Depression 1930s. As the credit crunch has evolved into a full-blown economic crisis, many have turned to the Shari'ah compliant finance to provide a route map out of recession. With an increasing number of conventional banks and corporations struggling to find funds to support their businesses, Shari'ah compliant financial institutions represent a potential solution to bridge the liquidity gap in global markets. Embedded Shari'ah compliant finance is the idea of profit and loss sharing which entails strong risk management practices. In view of this, the principle of Islamic finance has discouraged the Islamic financial institutions to buy or sell the toxic assets which may have caused the failure of many conventional banks.

While great strides have been made in furthering the growth of Shari'ah compliant sustainable investment, both in Muslim and Western world, much still remains to be

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done, and those leading in industry's development will face several critical questions in the years ahead. One such issue at the very core of Shari'ah compliant finance's development is the question of whether the industry has an obligation to achieve social goals as opposed to focusing solely on revenue maximisation.

There are those who argue that Shari'ah compliant finance has a broader responsibility to consider societal goals such as sustainable development. However, this is understandable, given the moral and religious basis on which Shari'ah compliant financing needs to focus on becoming profitable and competitive within the given framework of global finance. But values embedded in Shari'ah compliant finance – fairness, justice, equity – are those that will help them not only to survive the current crisis but also to sustain and grow their presence in the economic cycles to come. In this aspect, sustainable development is an important area which can deliver a wide range of social benefits that can greatly improve quality of life in the future. It includes policies and novel funding mechanisms that will reduce emissions contributing to climate change and allow us to cope better with the coming energy shortages caused by peak oil.

The objective of this paper is to examine the role of Shari'ah compliant sustainable investing after credit crisis. As the fallout from the crisis in financial markets spread through the wider economy, this paper argue that preventing future market meltdowns and avoiding catastrophic climate change requires a new ear of longterism in Shari'ah compliant investing. It is expected that outcome of this study will contribute further knowledge in the area of sustainable development.

The paper is organised as follows. Section 2 provides a brief overview on the issues of the catastrophic climate change. Section 3 discusses the challenges before 21st century Shari'ah compliant sustainable investing and its constituents. Section 4 examines Shari'ah compliant sustainable funds and analyses the results of funds performance. Section 5 focuses on the long-term growth in Shari'ah compliant sustainable investing and last section offers some concluding remarks.

2. Climate change, an important issue

The effects of climate change on health are likely to be significant. Higher global temperatures are expected to have both direct and indirect effects on health. Given that a 2°C rise in temperature by the end of the century is considered inevitable, it is time to prepare for the fallout. Morbidity and mortality from vector-borne diseases, for instance, could spread to newly warming areas because some insects and pathogens benefit from temperature changes (Citigroup, 2007). Furthermore, access to clean water will be compromised by severe droughts, and more intense monsoon events such as cyclones and floods could lead to epidemics.

Adapting to the health effects of climate change will require a strong global policy framework, combined with similar action at the national and international levels. Adaptation can have a strong foundation only if a good funding mechanism exists. Optimistic assessments have it that an accrual of $1-5 bn a year is possible under the United Nations Framework Convention on Climate Change and the Kyoto Protocol (Henderson Global Investors, 2005). Going by forecasts on climate change effects, these funds are almost certain to fall far short of what is needed – running into tens of billions – to meet the challenges faced by low- and middle-income countries.

In the case of climate change, less than 10 per cent of global emissions of greenhouse gases are covered by carbon pricing mechanisms and there are no legal requirements on financial markets to integrate climate risks into their operations. The share prices of oil, coal and gas companies, for example, remain based on the assumption that their reserves of fossil fuels constitute assets from which attractive cash flows may be derived. As a result, billions of dollars, pounds and euros continue to be routinely misallocated to carbon-intensive investments in spite of unprecedented awareness of the long-term risks of climate change.

Unfortunately, most of the affected population belongs to third world countries. They will be further affected by increases in tropical infectious diseases, drought and flooding as well as loss of habitable land in low lying coastal areas. This is the very population least equipped to cope with change.

The challenge of climate change is just one example of the way in which contemporary financial markets fail to appreciate major drivers of long-term value creation. In the 1980s, financial statements were capable of capturing 75 to 80 per cent of the risks and value creation potential of companies. By the early 21st century, this had fallen to less than 20 per cent, with factors such as human resource management and resource efficiency routinely ignored from core assessments (Kiernan, 2007).

In the light of the demand for sustainable development and the call of the agenda 21, the United Nations Environment Programme (UNEP) recognised the importance of financial institutions by stating that "financial institutions which assume the risk of companies and plants can exercise considerable influence – in some cases, control – over investment and management decisions which could be brought into play for the benefit of the environment" (UNCED, 1992, p. 7).

As Islamic finance becomes an alternative of the international financial system, it will be increasingly tested by developments such as "credit crunch". Hence, climate change is an important concern and it is required to be included as a priority agenda of Shari'ah compliant financial institutions.

3. Twenty-first century Shari'ah compliant investing and creation of values

With financial markets identified as the primary source of credit crunch, investor short-termism has been exposed as a major factor – alongside misplaced incentives and the wholly inadequate regulation of risk – in the misallocation of capital that has taken place over the past two decades. Climbing out of this morass will require a profound rewriting of the investment "rules of the game" in the light of Islamic law or Shari'ah, as well as a renewal in the professional purpose of the financial services industry to serve the long-term interests of its customers.

Twice in a decade, ordinary savers and investors have been short-changed by capital markets, first by the crash on the world's equity markets at the time of the dot.com boom and second by the implosion in credit markets on the back of unchecked property speculation. Conventional theories and practices that have passed for the investment mainstream have been exposed as being fundamentally unreliable. Yet on the margins of the financial world – where most innovation takes place – principles of Shari'ah compliant finance can perhaps take heart from the rapid rise and performance of sustainable investing strategies.

In Shari'ah compliant sustainable investing, Shari'ah law allows investment in company shares (common stock) as long as those companies do not engage in interest based lending, short-selling, excessive speculations, gambling or the production of alcohol, tobacco, weaponry or pornography and environment pollution. Shari'ah compliant sustainable finance is sub-set of socially responsible investment (SRI) and have clear policy regarding environmental or "green" issues as well as sustainable sources.

Technological innovation and financial deregulation have served to make trading cheaper and easier, driving an expansion of short-term trading strategies. In addition, incentives along the investment chain from consultants through asset managers to brokerage houses and companies themselves have been progressively geared to drive quarter-by-quarter returns. As a result, the average holding period on the New York Stock Exchange fell from seven to eight years in the 1950s to just 11 months in 2005 suggesting that most investors can no longer be bothered to wait for the next annual report before trading (Montier, 2007).

Investing for the long-term is not just a nice thing to do but also it is fundamentally essential if market behaviour is to be aligned to the actual needs of both individual savers and institutional investors such as pension funds. Shari'ah compliant sustainable investing also focuses on the long-term factors that impinge on value creation at odds with the continuing foreshortening of time horizon among investors.

Building on the pioneering "ethical investment" and "socially responsible investment" movements, Shari'ah compliant sustainable investing strategies are based on the realisation that the best way of generating risk-adjusted returns in the 21st century is to fully incorporate long-term social, environmental and economic factors into investment and ownership decision-making. A key corollary of this is that achieving global sustainability goals, such as access to energy, health and water, as well as protection from climate change, will require the mobilisation and recasting of the world's Islamic capital markets. Shari'ah compliant sustainable investing thus expresses a new common sense for financial markets, as illustrated in Figure 1.

This neatly reverses the traditional chain of value creation, whereby society and the planet are regarded merely as "capital stocks" for investment purposes. It is this alignment with the forces shaping the planet that gives Shari'ah compliant investors a far better chance of delivering out performance than traditional institutions. Indeed, much of the recent growth of Shari'ah compliant sustainable investing has been its ability to sniff out critical issues before the "electronic herd", to anticipate new trends and to do things that seem eccentric at first, that then become perfectly normal.

Future prospects of Shari'ah compliant sustainable investing now diverse practice that extends from Middle East's financial markets into private equity and microfinance and involves not just stock markets of North America and Europe, but also embraces key emerging economies such as Brunei, Malaysia, Nigeria, Iran, Indonesia, Japan, Kenya, Pakistan, Philippines, Singapore, South Africa, Sudan, Thailand, etc. What is stimulating about Shari'ah compliant sustainable investing is the way in which it provides a positive agenda for action for both purely financially motivated investors eager to mitigate risk and benefit from upside opportunities, and for community organisations aiming to achieve social and environmental progress. It encompasses the

Successful Investment depends upon
Identifying Targets Which Can Provide Good Return which depends upon
A Vigorous Population of Enterprises which depends upon
A Healthy Economy which depends upon
A Healthy Community which depends upon
A Sustainable-Peaceful Planet

Figure 1.
Constitute of twenty-first century Shari'ah compliant investing

growing numbers of individual investors who wish to ensure that social and environmental factors are included in the ways they allocate their savings. It also draws on the rising tide of institutional investors in pension funds who appreciate the growing financial materiality of social, environmental and governance factors. Added to this are clean tech investors who have identified major potential for capital growth in companies providing solutions for the low carbon economy.

What unites these apparently disparate groups is an acknowledgement that lasting value can now only be created in financial markets through fresh approaches to financial analysis, fiduciary duty and capital market regulation in the light of Islamic ethical values. The fastest growth, though, has been in the funds space, with annual growth of 10 to 15 per cent a year and around $59bn directly managed according to the sustainable Islamic investing styles (Table I).

Since the late 1990s, Shari'ah compliant sustainable investors have been the first to attempt to assess these factors, for example, through the "Best in Class" analysis of corporate performance on a range of extra-financial factors. The analysis of these

Style	Description
1. Negative screening	Avoiding companies on ethical moral or religious grounds (e.g. gambling or the production of alcohol, tobacco, weaponry or pornography as well as avoidance of riba (usury) and gharar (risk or uncertainty)
2. Negative screening of the interest-bearing debt	Excludes companies whose debt/total asset ratio equals or exceeds 33%; companies with "impure plus non-operating interest income" revenue equal to or greater than 5% or companies whose accounts receivable/total assets equal or exceed 45% or more
3. Positive screening	Active inclusion of companies because of Shari'ah compliant and of social and environmental benefit
4. Environmental/social screening	Avoiding companies for involvement in environmentally or social damaging sectors (e.g. fossil fuels)
5. Community and social investing	Allocation of capital directly to enterprises that explicitly provide social returns
6. Financially weighted "best class"	Active inclusion of companies that outperform sector peers on financially material environmental or social criteria
7. Sustainability themes	Selection of companies on the basis of investment opportunities driven by sustainability factor (e.g. renewable energy)
8. Engagement	Constructive dialogue between investors and company management to encourage improved management of social, environmental issues
9. Shareholder's pressure group	Exercise of shareholder rights to pressurise companies to change social, environmental and governance practices as per Shari'ah laws
10. Financial analysis	Active inclusion of social and environmental factors into Islamic fund management and its accounting
11. Norms based screening	Avoiding companies for non-compliance with International standards such as United Nations, International Labour Organisation, Islamic Fiqh Academy of the Organisation of Islamic Conferences (OIC), Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI), etc.

Source: New Horizon (2009), US SIF (2008), Citigroup (2007)

Table I.
Multiple styles of Shari'ah compliant sustainable and ethical investing

factors can be used to create the universe of stocks from which investors select their portfolios, and to adjust the cost of capital based on this wider understanding of risk (Lucas-Leclin and Nahal, 2008).

4. Shari'ah compliant sustainable funds

Shair'ah compliant sustainable investing as a system represents the fundamental aspects of what we know Islamic financial system to be, supported by Islamic values and ethics such as environmental ethics that have meaning, not only for those who follow Islam, but that are really universal in nature. In a time of crisis in global financial markets, Shair'ah compliant sustainable funds can help to contribute overall financial stability due to the inherent nature of checks and balances embedded in Islamic financial structures that act as protection against the worst excesses of leverage and speculation that we have witnessed recently. These universal ethics and values are something that all financial systems aspire to promulgate – but in Shair'ah compliant sustainable investing, they are not just desired, but they are an inherent and inseparable part of the very essence of the system.

In the early 1990s, one would have relied mostly on the established markets of Saudi Arabia and Malaysia to find approximately 100 funds available. Investor awareness at that time would have been much lower than it is today. In due course, established markets have continued to flourish in the Middle East and Asia Pacific regions, represent about 75 per cent of markets. On the other hand, North America and Europe represent less than 15 per cent of the total. Although investments in these regions often is combined into global mandates – which in turn make up almost a quarter of the total. Nonetheless, these three regions remain as key drivers of the industry, but one cannot undervalue the new offerings and all the products spread across the periphery (Bangladesh, Egypt, Indonesia and so on).

A critical mass has been reached by Shari'ah compliant sustainable funds that have triggered interest from institutional investors as well as conventional institutions. More assets being committed to Shari'ah compliant investments and longer track records are at last available for closer scrutiny (the average trading history now exceeding 36 months). This is not a trivial figure, as historical data between three to five years can yield relevant fund metrics and in turn help these products fall under the scrutiny of a wider range of allocators.

Estimates to the total size of the industry seem to have reached a \$800bn consensus, although this is an all-encompassing figure (from bank deposits to direct investments). As far as assets invested in Shari'ah compliant Islamic funds, \$44bn serves as the starting point, and taking into account non-reporting funds the overall assets under management are closer to a \$59bn estimate (Baddepudi and Vizcaino, 2007). This remains a modest amount, but provides solid evidence of long-term sustainable growth rather than a short lived fad.

4.1 Size and composition

According to Failaka Islamic Funds Database – 2007, there are more than 608 Shari'ah compliant sustainable funds from across the globe and across all asset classes, with the total universe of products estimated at close to 650. Equity exposures dominate this figure as they represent over 52 per cent of the total (342 funds to be precise). A distant second goes to private equity and real estate offerings with a combined 18 per cent of the total. Whereas money market, balanced and fixed income have much smaller showings (13, 8 and 6 per cent, respectively). Other products predominantly leasing funds – round off the total at 4 per cent.

As the number of available products continues to grow, the mix of Shari'ah compliant offerings (in terms of asset classes) can be tested against the one offered at the conventional level. Table II portrays the mix of Shari'ah compliant sustainable funds by investment geography and compared to a global portfolio of conventional funds[2].

Table II facilitates an assessment of whether any sector deviates from the conventional mix. The prominence of Shari'ah compliant equity funds is felt across all regions (from 41 per cent to 55 per cent), but this is no different to the proportion found with conventional funds (42 per cent). Money market funds are also well received – particularly in global and Middle East mandates (at 21 per cent and 13 per cent, respectively, well above the conventional 6 per cent).

In respect of product deficiencies, fixed income and balanced products are lacking in all but one of the geographies. South East Asian region seems to offer the closest match to conventional markets, yet it is the greater acceptance of Malaysian sukuks that might limit the appetite for the fixed income and balanced offerings found in this region. This could have further implications for takaful investors, as insurance companies have a predilection for balanced products. There are some popularity of real estate products of Europe and North America, and multi-manager portfolios of Middle East, which come in the "others" category. Private equity funds are also popular in Europe, North America and Middle East, evident in the "others" category which also accounts for their strong showing.

4.2. Funds' performance

This study assesses the performance of the Shari'ah compliant sustainable investing to see if there is any ethical effect. Simultaneously, the study examines the future of Shari'ah compliant sustainable investing after credit crisis. The study approached as follows.

4.2.1 Methodology. The performance of the Shari'ah compliant sustainable funds, Dow Jones World Index, Almadar GCC Index, Dow Jones World Asia Pacific Index are assessed using the traditional measures of performance in relation to risk-adjusted benchmarks (Sharpe, 1966). Based on his earlier work on the capital asset pricing model (CAPM), Sharpe (1966) conceived of a composite measure of performance dealing with the capital market line (CML). The Sharpe measure of portfolio performance (S) indicates the risk premium return per unit of total risk (sd) to compare the portfolios to the CML. It measures the return of a portfolio, in excess of the risk-free

	Investment geography						
	South-East Asia (%)	Europe (%)	Global (%)	Middle East (%)	North America (%)	Total	Conventional (%)
Equity	51	47	54	52	41	51	42
Fixed income	15	0	3	4	0	6	23
Balanced	16	4	6	6	0	8	19
Money market	11	0	21	13	3	12	6
Others	8	50	16	26	57	21	10

Sources: DataStream and Failaka Islamic Funds Database

Table II. Asset class mix of Shari'ah compliant sustainable funds rate, relative to its total risk.

$$\text{Sharpe measure } (S_i) = \frac{R_i - R_{\text{rf}}}{\sigma_i}$$

where R_i = average return for the asset i, R_{rf} = average rate of return on the risk free asset, σ_i = standard deviation of the rate of return of the asset i.

Higher Sharpe measures are associated with superior performance.

In this study, we avoided the performance comparison between Shari'ah compliant sustainable and conventional ethical funds. Because comparing performance metrics of Shari'ah compliant sustainable against ethical funds carries many caveats. It has been avoided for a variety or reasons (in particular the low overlap of investment geographies and mandates). It is not also feasible since ethical fund data are not immediately available.

4.2.2 Data. Monthly return data of 136 Shari'ah complaint sustainable equity funds over a period of 31 December 2002 to 31 December 2007 have been collected from Failaka Islamic funds database and DataStream International Database. Our sample data represent three main geographical regions that have dominated the industry, namely the North America, Middle East and South-East Asia. Therefore three-month T-bill rate of US, three-month LIBOR rate and three-month KLIBOR rate over a period of 31 December 2002 to 31 December 2007 have been used respectively as risk-free rates. These data have been collected from DataStream International.

The analysis selected those funds deploying strategies 5, 6, 7 and 10 identified in the Shari'ah sustainable investing styles in Table I. The result shows that Shari'ah compliant funds outperformed the conventional benchmark.

4.2.3 Findings. An analysis of 136 mutual funds with extra-financial objectives demonstrates that Shari'ah compliant sustainable investing equity funds outperformed the conventional investment benchmarks – the Dow Jones World Index, Almadar GCC Index and the Dow Jones World Asia Pacific Index– on a one, three and five year basis to the end of 2007 (Table III).

Importantly, our analysis shows that time horizons matter. Those sustainability funds with low turnover substantially outperform those with essentially trading rather than ownership strategies. According to company and public disclosure websites surveyed in April and May 2007, low-turnover funds had returned 16.4 per cent over the previous five years compared with 11.4 per cent returns for high-turnover funds during the same period. Result of this study is in conformity with the study of Baddepudi and Vizcaino (2007). It may be noted here that in the result, high turnover indicates a fund that changed its entire portfolio at least once a year, with low turnover indicating a portfolio that might take three to five years to turn over completely.

Table III.
Relative returns: Shari'ah compliant investing performance

	One year 2007	Three years 31 Dec. 04-31 Dec. 07	Five years 31 Dec. 02-31 Dec. 07
Shari'ah compliant sustainable investing	13.1	18.7	18.6
Dow Jones World Index	9	12.6	17.1
Almadar GCC Index	5.5	8.8	13.1
Dow Jones World Asia Pacific Index	5.8	12.8	13.2

Provisional raw data for 2008 itself suggests that Shari'ah compliant sustainable equity funds declined in line with the market, falling 42 per cent – the same as the Dow Jones World Index. From a micro-investment perspective, this result suggests that Shari'ah compliant sustainable investing can add alpha (out-performance) in a market upswing, but does not carry excessive beta (risk). But from a macro-perspective, the relentless loss of value for funds whether Shari'ah compliant sustainable or conventional suggests that all suffer when the market itself is structurally unsound, requiring changes in behaviour as well as framework conditions.

5. Potential growth and long-termism

There is great potential for growth in Shari'ah compliant sustainable investing. The world's 1.5 bn Muslims provide a ready customer base and with a relatively low penetration rate across most markets, there is ample opportunity for the industry to expand. At the same time, there is the possibility of Shari'ah compliant sustainable investing crossing over to appeal to non-Muslim customers. As global coordination within the industry increases, and given the current struggles of the conventional financial system, conventional institutions and individuals are turning an appraising eye to Shari'ah compliant sustainable investing.

Shari'ah compliant sustainable investing has already served its apprenticeship and is set for considerable expansion in the years ahead as regulators, investors and companies struggle to design financial markets geared to the long term – and simultaneously confront issues such as credit crisis, climate change, etc. Performance is no longer the constraint, and capital is waiting in the wings. But obsolete market structures are holding back the full potential of Shari'ah compliant sustainable investing.

The credit crunch has served as a powerful warning of the inability of current market structures either to effectively manage risk or to deploy capital to truly productive uses. The task ahead is to create Islamic capital markets that are "fit for purpose" for the social, economic and environmental realities of the 21st century. This means there is urgently needed in updating the core listing and operating rules on the world financial markets. Voluntary initiatives such as the Carbon Disclosure Project can prove excellent testing grounds to drive innovation. But they need formal regulation to ensure comprehensiveness and bite.

The International Energy Agency estimates that US$1.3 trillion a year will be needed to drive down carbon emissions to acceptable levels (IEA, 2008). Mobilising such sums of capital will require action at both ends of the value chain – not just curbing emissions from individuals and industry, but also curbing "financial oxygen" for carbon intensive assets. Furthermore, incentives for investment analysts and fund managers need to be refocused from ephemeral gains in short-term trading towards steady and reliable returns over the long term. In the end, it means redirecting the ingenuity of Islamic capital markets so that they serve rather than smother the public good – for example, designing the instruments based on musharakh (equity) and mudarabah (partnership contract) that can accelerate the financing of urgently needed environmental infrastructure as part of the emerging Green New Deal[3].

To realise the required structural changes in the world's Islamic capital markets imaginative alliances will need to be made with emerging Islamic chamber of commerce groups, Islamic Development Bank as well as other Islamic banks, SRI forum, policymakers and non-governmental organisations (NGOs). Apart from the environmental arena, encouraging signs of joint ventures between investors and community are coming from the health sector, notably the creation of the Access to Medicines Index, as well as the progress of the Pharma Futures collaboration.

The world's investment markets thrive on the platform for long-term savings created by the Islamic financial system. During the 21st century, the need is to replicate the system of investor welfare for the global age and the imperatives of sustainable development. Here, there are two urgent and interconnected priorities. The first is how to mobilise pension funds in Islamic ethical way and others to back a new generation of social equities funds to finance the improvement of education, healthcare, microfinance, public transport and social housing. The second is to extend the benefits of pension provision to the poor people, with returns generated from investments in the type of projects and enterprises that are needed to fulfil Islam's justice, welfare and equity. In this regard, at an Economists conferences event held in London in April 2009, it was suggested that Islamic finance had strong potential appeal to pension funds looking to invest in an ethically responsible manner (The Economist, 2009).

Shari'ah compliant finance must continue to focus on producing results that are sustainable over a long period of time. It should also extend support to issues relating to ethical values, such as fair trade and environmental protection. These are also the UN's Millennium Development Goals which need to be brought into reality (Blackburn, 2007).

6. Conclusion

Over the last decade Shari'ah compliant sustainable funds have emerged as one of the most eloquent expressions of Islamic finance, exemplifying its evolution into a dynamic and diverse industry. The driver for much of the growth of Shari'ah compliant sustainable funds in demand comes from Muslims who are looking for financial services that observe core ethical principles based on Shari'ah. Another key factor has been growing oil wealth, with demand for Islamic ethical investments soaring in the Gulf region. Local stock markets have struggled to cope with this wall of money, forcing many Gulf-based investors to look overseas – US and UK in particular with its many Shari'ah-compliant services. Hence, Shari'ah compliant sustainable funds continues to thrive.

The values embedded in Shari'ah compliant finance – fairness, justice, equity – can help the global economy not only to survive the current crisis but also to sustain and grow its presence in the economic cycles to come. In fact, realising this matter, the Vatican issued a statement on 4 March in reference to Shari'ah compliant finance[4]: "The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service," according to the Vatican's official newspaper "Osservatore Romano" (Bloomberg News, 2009).

The fundamental changes taking place in the global financial market are in an overall shift in perspectives: from short-term to long-term allocations; from raw performance to risk-adjusted returns; from local players to global fund houses; from retail/high-net-worth investors towards institutional portfolios. The environmental damage, climate change, etc. are also important concerns for the policy makers. As the fall out from the crisis in financial markets spreads throughout the wider economy, this paper argues that preventing future market meltdowns and avoiding catastrophic climate changes requires a new ear of long-termism in Shari'ah compliant sustainable investment.

The results of this study show that Shari'ah compliant sustainable funds outperformed the conventional benchmark/portfolio. Hence, Shari'ah compliant sustainable investing is no longer rash although its success is undoubtedly unconventional. The scale of the investment transformation ahead demands a new audacity. The challenge for Shari'ah compliant sustainable investing is not to become conventional investing but, rather, to replace.

Notes

1. "Triple crunch" is a combination of a credit-fuelled financial crisis, accelerating climate change and the looming peak in oil production. These three overlapping events threaten to develop into a perfect storm, the like of which has not been seen since the Great Depression 1930.
2. Data based on DataStream International and Investment Company Institute (ICI).
3. The Green New Deal Group's first report published in July 2008 which says that the Green New Deal will rekindle a vital sense of purpose, restoring public trust and refocusing the use of capital on public priorities and sustainability. In this way it can also help deliver a wide range of social benefits that can greatly improve quality of life in the future. The Green New Deal includes policies and novel funding mechanisms that will reduce emissions contributing to climate change and allow us to cope better with the coming energy shortages caused by peak oil. It consists of two main strands. Please see www.neweconomics.org/gen/uploads/2ajogu45c1id4w55tofmpy5520072008172656.pdf (accessed 20 May 2009).
4. This news reported by Bloomberg News on 4 May 2009, based on the statement by Vatican through it official newspaper "Osservatore Romano".

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