Mujtaba Wani

JEI Working Paper

Yale University

10 March 2015

Sharia-compliance and Sustainability

**Executive Summary**

This paper introduces Islamic finance and outlines a plan for a hypothetical socially responsible investment firm that adheres to Islamic rules. Islamic finance presents solutions to many of the structural problems in the modern economic system. Sustainable investing can mitigate much of the damage caused by this economic order.

Statistics regarding debt and income inequality evince serious problems in the economy.

Principles of Islamic finance, based in the sacred law of the religion, could combat these problems. The most basic principle is that trade must be based on mutual agreement and benefit. Risk and profit ought to be shared. Transactions should avoid uncertainty and speculation. Muslims also cannot conduct business involving forbidden items and activities. Most outstandingly, interest is unequivocally forbidden. Interest, scorned by religious people and philosophers for centuries, creates inequality by taking from the poor and giving to the rich.

Socially responsible investing (SRI) focuses on environmental, social, and governance concerns. Principles of Islamic finance cohere with these values. Regarding the environment, Muslims must care for the planet, and prioritize such concerns over profit. Regarding social issues, Islamic finance emphasizes the rights and dignity of employees. Regarding governance, Islamic law does not explicitly endorse specific items such as public reports or diverse boards, but the tradition does include principles that support such measures.

A hypothetical Muslim Investment Management should be owned and operated by its stakeholders—employees, clients, and investors—in order to succeed and demonstrate a better economic system. The firm ought to retain a board of experts, who understand Islam and finance, in order to boost credibility and assure ethical conduct.

Investors should use a two-pronged, positive and negative investment strategy. Potential investee companies should be evaluated for sustainability on a net positive system based on several metrics. Muslim investors should select securities based on four criteria: growth, real value, dividends, risk, and price. The firm ought to build diversified funds around five asset classes: domestic equity, foreign developed equity, foreign emerging equity, real estate, and precious metals.

If a variety of funds are offered, ethical investing, as a combination of sharia-compliance and social responsibility, has a large potential clientele. The global Islamic finance sector and the market for socially responsible investing hold over 6 trillion dollars in assets combined. As both areas continue to grow, a potential Muslim Investment Management has a market as well as the possibility to scale.

**Introduction**

A measly four percent of Americans polled in 2009 expressed a ‘great deal’ of confidence in Wall Street.[[1]](#endnote-1) Financial services constitute the least trusted industry in the country; just 26% of Americans polled in 2013 thought the sector benefits the economy.[[2]](#endnote-2) In his book *Flash Boys*, Michael Lewis argues that certain parts of the market are literally rigged. Given the sector’s injustices and inconsistent performance, public opinion could be even worse. The 2008 financial crisis resulted in a large part from the irresponsible activities of big banks. The resulting recession has had a lasting effect. Long-term unemployment remains four times higher than it was before the recession; long-term damage could amount to more than a trillion dollars a year.[[3]](#endnote-3) Moreover, income inequality in the United States is now at the highest level since 1928: 90% of the country receives less than half the national income.[[4]](#endnote-4) Additionally, 77 million Americans are delinquent on their debt—1/3 of the United States population has debt in collections.[[5]](#endnote-5) As global water levels and ocean temperatures increase, the environment also suffers potentially irreversible damage because of corporate greed. In short, the economic system has severe problems.

Authorities, experts, and entrepreneurs try to fix these issues with many alternative strategies. Some major corporations are pivoting towards a focus on sustainability, such as less toxic waste. Some specialty firms are focusing on financing alternative energy, such as solar panels. Some businesses are emphasizing ethics based economics, such as Islamic finance. Individually, these ideas are making varying degrees of progress. Combining particular ideas could create a prosperous business and agent of change. Perhaps socially responsible investing (SRI) could coalesce with Islamic finance. Muslim Investment Management, created as a socially responsible and sharia-compliant investor, could succeed to profit and create positive change.

**Basics of Islamic Finance**

In Islam, business and finance adhere to *sharia*. The root of the word sharia, a very controversial term in the West, is “road” or “path.” While interpreters often translate the term as “Islamic law,” it is actually a very broad phrase that includes all of God’s commands and forbiddances to mankind. Praying and giving charity are examples of commands, while abstaining from the consumption of alcohol is an example of a forbiddance. Contrary to Western conceptions of the word, Sharia actually connotes justice. Any practice or rule that could make a society more just, or bring about God’s will, can be considered sharia. This expanded definition explains the positive understanding of the word among Muslims. Sharia is much broader than the traditional western understanding of law.[[6]](#endnote-6)

 *Fiqh*, or Islamic jurisprudence, develops the human interpretation of sharia. In terms of grammar, fiqh means “understanding” or “knowledge.” In practice, the term encompasses the human process of determining God’s law. Muslims call the process of reasoning and interpretation *ijtihad,* and it can be undertaken only by qualified scholars with an extensive understanding of theology, the sources of law, and Arabic grammar. The sources of law are the *Qur’an*, the Muslim holy book, *Hadith*, the reported sayings and deeds of the Prophet Muhammad, *Ijma*, consensus among the scholars, and *Qiyas*, analogical reasoning. Today the terms fiqh and sharia are often used interchangeably.[[7]](#endnote-7)

 Jurisprudence usually occurs with the objective of producing a *fatwa*, a legal opinion. The term derives from a root that means “explanation.” Typically, jurists give fatwas in response to a specific question posed to a qualified scholar. Fatwas are given in the context of the particular issue and the surrounding circumstances; they are neither automatically transferrable nor binding. This question and answer system is a means of determining solutions to problems. And because Islam permits everything not explicitly forbidden by the Qur’an and hadith, jurists have a lot of freedom in decision-making.[[8]](#endnote-8)

Through fatwas and fiqh, Muslims attempt to adhere to sharia in every aspect of life, including finances. While the comprehensive nature of sharia may appear restrictive, Muslims believe that in reality sharia liberates its adherents from slavery to the personal ego. The purpose of sharia is to preserve religion, life, intellect, property, and honor. Moreover, Muslims believe that God is the almighty sovereign and creator of all humans—God best determines what is in the interest of creation. Seeking provision in this world is obligatory and considered beneficial; however, seeking provision for after death takes precedence. During the time of Umar ibn al-Khattab, the second caliph, merchants could not do business in the marketplace until they had learned the sharia of business.[[9]](#endnote-9)

Islamic finance is an economic system based on Islamic principles and in compliance with sharia. Because the Islamic scholastic tradition does not discuss many of the issues in modern business, much of the rules are a result of contemporary ijtihad. The most basic principle is that trade must be based on mutual agreement and mutual benefit. Risk and profit should be shared. Those participating in transactions ought to avoid uncertainty; speculation is condemned. Muslims also cannot conduct business involving forbidden items and activities. And most significantly in relation to modern finance, sharia prohibits interest, whether paid or charged.[[10]](#endnote-10)

Although interest no longer carries a negative stigma, historically the concept has been perceived negatively because it creates inequality, debt, and exploitation. Hindu texts dating 2,000 B.C.E. and Buddhist texts dating 600 B.C.E. make negative comments regarding usury. Passages in the Hebrew bible, specifically in Exodus, Leviticus, and Deuteronomy, scorn interest-based moneylending. Thomas Aquinas called the practice unjust and unequal. Philosophers Seneca, Cato, Cicero, Plato, and Aristotle stringently opposed usury: Aristotle thought it was unnatural and unjust while Cato compared it to murder. Even Adam Smith and John Maynard Keynes, fathers of the modern economic ideology, thought interest rates ought to be capped.[[11]](#endnote-11) Yet, today interest is ubiquitous. In the United States, 40% of people live paycheck to paycheck. Average payday lending rates are between 391% and 521%, and only two percent of payday borrowers are non-repeat customers. Interest rates create a vicious cycle of debt. Moreover, a 30-year loan of one million dollars, with a five percent interest rate, will come to a grand total of 1.9 million dollars.[[12]](#endnote-12) Clearly, interest rates take from borrowers and give to bankers. Hence, Muslim businessmen cannot participate in usury.

Muslim investors are free, however, to purchase equity because of the shared profit and loss structure. The investors, nonetheless, do not purchase equity in companies that earn a significant part of their income from forbidden transactions. Because of these requirements, not only can Muslims not deal with normal bonds, loans, or mortgages, but also they cannot deal with products and services such as pornography, alcohol, and casinos.[[13]](#endnote-13) Moreover, Muslims do not buy equity in companies with a high debt ratio. These rules may seem overbearing, but they leave the vast majority of sectors available.[[14]](#endnote-14)

**Core Values of Social Responsibly Investing: ESG & ESC**

Integrating environmental concerns comprises a key part of responsible investing. Climate change poses a serious threat to the global economy. Yet, the vast majority of capital in the energy sector continues to flow into unsustainable, polluting, carbon-intensive practices.[[15]](#endnote-15) Currently the planet is on track to see an ocean temperature increase of 2 degrees Celsius, which scientists agree would result in disastrous consequences for human society and the environment.[[16]](#endnote-16) The International Energy Agency estimates that around $36 billion more in clean energy investment is needed by 2050.[[17]](#endnote-17) Preventing environmental and economic disaster requires a transition, and this transition needs to be accelerated with significantly more capital, the majority of which will need to come from private sources.[[18]](#endnote-18) Hence, conscious investors ought to shift funds away from carbon-intensive energy, and rather toward clean energy alternatives.

Social concerns constitute the second traditional focus of conscientious investing. Sadly, many of the products society consumes today are made at the expense of others. Verité, a labor consulting firm, recently found that about one third of all foreign workers in Malaysia’s electronics industry are effectively in conditions of forced labor. About two thirds of workers interviewed for the report felt highly constrained in their movements; 88% said they did not have the option to insist on a different job arrangement. People in situations like these make products that wealthy residents of the developed world use without thinking. In comparison to the conditions of child cocoa harvesters in West Africa or clothing seamstresses in South Asia, some of the Malaysian workers seem to have tolerable circumstances. And these examples still do not include people lucky enough to work in decent conditions in the United States, and yet those workers do not make a living wage. Investors ought to shift money away from companies engaging in poor social practices, and rather toward businesses operating mindfully of their supply chain, among many other social factors.[[19]](#endnote-19)

Corporate governance is the third traditional, significant concern for socially responsible investors. Effective governance benefits not only companies themselves, but also the investors, the economy, and society. The UK Corporate Governance Code recognizes certain principles essential to an effective company. Public disclosure of policies, stringent policies regarding conflicts of interest, clear voting policies, monitoring investments, periodic reports—each is an important principle. In order to invest in companies that are run well as well as financially strong and ethical, a responsible investment firm ought to take principles of governance into account. Investors should make sure a company has genuine balance sheets, voting procedures free of corruption, and a diverse and well-organized leadership. These metrics reflect a company’s responsibility as well as financial strength.[[20]](#endnote-20)

 Less-traditional conscious investing surveys stakeholders beyond shareholders, and employees are the first consideration. This concern overlaps somewhat with the social aspect of ESG, but it is much more specific. Working hours, maternity leave, pay structure, performance incentives—each presents an example of factors that concern a company’s employees. Experts like Jeff Cherry and Gabriel Thoumi believe that people and attitudes are perhaps the most important determinants of a business’s success. Thereupon, evaluating a company’s treatment of its employees ought to be a significant interest in conscious investing.

 Suppliers compose the second less-traditional factor of socially responsible investing. Again, this topic overlaps somewhat with the social factor of ESG, and again suppliers represent a more precise part. In many situations, companies face issues regarding sustainability and ethics not because of their own practices, but because of problems in the supply chain. Walmart itself may not have employed forced labor, but a contracted Louisiana seafood supplier down Walmart’s supply chain did. Apple may not directly have a pollution problem, but Foxconn, a contracted electronics manufacturer down Apple’s supply chain, did have such a problem.[[21]](#endnote-21) Corporations like Walmart and Apple ought to work with their supplier chain to make sure that contractors meet the same standards that the brand corporation espouses. If these companies monitor supplier activities, such as those regarding workers and pollution, they could provide the pressure and/or resources necessary for suppliers to correct the problems. Not only would these corrections provide for more sustainable business, but also they would reduce corporate risk to a public relations disaster. Once again, good business and responsible business line up together. The importance of suppliers affirms that investors should take this factor into account during their investment processes.

 Customers constitute the third stakeholder of conscious investing. Though this topic also overlaps with the social concern of ESG, this topic also narrows the focus. Moreover, many companies understand that long-term financial health requires caring for customers. Poor customer service and poor quality products may result in short-term profit, but often times such a strategy will fail in the long run. Listening to customers represents a learner’s attitude and a good business strategy. Because these attitudes are crucial, responsible investors should take into account how companies interact and care for customers.

**Convergence of Islamic Finance and SRI**

Principles of Islamic Finance cohere with socially responsible investing’s environmental, social, and governance concerns. Regarding the environment, Muslims must care for the planet, and to prioritize such concerns over profit. Planting a tree and sowing seeds that could someday benefit an animal or person are considered forms of charity. The Prophet Muhammad said, “If the Hour (the day of Resurrection) is about to be established and one of you was holding a palm shoot, let him take advantage of even one second before the Hour is established to plant it."[[22]](#endnote-22) Clearly, Islam emphasizes environmental concerns, which are also the first consideration of sustainable investing. Regarding social issues, Islamic finance emphasizes the rights and dignity of employees. Work is considered worship: workers should be treated with dignity. Clear contracts must be written and followed, and employees must be given what they are due.[[23]](#endnote-23) The Prophet said, "Give to the worker his wages before his sweat dries" and “Do not give them work that will overburden them and if you give them such task then provide them assistance."[[24]](#endnote-24) Islamic finance and socially responsible investing both noticeably stress social consciousness. Regarding governance, Islamic finance does not explicitly endorse specific items such as public reports or diverse boards, but the tradition does include principles that support such measures. The Qur’an emphasizes fairness and honesty in business. God says, in the holy book, “ Give full measure and do not be of those who cause loss [to others]. And weigh with an even [honest] balance.”[[25]](#endnote-25) The Prophet said, “Anyone who cheat us is not of us.”[[26]](#endnote-26) Regarding diversity, the Qur’an reads, “We have created you from male and female and made you peoples and tribes that you may know one another.”[[27]](#endnote-27) Consequently, both Islam and conscious investing emphasize fairness, honesty, and diversity.

**Business Structure**

Muslim Investment Management ought to be an independently operated firm owned by its stakeholders. Currently, several sharia-compliant financial firms operate in the United States and abroad. Many of these firms are owned by larger financial corporations, which do not operated under Islamic finance or SRI models. If not a subsidiary, the Islamic firms usually employ an outside portfolio manager to actually run their funds. Amana Mutual Funds, some of the most popular sharia-compliant in the United States, are owned and operated by a non-Muslim firm which also runs other funds that are not sharia-compliant.[[28]](#endnote-28) Azzad Asset Management, a successful boutique investment company, is not owned by an outside company. Yet, the firm employs six outside capital managers.[[29]](#endnote-29) Circumstances of external ownership and/or management present both a financial and ethical issue. Not only do such situations create unnecessary costs, but also they prevent Islamic and socially responsible investing from presenting a real alternative. Fund managers that operate under the ownership of the main stakeholders, like Longleaf, tend to produce better returns and be more responsible.[[30]](#endnote-30) In order to thrive independently and show a better economic system, Muslim Investment Management ought to be owned by its employees, clients, and investors.

 Sharia-compliant investment should additionally retain a sharia-compliance board. Financial transactions can be complicated; the fiqh of Islamic finance can be extremely complicated. In order to ensure adherence to sharia, Muslim Investment Management needs credible scholars to review and continually assess the firm’s practices. Retaining a board of experts, who understand fiqh and finance, not only reduces the risk of violating the sharia, but also it increases the credibility of the business.

**Investment Strategy**

Investors should use a two-pronged, positive and negative investment strategy. Jupiter Ecology, a socially responsible investment firm that consistently outperforms it benchmark, employs such a strategy. The company avoids directly investing in irresponsible firms, such as indiscriminate polluters or cruel employers, and rather focuses on primarily investing in firms pursuing environmental or social change. Alcohol companies and oil producers are shirked in favor of wind energy manufacturers and organic food businesses. Seeking out budding leaders in sustainability enables Jupiter Ecology to make great investments as well as fund positive change. While complying with the rules of Islamic finance, Muslim Investment Management should adopt this financially and ethically successful strategy.[[31]](#endnote-31)

 Potential investee companies should be evaluated for sustainability on a net positive system based on several metrics. Sustainable Asset Management, which controls one of the largest SRI funds, employs a five-step evaluation process that analyses economic, environmental, and social information. Calvert, perhaps the largest American SRI fund manager, evaluates companies across seven standards: governance and ethics, workplace, product safety and impact, human rights and international operations, indigenous rights, as well as community relations. Muslim Investment Management should give relative ratings to firms across similar categories. Environment, workplace, safety, governance, community, impact—each could serve as valuable metrics. Different factors would receive different weights. After tabulating the ratings and aggregating the scores, investors would compare businesses to see which achieve the most in regards to sustainability. Employing metrics and weighted scores would enable Muslim Investment Management to better make sustainable investments.[[32]](#endnote-32)

 Investors should select securities based on four criteria: growth, real value, dividends, risk, and price. Expected future growth regarding price, value, income, and dividends bear a large effect on an investment’s current valuation.[[33]](#endnote-33) The extent of the expected growth, both in terms of time and size, greatly impacts a share’s worth.[[34]](#endnote-34) In regards to real value, a firm should not have more than 1/3 of its valuation in debt. Assets ought to maintain a maximum ratio in relation to liabilities; experts like Benjamin Graham recommend 1.5 times more assets.[[35]](#endnote-35) Dividends are also important and should be sought out. They provide revenue and also demonstrate a profitable venture. However, companies with higher growth rates tend to pay little to no dividends.[[36]](#endnote-36) Moreover, risk represents a key category. Although risk is incredibly hard to measure, past percentage swings in prices can sometimes be used to make an educated guess.[[37]](#endnote-37) The science is inexact, as past behavior is not necessarily an accurate indicator of future behavior. David Swensen contends more risk presents an opportunity for more reward.[[38]](#endnote-38) Finally, the price of a share matters a great deal in investment reasoning. An investor should designate a price to asset ratio above which the investor will not purchase a stock. Graham recommends price should not be more than 120% of asset value.[[39]](#endnote-39) Furthermore, the price to earnings ratio is an interesting metric that combines price and income in order to gauge worth and potential growth. Higher P/E ratios present much more risk as well as reward. Investor should set a cap ratio above which they will not buy a security. Robert Shiller contends that firms with ratios well over 20 generally do poorly, while firms with ratios below ten fare financially well.[[40]](#endnote-40) Muslim Investment Management ought to assess securities across these metrics in order to engage in successful financial analysis.

 Muslim investors ought to build diversified funds around five asset classes: domestic equity, foreign developed equity, foreign emerging equity, real estate, and precious metals. Domestic equity, or stocks in American companies, presents some of the safest and strongest investments. Historically U.S. indexes have done very well financially: American companies often represent stability, profit, and growth. Foreign developed equity, or stocks in industrialized markets such as Germany, is a healthy alternative to U.S. stocks and offers similar safety and returns. Foreign emerging equity, or stocks in less developed markets such BRICS nations, is an opportunity for greater reward, though at the cost of greater risk. Emerging markets can rise and fall much faster than developed markets. Real estate, often acquired through real estate investment trusts (REITs), offers a hedge against inflation as well as a potential sector for strong growth. Muslim investors ought to be cautious: some REITs operate via equity and some via mortgages, the latter of which conflict with sharia. Finally, precious metals protect against inflation and serve as a substitute for bonds, which generally Islamic finance forbids. Gold and silver are the traditional sources of wealth, and present a sound alternative to the fiat money of an interest-based economic system. Investments across the asset classes will diversify a portfolio, protect against risk, and facilitate stronger returns.[[41]](#endnote-41)

 The sharia-compliant, SRI investment firm should offer enterprising, moderate, and conservative funds. Firstly, an enterprising fund would consist mostly of the three types of equity, as well as of real estate. The portfolio could be balanced as 50% U.S. equity, 25% foreign developed equity, 15% foreign emerging equity, and 10% real estate. These different categories provide chances to invest in sustainability leaders as well as to produce strong, diversified returns. Secondly, a moderate portfolio would be similarly constructed but with less money striving for growth and more funds protecting against inflation. This fund could consist of 35% U.S. equity, 25% real estate, 20% foreign developed equity, 10% foreign emerging equity, and 10% metals. Thirdly, a conservative fund would put more funds towards safer growth and against inflation, as well as less money toward quick returns. This portfolio could include 30% U.S. equity, 30% real estate, 20% metals, 15% foreign developed equity, and 5% foreign emerging equity. These three funds provide diverse options from which clients could choose to pursue sustainable growth depending on their needs and timelines.

**Potential for Success**

Ethical investing, as a combination of sharia-compliance and social responsibility, has a large potential clientele. As of 2013, the global sharia-compliant sector held 1.6 trillion dollars in assets. Most of those assets are held oversees, though several billion are in the United States.[[42]](#endnote-42) The Amana Mutual Funds, some of the largest sharia-compliant instruments in America, hold roughly $3 billion in assets. Most of the shareholders are actually not Muslim.[[43]](#endnote-43) Attracted by the ethical values of the firm, conscious people choose to buy the mutual fund. Given that the market for socially responsible investing held nearly 4 trillion dollars in assets as of 2012, the total market for ethical investing appears quite large.[[44]](#endnote-44) Moreover, both parts of the sector continue to grow. Both at a national and international level, Muslim Investment Management has a market as well as the possibility to scale.

Investing in a sharia-compliant and socially responsible way, in combination with thorough financial analysis, can yield returns equivalent to or higher than market averages. Sustainability continues to increase its importance as a metric in financial evaluations every year. Leaders across multiple industries also are often leaders in sustainability. For example, Apple spearheads electronics companies in both financials and socially responsible business. Because more sustainable practices can result in reduced costs, risks, or waste, these practices can provide a competitive advantage. Externalities such as environmental change or public pressure emphasize more responsible practices; such changes can create brand value. This shift presents a business megatrend—companies should adapt or be pushed aside.[[45]](#endnote-45) Furthermore, studies in regards to the impact of values investing on investment returns indicate that profit ought to be on par with the market averages. Some evidence even indicates that ESG may provide enhanced revenue.[[46]](#endnote-46) The financial success of firms such as Jupiter Ecology and Generation Investment Management bolster these claims. Rather than be concerned ethical investing may reduce returns, investors should see values as a potential advantage.

 One Muslim investment firm may not individually solve the injustices of the economic system; however, Muslim Investment Management can have an impact and offer an alternative. Unless the sharia-compliant and ethical investor grows into one of the largest funds in the world, it will alone be able to fund neither perfectly fair banking nor enough clean energy to avoid environmental disaster. Nevertheless, some progress will be made in moving toward positive change, depending on the size of Muslim Investment Management. Perhaps more importantly, financial success for the company could illustrate to large institutional investors and the general public that profit does not require the sacrifice of morality, nor vice versa. Muslim investing, incorporating sharia and SRI models, could drive positive change and create a true alternative.

**Challenges**

Islamic finance’s broadest challenge is adhering to both the letter of the law and the spirit of the law. For example, a sharia-compliant commodity loan, often taken out by businesses, involves a bank selling commodities, in installments and at a premium, to a client. Because the commodities are easily convertible to currency, many traditional scholars perceive this as equal to an ordinary credit transaction.[[47]](#endnote-47) Similarly, supposedly sharia-compliant hedge funds are replacing the speculative practice of short selling by drawing up contracts of sale months before the execution date.[[48]](#endnote-48) Technically the transaction becomes permissible, but morally and economically it’s almost the same. Muslim Investment Management ought to follow the stated vision of funding sustainability and presenting an alternative. Rather than create a bubble of technical legal permissibility within an ocean of impermissibility, investors ought to strictly stick to the noble goals. The Prophet Muhammad said, “That which is lawful is clear and that which is unlawful is clear, and between the two of them are doubtful matters about which many people do not know. Thus he who avoids doubtful matters clears himself in regard to his religion and his honor, but he who falls into doubtful matters [eventually] falls into that which is unlawful.”[[49]](#endnote-49) Muslims should heed the Messenger’s advice.

 Sharia-compliant investing faces another challenge in regards to scholarship. Scholars of Islam hold a wide variety of diverse opinions. Jurists of the classical scholastic tradition agree that the fundamentals of the faith are universally true by consensus of the scholars, and they also agree that there are valid differences of opinion regarding many minutia. Islam, as a faith of 1.6 billion people, incorporates a huge degree of pluralism. However, banking systems and international finance desire standardization and universal rules. With a subject as detailed, subtle, and complex as Islamic finance, such a standard is very hard to achieve.[[50]](#endnote-50) Moreover, not enough scholars currently work in this field. A 2008 report suggested that perhaps only 20 people are fully qualified for such a task, which seriously puts into question the validity of current boards and supposedly sharia-compliant companies.[[51]](#endnote-51) Companies engaging in sharia-compliant finance must pursue the expensive, expansive screening of investments, find qualified scholars who understand the complexity of the issues in all regards, and retain as well as finance the talent and the process.[[52]](#endnote-52) In short, the modern state of Muslim scholarship poses unique, albeit surmountable, challenges to Muslim Investment Management.

**Conclusion**

Muslim Investment Management, formed as a sharia-compliant and socially responsible investor, could succeed as a business and an agent of change. Ethical investing holds moral superiority over traditional investing. Academic research and real world businesses suggest conscious investing also holds financial superiority. Sharia and SRI principles provide ethics and safety. Combined with thorough financial analysis and well-constructed investment products, these value systems could yield strong returns. Not only would independent Muslim investors enable greater profit, but also they would insulate against the unsustainability and immorality of the larger system. Moreover, if individuals and companies endow Islamic educational institutions, over time a larger pool of experts will be available to help the businesses. Instituting these ideas provides both a good business and a moral alternative. Perhaps Muslim Investment Management will be the catalytic step towards more prosperous and more just economics.

1. Seckan, Bakary. "Confidence in Banks, Financial Institutions And Wall Street, 1971-2011." *Journalist's Resource*. N.p., 27 Mar. 2012. Web. 26 Nov. 2014. [↑](#endnote-ref-1)
2. Erman, Michael. "Five Years after Lehman, Americans Still Angry at Wall Street: Reuters/Ipsos Poll." *Reuters*. N.p., 15 Sept. 2013. Web. 26 Nov. 2014. [↑](#endnote-ref-2)
3. Krugman, Paul. "The Mutilated Economy." *The New York Times*7 Nov. 2013 Web. [↑](#endnote-ref-3)
4. Desilver, Drew. U.S. Income Inequality, on the Rise for Decades, is Now Highest since 1928. Pew Research Center, 2013. Web.. [↑](#endnote-ref-4)
5. Malcolm, Hadley. "A Third of Americans Delinquent on Debt." USA Today. 29 July 2014 Web [↑](#endnote-ref-5)
6. Vikør, Knut S. . "Sharīʿah." In The [Oxford] Encyclopedia of Islam and Law. Oxford Islamic Studies Online. 14-Oct-2014. [↑](#endnote-ref-6)
7. Rabb, Intisar. "Fiqh." In The Oxford Encyclopedia of the Islamic World. Oxford Islamic Studies Online. 14-Oct-2014. [↑](#endnote-ref-7)
8. Masud, Muhammad Khalid , Joseph A. Kéchichian, Brinkley Messick, Joseph A. Kéchichian, Ahmad S. Dallal and Jocelyn Hendrickson. "Fatwā." In The Oxford Encyclopedia of the Islamic World. Oxford Islamic Studies Online. 14-Oct-2014. [↑](#endnote-ref-8)
9. Rabbani, Farraz. "Money Matters." Islamic Finance in Everyday Life. Seekers Guidance. Web. [↑](#endnote-ref-9)
10. Ibid. [↑](#endnote-ref-10)
11. Visser, Wayne A. M., and Alastair MacIntosh. "A Short Review of the Historical Critique of Usury." Accounting History Review 8.2 (1998): 175-90. [↑](#endnote-ref-11)
12. "Fast Facts-Payday Loans." *Center for Responsible Lending*. N.p., n.d. Web. 27 Nov. 2014. [↑](#endnote-ref-12)
13. Bälz, Kilian . "Islamic Finance." In The [Oxford] Encyclopedia of Islam and Politics. Oxford Islamic Studies Online. 14-Oct-2014. [↑](#endnote-ref-13)
14. Rabbani, Farraz. "Money Matters." [↑](#endnote-ref-14)
15. *Inquiry into the Design of a Sustainable Financial System: Policy Innovations for a Green Economy*. Rep. United Nations Environment Programme, n.d. Web. 27 Nov. 2014. [↑](#endnote-ref-15)
16. Fulton, Mark, and Reid Capalino. *Investing in the Clean Trillion: Closing The Clean Gnergy Investment Gap*. Rep. Ceres, Jan. 2014. Web. 27 Nov. 2014. [↑](#endnote-ref-16)
17. Ibid. [↑](#endnote-ref-17)
18. *Inquiry into the Design of a Sustainable Financial System: Policy Innovations for a Green Economy*. [↑](#endnote-ref-18)
19. *Forced Labor in the Production of Electronic Goods in Malaysia: A Comprehensive Study of Scope and Characteristics*. Rep. Verité, 17 Sept. 2014. Web. 28 Nov. 2014. [↑](#endnote-ref-19)
20. *The UK Stewardship Code*. Rep. Financial Reporting Council, Sept. 2012. Web. 28 Nov. 2014. [↑](#endnote-ref-20)
21. Mozer, Paul. "China Scrutinizes 2 Apple Suppliers in Pollution Probe." *Wall Street Journal*. N.p., 4 Aug. 2013. Web. 28 Nov. 2014. [↑](#endnote-ref-21)
22. Siddiqi, Muzammil. "Rights of Workers in Islam." *OnIslam*. N.p., 1 May 2014. Web. 28 Nov. 2014. [↑](#endnote-ref-22)
23. Qur’an 51:56; Rabbani, Farraz. "Money Matters." [↑](#endnote-ref-23)
24. Siddiqi, Muzammil. "Rights of Workers in Islam."  [↑](#endnote-ref-24)
25. Qur’an 26:181-182 [↑](#endnote-ref-25)
26. Siddiqi, Muzammil. "Rights of Workers in Islam."  [↑](#endnote-ref-26)
27. Qur’an 49:13 [↑](#endnote-ref-27)
28. "Our Funds." *Saturna Capital*. N.p., n.d. Web. 29 Nov. 2014. [↑](#endnote-ref-28)
29. "Meet The Managers." *Azzad Asset Management*. N.p., n.d. Web. 29 Nov. 2014. [↑](#endnote-ref-29)
30. Graham, Benjamin, and Jason Zweig. *The Intelligent Investor*. New York: Collins Business Essentials, 2006. 250. Print. [↑](#endnote-ref-30)
31. Krosinsky, Cary, Nick Robins, and Stephen Viederman. *Evolutions in Sustainable Investing Strategies, Funds & Thought Leadership*. Hoboken, NJ: Wiley, 2012. 12-17, 24 Print. [↑](#endnote-ref-31)
32. Krosinsky, Cary, Nick Robins, and Stephen Viederman. *Evolutions in Sustainable Investing Strategies, Funds & Thought Leadership*. 55-63, 96-102. [↑](#endnote-ref-32)
33. Malkiel, Burton G. *A Random Walk Down Wall Street*. 10th ed. New York, NY: WW Norton &, 2012. Print. [↑](#endnote-ref-33)
34. Ibid. [↑](#endnote-ref-34)
35. Graham, Benjamin, and Jason Zweig. *The Intelligent Investor*. 385-6. [↑](#endnote-ref-35)
36. Malkiel, Burton G. *A Random Walk Down Wall Street*. [↑](#endnote-ref-36)
37. Ibid. [↑](#endnote-ref-37)
38. Swensen, David F. *Unconventional Success*. New York: Free, 2005. Print. [↑](#endnote-ref-38)
39. Graham, Benjamin, and Jason Zweig. *The Intelligent Investor*. 386. [↑](#endnote-ref-39)
40. Ibid. 85-86. [↑](#endnote-ref-40)
41. Swensen, David F. *Unconventional Success*. [↑](#endnote-ref-41)
42. Caulderwood, Kathleen. "Could Shariah-Compliant Banking Change The Finance World This Year?" *International Business Times*. N.p., 7 Feb. 2014. Web. 29 Nov. 2014. [↑](#endnote-ref-42)
43. Randall, David K. "Islamic Fund Star." *Forbes*. N.p., 21 Jan. 2010. Web. 29 Nov. 2014. [↑](#endnote-ref-43)
44. Woll, Lisa. *US Sustainable, Responsible and Impact Investing Trends*. Rep. The Forum for Sustainable and Responsible Investment, 2014. Web. 30 Nov. 2014. [↑](#endnote-ref-44)
45. Krosinsky, Cary, Nick Robins, and Stephen Viederman. *Evolutions in Sustainable Investing Strategies, Funds & Thought Leadership*. 1-8. [↑](#endnote-ref-45)
46. Ibid. 432. [↑](#endnote-ref-46)
47. Bälz, Kilian . "Islamic Finance." [↑](#endnote-ref-47)
48. Burroughes, Tom. "The Risks and Rewards from the Explosive Growth in Sharia Finance." *The Business*: 1. Feb 2, 2008. *ABI/INFORM Trade & Industry.*Web. [↑](#endnote-ref-48)
49. Nawawi. "Hadith 6." *40 Hadith*. N.p.: n.p., n.d. N. pag. *Sunnah*. Web. 30 Nov. 2014. [↑](#endnote-ref-49)
50. Ibid. [↑](#endnote-ref-50)
51. Rarick, Charles A., and Thaung Han. "Islamic Finance: Panacea for the Global Financial System?" The Journal of Applied Business and Economics 11.3 (2010): 27-32. ABI/INFORM Complete. Web. [↑](#endnote-ref-51)
52. Shariah-Compliant Funds: A Whole New World of Investment. Ed. Maya Bhatti. PricewaterhouseCoopers. Web.

Works Cited

Bälz, Kilian . "Islamic Finance." In The [Oxford] Encyclopedia of Islam and Politics. Oxford Islamic Studies Online. 14-Oct-2014.

Burroughes, Tom. "The Risks and Rewards from the Explosive Growth in Sharia Finance." *The Business*: 1. Feb 2, 2008. *ABI/INFORM Trade & Industry.*Web.

Caulderwood, Kathleen. "Could Shariah-Compliant Banking Change The Finance World This Year?" *International Business Times*. N.p., 7 Feb. 2014. Web. 29 Nov. 2014.

Desilver, Drew. U.S. Income Inequality, on the Rise for Decades, Is Now Highest since 1928. Pew Research Center, 2013. Web.

Erman, Michael. "Five Years after Lehman, Americans Still Angry at Wall Street: Reuters/Ipsos Poll." *Reuters*. N.p., 15 Sept. 2013. Web. 26 Nov. 2014.

"Fast Facts-Payday Loans." *Center for Responsible Lending*. N.p., n.d. Web. 27 Nov. 2014.

*Forced Labor in the Production of Electronic Goods in Malaysia: A Comprehensive Study of Scope and Characteristics*. Rep. Verité, 17 Sept. 2014. Web. 28 Nov. 2014.

Fulton, Mark, and Reid Capalino. *Investing in the Clean Trillion: Closing The Clean Gnergy Investment Gap*. Rep. Ceres, Jan. 2014. Web. 27 Nov. 2014.

Graham, Benjamin, and Jason Zweig. *The Intelligent Investor*. New York: Collins Business Essentials, 2006. Print.

*Inquiry into the Design of a Sustainable Financial System: Policy Innovations for a Green Economy*. Rep. United Nations Environment Programme, n.d. Web. 27 Nov. 2014.

Krosinsky, Cary, Nick Robins, and Stephen Viederman. *Evolutions in Sustainable Investing Strategies, Funds & Thought Leadership*. Hoboken, NJ: Wiley, 2012. Print.

Krugman, Paul. "The Mutilated Economy." *The New York Times*7 Nov. 2013 Web.

Malcolm, Hadley. "A Third of Americans Delinquent on Debt." USA Today. 29 July 2014 Web

Malkiel, Burton G. *A Random Walk Down Wall Street*. 10th ed. New York, NY: WW Norton &, 2012. Print.

Masud, Muhammad Khalid , Joseph A. Kéchichian, Brinkley Messick, Joseph A. Kéchichian, Ahmad S. Dallal and Jocelyn Hendrickson. "Fatwā." In The Oxford Encyclopedia of the Islamic World. Oxford Islamic Studies Online. 14-Oct-2014.

"Meet The Managers." *Azzad Asset Management*. N.p., n.d. Web. 29 Nov. 2014.

Mozer, Paul. "China Scrutinizes 2 Apple Suppliers in Pollution Probe." *Wall Street Journal*. N.p., 4 Aug. 2013. Web. 28 Nov. 2014.

Nawawi. "Hadith 6." *40 Hadith*. N.p.: n.p., n.d. N. pag. *Sunnah*. Web. 30 Nov. 2014.

"Our Funds." *Saturna Capital*. N.p., n.d. Web. 29 Nov. 2014.

Rabb, Intisar. "Fiqh." In The Oxford Encyclopedia of the Islamic World. Oxford Islamic Studies Online. 14-Oct-2014.

Rabbani, Farraz. "Money Matters." Islamic Finance in Everyday Life. Seekers Guidance. Web.

Randall, David K. "Islamic Fund Star." *Forbes*. N.p., 21 Jan. 2010. Web. 29 Nov. 2014.

Rarick, Charles A., and Thaung Han. "Islamic Finance: Panacea for the Global Financial System?" The Journal of Applied Business and Economics 11.3 (2010): 27-32. ABI/INFORM Complete. Web.

Seckan, Bakary. "Confidence in Banks, Financial Institutions And Wall Street, 1971-2011." *Journalist's Resource*. N.p., 27 Mar. 2012. Web. 26 Nov. 2014.

Shariah-Compliant Funds: A Whole New World of Investment. Ed. Maya Bhatti. PricewaterhouseCoopers. Web.

Siddiqi, Muzammil. "Rights of Workers in Islam." *OnIslam*. N.p., 1 May 2014. Web. 28 Nov. 2014.

Swensen, David F. *Unconventional Success*. New York: Free, 2005. Print.

*The UK Stewardship Code*. Rep. Financial Reporting Council, Sept. 2012. Web. 28 Nov. 2014.

Vikør, Knut S. . "Sharīʿah." In The [Oxford] Encyclopedia of Islam and Law. Oxford Islamic Studies Online. 14-Oct-2014.

Visser, Wayne A. M., and Alastair MacIntosh. "A Short Review of the Historical Critique of Usury." Accounting History Review 8.2 (1998): 175-90.

Woll, Lisa. *US Sustainable, Responsible and Impact Investing Trends*. Rep. The Forum for Sustainable and Responsible Investment, 2014. Web. 30 Nov. 2014. [↑](#endnote-ref-52)