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Islamic Finance and SRI: Two investment approaches that have weathered the global economic crisis better than most

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Outlook for Islamic Finance

Islamic Finance and Socially Responsible Investing (SRI) are receiving considerable attention in the financial press. Islamic Finance is a banking system and investment approach that adheres to the principles of Islamic law (sharia). Most notably this includes the sharing of profit and loss, prohibition against investing in certain types of businesses and charging a fee for lending money. In the last decade Islamic Finance has exceeded 10% annual growth. Latest figures from ISFL (International Financial Services London) estimate that the global market size was \$729 billion at the end of 2007. All financial institutions have been hit by the current crisis since then, but numerous analysts agree that the outlook for Islamic Finance remains positive. Indeed, there is a growing trend amongst Western financial institutions, especially in France in the UK, to push harder to attract investment from Middle East and Muslim Asia.

SRI: Safe haven investments amidst global crisis

SRI is an investment management approach which integrates Environmental, Social and Governance (ESG) criteria in traditional financial analysis. Despite having less framework and detailed rules than Islamic Finance, SRI shares a focus on non-economic factors in its economic and social principles. According to the Social Investment Organization, SRI is seeing considerably lower shareholder redemption rates than conventional funds – strong evidence that suggests investors are committed to SRI for the long-term. Also, it is reported across the board that in the last few years SRI assets have been increasing at a higher rate than other professional managed assets. In France for example, SRI continues to grow despite the current economic turmoil with total assets amounting to 30 billion EUR at the end of 2008 (up 37% from 2007).

Bounce back potential

Economies around the world will bounce back from today's tough times, but confidence in conventional banking won't. This means that traditional banking's long term prospects have been damaged and many people and institutions will look for alternatives. Islamic finance and SRI have somewhat resisted the economic downturn, and may prove to be in the long run, a popular choice to those looking for more sustainable investment solutions.

Novethic's working paper explores crossover between SRI and Islamic Finance

Although SRI as it is applied in France today has grown into a strategy in its own right, it stems from a desire to transcribe the religious beliefs of both individual and institutional investors into financial practices, like Islamic finance. Novethic's SRI research centre examined the crossover between these two investment universes and assessed the following issues:

- How do these investment strategies play off each other?
- Can the religious precepts of Islamic finance compare with those that founded ethical finance in predominantly Protestant and/or Catholic countries?
- If so, could the extension of Islamic finance throughout the Muslim world suggest any potential for the subsequent development of SRI as we know it in France today?

Click here to read the free working paper in full now:

http://www.novethic.com/novethic/v3_uk/upload/Islamic_Finance_and_SRI_Working_Paper.pdf

About Novethic: As the sole source of analytical and statistical information on the French SRI market, Novethic is the leading research center in France on Socially Responsible Investment (SRI) and Corporate Social Responsibility (CSR). Created in 2001 as a subsidiary of Caisse des Dépôts, Novethic produces research studies and organizes events to mobilize business leaders, investors and NGOs on these key issues related to CSR and SRI. Visit www.novethic.com