

DUBAI

GENEVA

ZURICH

LONDON

ISTANBUL

SINGAPORE



The 18<sup>th</sup> International

# Islamic Finance Forum

18 – 21 JANUARY 2010

Grange St Paul's Hotel, London, UK

**HALIZA ABD RAHIM**

**BMB ISLAMIC**



[www.iiff.com](http://www.iiff.com)

# Western/European concept of Socially Responsible Investment (SRI) and Sustainable investment

- Introduction
- Western/European concept of Socially Responsible Investment (SRI) and Sustainable investment
  - Some SRI Criteria
- Islamic concepts of ‘Socially Responsible Investing’
  - Islamic investment Screens
- Recent Developments
- Conclusion

## *Western/European concept of Socially Responsible Investment (SRI) and Sustainable investment*

- Introduction: Recent credit crisis- loss of confidence by investors in the conventional pure capitalist based approach to investing has led to increased interest in socially responsible approach to investing
- Increased interest in Socially Responsible Investing (SRI): divesting from companies involved in sectors/practices deemed irresponsible
- And in taking an Active Ownership Approach: Approach adopted by some fund managers such as Responsible Engagement Overlay (REO)\*

\* As applied by F&C Investments

# *Example of Western SRI-based Criteria*

- Divesting from or avoid companies involved in the following industries (negative criteria):
  - Tobacco production
  - Alcohol production
  - Gambling
  - Pornography or violent material
  - Manufacture and sale of weapons
  - Unnecessary exploitation of animals
  - Nuclear power generation
  - Poor environmental practices
  - Human rights abuses
  - Poor relations with employees, customers or suppliers

# *Example of Western SRI-based Criteria*

*(cont.)*

- Actively seeking out companies involved in the following industries (positive criteria):
  - Supplying the basic necessities of life
  - Offering product choices for ethical and sustainable lifestyles
  - Improving quality of life through the responsible use of new technologies
  - Good environmental management
  - Promotion and protection of human rights
  - Actively addressing climate change
  - Good employment practices
  - Positive impact on local communities
  - Good relations with customers and suppliers
  - Effective anti-corruption controls
  - Transparent communication

# *Islamic concepts of ‘Socially Responsible Investing’*

- Basis of ethical concerns in Islamic Investment Guidelines: The Holy Quran and the sayings of the Prophet Muhammad (pbuh)
- Broadly speaking, Islamic concepts of socially responsible investing include:
  - Islamic investment guidelines (Negative Screens/Exclusionary approach)
  - *Zakat* and *Waqf*
  - Purification (Donation)
- *Zakat* collection and purification/donation to the poor and needy distribute capital & contribute towards ensuring social equality

# *Islamic investment Screens*

- Extra-Financial Criteria: prohibition from investing in industries which are engaged in the production and sale of:
  - Alcohol
  - Conventional banking, financial, or any other interest-related activity
  - Tobacco
  - Gaming and Arms manufacturing (weapons and defence)
  - Entertainment (hotels, casinos / gambling, cinema, pornography, music, etc.)
  - Pork production, packaging and processing or any other activity related to pork etc.
- Prohibition of usury/interest – led to development of financial ratios
- Prohibition of uncertainty (*Gharar*)

# *Similarities*

- Similarities between Western concept of SRI and principles of Islamic investment
  - SRI stems from Protestant and Catholic religious convictions (1760: John Wesley, Quakers in 19<sup>th</sup> Century) whilst Islamic Investing is based on the *Sharia* (Islamic Law)
  - Both approaches based on fundamental concept of mankind as ‘steward’ over other creations
  - Extra-financial aspect of both investment approaches have a social purpose and exclude unethical businesses by avoiding investment in ‘Sin Stocks’
- Other industries in SRI could be fused into Islamic investment guidelines (e.g. unnecessary exploitation of animals)
- Environment, Social and Governance (ESG) criteria could be extended to Islamic investments
- Western concept of responsible engagement or active ownership could be infused into Islamic products

# *Recent Developments*

- Geographical/regional differences:
  - Asia: SRI mainly prevalent in Japan & South Korea whilst Islamic investing popular in Malaysia, Indonesia & Singapore
  - Western Hemisphere: Socially responsible investment principles popular mainly in Europe whilst Islamic investing has a presence in the United Kingdom
- Existing & recently developed Sharia-compliant sustainable products
  - Sustainable Asset Management (SAM) & Gatehouse Bank (Sharia-compliant water focused investment strategy)
  - F&C Investments (Sharia sustainable equity fund\*)

\*Currently being developed

# *Conclusion*

- Currently the success of both SRI and Islamic finance do not seem correlated
- But both concepts do not contradict each other & are in fact compatible and complimentary
- Both industries encourage more ethical and socially responsible practices and there should be a focus on fusing/jointly developing these 2 approaches to create a superior investment product