



*Can centuries-old religious law incorporate  
modern investment theory?  
A new generation is exploring the possibilities*

BY SUSAN TRAMMELL, CFA



One of the more unusual developments in finance in 2004 (or 1425, according to the Islamic calendar) was the introduction of the first fund of hedge funds compliant with the principles of Shariah, or Islamic law. If the announcement caught some in the investment community off guard, it was old news to those who had been following the evolution of Islamic finance.

The fund itself, Shariah Equity Opportunity Fund Ltd., had been in development for more than two years. Eric Meyer, president and chief executive of Shariah Funds Inc., based in New Canaan, Conn., tapped four prominent Shariah scholars on three continents to approve investment strategies whose methodologies might differ from conventional short sales, derivatives, and leverage but whose fiscal result would be similar. The fund went to market late in the year and reportedly set a goal of US\$200 million initial close.

An Islamic fund of hedge funds is only the latest milestone in the development of Islamic finance, an opportunity lying somewhere between US\$200 billion and \$300 billion, depending on the source. The first formal step to bring Islamic finance into the mainstream began in 1971 with the establishment of the first commercial Islamic bank in Egypt. But it wasn't until Islamic banking initiatives were introduced in the Middle East in the mid-1970s that the concept took off.

## THE NEXT GENERATION



Although modern Islamic finance is effectively about 30 years old, Muslims have always been encouraged to conduct their banking and investment affairs according to the Shariah, the sacred law of Islam. Through the centuries, financial transactions conformed to Shariah principles, but the discovery of oil beneath Arab soil in the 1930s intensified the challenge of compliance in a global economy. The lack of viable Islamic financial products and services in many parts of the world required Muslims to finance their enterprises with cash and short-term instruments or acquiesce to the principle of necessity and resort to conventional products. The solution was the development of modern Islamic finance.

"This industry is now going through a third generation of evolution," says Yavar Moini, senior manager of Islamic structured finance at Dubai Bank. "It really started with the formation of Islamic banks in the Middle East in the mid-1970s. The majority of their assets were either real estate or very short-term, trading-type activities.

"From the mid-1980s to mid-1990s, you had the second generation, whereby Islamic banks were developing slightly more sophisticated corporate and retail banking structures, trying to come up with better products and a better level of service. From the mid- to late 1990s to present day is really the third generation of institutions. Now you're actually getting quite sophisticated product offerings."

The first Islamic investment bank was founded in Bahrain in 1997. Since then, several Western banks have set up Islamic windows, including UBS Group's Noriba Bank, Citigroup's Citi Islamic Investment Bank, and HSBC Amanah Finance. It is not unusual to find conventional banking models operating side by side with Islamic banking systems. ISF's Moini is in the process of setting up an Islamic asset management program. Dubai Bank will retain its conventional commercial banking operations.

Islamic financial institutions typically offer such traditional Islamic banking services as investments in *murabaha* (installment sales), equity investments that conform to Shariah precepts, and real estate investment programs, as well as treasury products, foreign exchange, and private wealth and portfolio management.

"Islamic investors have become very aware of the investment opportunities that are available globally," says Farhan Mahmood, CFA, director of asset management at UBS Bank (Canada) in Toronto. "They want to have returns that are commensurate, or better than commensurate, with conventional banking returns but at the same time comply with the Shariah." Conventional bankers and traders structure products within parameters set by their firms' Shariah advisory boards. "You've



got very good collaboration between the boards and conventional banking specialists,” Mahmood points out, “which is providing the platform and the tools needed to bring out new, innovative products that satisfy the demands of the investor base but also comply with Shariah guidelines.”

## RISK SHARING



Contrary to popular perception, Islamic banking is not monolithic, nor can Islamic finance be neatly summed up as a prohibition against charging interest (*riba*), as it is often portrayed in the media.

“Islamic finance is based on the premise that interest is prohibited in Islamic law, but this is a controversial issue,” says Bashir Ahmed, CFA, a financial training consultant in Toronto. “Commentators on the Qur’an have defined *riba* in various ways, ranging from usury to bank interest. So, in practice, it depends on the interpretation of the Islamic law.”

Investing according to the Shariah involves a complex set of rules that aim to level the playing field between counterparties in a transaction while promoting a sound work ethic. “The underlying principle of Islamic finance is that there has to be a return that is commensurate with the risk involved,” explains UBS’s Mahmood. “There must be risk sharing and an equal risk-reward opportunity rather than having a fixed, predetermined rate of interest.”

*Riba*, as described in Islamic jurisprudence, is a forced, or demanded, exchange of quantities that gives one party an advantage over another. Because it can be predatory, *riba* is considered unjust. For example, *riba* in a loan is prohibited because the lender is guaranteed a profit whether the borrower has gained or lost on the transaction. Conventional mortgages are regarded as exploitative in part because the mortgage-holder does not share in the homeowner’s risk.

Money earned on money, rather than money earned by working or by making acceptable investments, is also considered incompatible with the Shariah. This takes conventional corporate and treasury bonds, money market, and mutual funds off the table. What’s left? *Mudarabah* (profit sharing) and *musharakah* (equity participation), the twin pillars of Islamic banking.

## THE PRINCIPLE OF MUDARABAH



*Mudarabah* is a profit-and-loss-sharing contract whereby a professional manages the capital of a group of investors. In Islamic banking, the bank acts as a *mudarib* (entrepreneur-borrower) and manages the funds of the depositors in order to generate profits, in which the depositors share. The bank uses the depositors’ funds on a *mudarabah* (profit-sharing) basis. That is, the bank acts as both the entrepreneur-borrower on the saving side of the equation and as the *rabbul-mal* (owner of capital) on the bank’s investment, or asset portfolio, side. To generate a return, the bank receives a share of the profits or bears the losses generated by the business ventures it undertakes. The proportions are negotiated between the banker and the entrepreneur-borrower prior to the transaction. Given that the bank stands on both sides of the equation in this profit-and-loss-sharing arrangement, Islamic banking from the perspective of the banks is riskier than conventional banking.

The marrying of *mudarabah* to modern finance has led to the creation of mutual funds that invest in securities filtered for Shariah compliance. Thanks to computing power and the development of proprietary software programs, fund managers are able to screen the balance sheets of thousands of companies to determine what portion, if any, of their income is derived from *haram*, or prohibited sources. Undesirable

## Excerpts from *Guide to Understanding Islamic Investing*

### INVITATION TO INVEST

The Qur’an, the sacred scripture of Islam, encourages believers to engage in beneficial trade and to invest. It even uses the language of finance to urge Muslims toward piety...

The Qur’anic verses supporting investing and trade leave many questions unanswered.

Muslim religious scholars turn to the Sunnah, or the collection of the words and actions of the Prophet Muhammad, for guidance. From the Sunnah it is clear that the Prophet advocated and practiced a form of equity partnership investing called *musharakah* (Bukhari 3,44,678 and elsewhere).

In fact, when Muhammad and his followers left Mecca and migrated to Medina to escape persecution, the Prophet put each refugee in commercial partnership with a local believer to

ensure the livelihood of the impoverished emigrant. From these instances and many others, Muslim scholars deduce that the preferred form of investing is equity participation, or ownership of a share of net assets.

Does this precedent mean that Islam advocates investing in the modern stock market? Most religious scholars say yes. Though *musharakah* is different in some ways from owning shares in a modern corporation, the principle of equity participation is essentially the same.

### HALAL VS. HARAM

Like other investors, Muslims look for stocks, stock mutual funds, and real estate to add to their portfolios. But, before they buy, they must determine if a specific investment is permissible.



lines of business include alcohol, gambling, interest-based financial products, pork-related products, and pornography. (See the accompanying sidebar on Islamic investing.)

Broad market indexes, such the FTSE Global Islamic Index and the Dow Jones Islamic Market (DJIM) index series, provide plenty of passive investment opportunities in accordance with Shariah precepts. Since the DJIM appeared in late 1998, for example, more than 60 other Islamic indexes have been introduced under the Dow Jones umbrella.

“The DJIM has become the benchmark for Islamic equity investing,” says Rushdi Siddiqui, global director of the Dow Jones Islamic Market Index Group. “A number of factors have caused the DJIM to gain market traction over the past six years. The first is our Shariah board, which is composed of world-class scholars from six countries. The second is the high correlation of our indexes to their conventional counterparts in performance. And, of course, there is the Dow Jones brand.”

One measure of the growing importance of the Islamic mutual fund industry is that it has gained enough traction to have its own scorekeeper. The performance of both actively and passively managed Islamic mutual funds worldwide is tracked by Failaka International, Inc., a Chicago-based market research house and sponsor of Islamic financial events.

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**FARHAN MAHMOOD, CFA**  
Director of Asset Management  
UBS Bank

Islamic Shariah, or Islamic law, requires that before investing in a company, Muslims must evaluate its business activities....

Industry sectors that generally don't manufacture or market forbidden products are considered halal, and are acceptable for Muslim investors....

Islamic law identifies business activities as haram when they generate profits in unacceptable ways. Haram business activities include the manufacture or marketing of any of these products: alcohol, gambling or gaming activities, interest-based financial products, pork, and pornography.

Other businesses, such as those that harm the environment, have poor track records with regard to labor or developing countries, or produce and market tobacco, weapons, or defense products, may also be unacceptable to some Muslim investors.

## THE PRINCIPLE OF MUSHARAKAH



The second pillar of Islamic finance, musharakah, is similar to the conventional concepts of partnership and joint stock ownership. For example, Muslims seeking home financing at Shariah-compliant banks enter into contracts incorporating musharakah structures. The three most popular are declining-balance co-ownership, lease to own, and installment credit.

In a declining-balance shared-equity partnership, an Islamic financial institution and a homeowner jointly purchase the homeowner's property of choice. With each monthly payment to the partnership, the institutional investor then transfers its portion of the equity to the homeowner. The allocation of a payment between rent and homeowner's equity is regularly adjusted, much the same as payments in a conventional mortgage are divided between interest and principal.

In a lease-to-own arrangement, the Islamic financing institution invests nearly the full purchase price in the customer's chosen home. As the property owner, it retains the right to transfer use of the property to the customer in exchange for lease payments. The institutional investor and the homeowner (lessee) enter into an agreement that obligates the investor to sell the house at the end of a fixed term to the customer, who is obligated to buy it. A portion of every lease payment is assigned to rent while the balance accrues to an account toward the home's purchase price.

Under an installment sale, or *murabaha*, contract, an intermediary buys the homeowner's property of choice and obtains clear and free title to the property. The homeowner and investor agree ahead of time to the price at which the investor will sell it to the customer, which will include a profit on the sale. The homeowner may then purchase the property from the intermediary with a lump-sum payment or through a series of deferred payments.

### GETTING TO THE CORE

Islamic legal scholars use several conventions to determine when a business activity is a core source of revenue and when it is not. The 5 percent rule says that a core business is one that accounts for more than 5 percent of a company's revenue, or gross income. For example, if the sale of explosives accounts for less than 5 percent of a chemical manufacturer's revenue, explosives are not a core business and investing in that company's stock is generally acceptable.

A somewhat less stringent rule sets the standard for a core business at 10 percent, and different Islamic scholars may set different limits.

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In a sign of the sector's growing importance in the United States, Federal Home Loan Mortgage Corporation ("Freddie Mac") and Federal National Mortgage Association ("Fannie Mae") have begun purchasing Islamic housing contracts. The government-chartered corporations are helping the housing finance industry identify products originated on musharakah structures whose terms and conditions make them suitable for the secondary market.

## INVESTMENT THEORY MEETS THEOLOGY



As new providers with expertise in Islamic finance enter the marketplace, the portfolio of "acceptable" financial products continues to grow. These vehicles have been approved for investment by experts in Islamic law whose interpretations of the Shariah are widely respected. The typical Shariah supervisory board of a fund will have three to five Shariah scholars, who cover a range of perspectives. Collectively, they issue the guidelines under which the fund's investments are made, monitor the fund for ongoing compliance, and alert the fund manager to issues sensitive to Islamic investing.

Islamic scholars look to several sources for their interpretation of the Shariah. The foremost of these sources is the Qur'an, or sacred scripture of Islam. The Qur'an provides support for the legitimacy of stock market investing by encouraging trade and investment, particularly through participation in musharakah. Other preferred forms of investment include real estate, pass-through securities, and private equity.

Investments are expected to generate a return, and Shariah-compliant products are no different. The most popular security in Islamic finance is the *sukuk*, or Islamic bond. An important element of evaluating a *sukuk* is its implied interest rate. This will be competitive with a conventional

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**GORDON SCOTT**  
Managing Director for Financial Institutions  
Fitch Ratings

bond of similar terms, but the transaction will be carried out in a way that enables all parties to participate in the profits (and the risk) of the offering.

In a typical *ijara sukuk* (leasing bond), the issuer will sell the bonds to an investor group, who will own them before renting them back to the issuer in exchange for a predetermined rental return. Like the interest rate on a conventional bond, the rental return may be a fixed or floating rate pegged to a benchmark, such as LIBOR. The issuer makes a binding promise to buy back the bonds at a future date at par value. Special purpose vehicles (SPV) are often set up to act as intermediaries in the transaction. A *sukuk* may be a new borrowing, or it may be the Shariah-compliant replacement of a conventional bond issue. The issue may even enjoy liquidity through listing on local, regional, or global exchanges.

In 2004, the Bahrain Monetary Authority (BMA) broke new ground with a 10-year *ijara sukuk*, the global Islamic banking industry's longest-term *sukuk*. To date, the maximum

## Excerpts from *Guide to Understanding Islamic Investing* (continued)

This reasoning applies to the Islamic prohibition on *riba*, or interest, as well. If a company's interest-based profits or holdings exceed certain limits, then investing in the company is forbidden. Even when these are found to be within tolerable limits, purification of earnings from these companies must take place.

### DEFINING RIBA

In Islamic law, *riba* is defined as excess, either in quantity or term, in the countervalues of whatever is exchanged — currency, commodities, goods, or anything else — in a variety of sales, purchases, swaps, or loans.... In one explanation, *riba* is forbidden because it is predatory or exploitative, and produces profit at another person's expense. Another view is that the prohibition applies to money made on money, as opposed to money made

by working or by investing through equity partnership or trade.

A related explanation is that *riba* in a loan is unjust because the parties involved — the lender and the borrower — enter a transaction on unequal terms, rather than as partners taking similar risks. That's because the lender is guaranteed a profit from interest whether the borrower gains or loses money.

### DOING THE MATH

Muslim analysts use different types of ratios to measure the amount of *riba* and to evaluate whether or not investment is permissible.... Some of the more common ratios include:

Ratios to measure the amount of a company's liquidity...

Ratios to measure a company's interest income...

Ratios to evaluate how much a company pays in interest on its corporate debt...



maturity had been five years, making such securities impractical for most corporate issuers. In another first, the sukuk is being offered in the Bahraini dinar rather than in US dollars. Denominating the offering in the local currency is fitting, as the Kingdom of Bahrain has taken a leading role in supporting the Islamic finance industry. The country hosts several key Islamic finance organizations, including the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the main standard-setting body for the Islamic banking and finance industry; Liquidity Management Centre; and International Islamic Financial Market.

## LIQUIDITY RISK AND OTHER CHALLENGES



Commercial and retail banks that service Shariah-compliant products are, by and large, still tuning their operations to bring up their performance to the level of conventional banking institutions. In his presentation to the World Islamic Banking Conference (WIBC) in December 2004, Taha Eltayeb Ahmed, head of Islamic finance at the Bahrain Institute of Banking and Finance, presented his analysis of 10 Islamic banks. Although there was wide variation in the banks' performance, the overall average return on equity from 2000 to 2003 was 12 percent, compared with 16 percent average ROE for banks of the Gulf Arab states. The Bank for International Settlements capital adequacy ratio for the sample group averaged 19 percent, although regulators require only 16 percent. The disparity indicated that some banks are making inefficient use of their equity capital. "There is nothing peculiar about an Islamic bank that makes it more or less profitable," Ahmed concluded. "It seems that the profitability of an Islamic bank depends on how well it is managed."

Other observers, however, do see problems peculiar to Islamic banking. By far, the most daunting problem facing the Islamic banking industry is liquidity risk. At the WIBC, Dr. Omar Marwan Kamal, executive manager of the Islamic Financial Services Group of Ernst & Young in Bahrain, points out that, compared with conventional banks, Islamic banks carry more than 9 percent excess liquidity. Liquidity management problems arise because many banks do not yet have the infrastructure to better match assets to liabilities.

"Because money is not treated as a commodity in Islamic finance," explains ISF's Moini, "80 percent of the balance sheets of most Islamic banks will be in murabaha-type assets [installment sales]. This is basically a buy-sell agreement. The general tenor of such transactions is six months to a year maximum. As a result, you can't securitize them. If you look at the banks' liquid assets ratio as a percentage of their overall assets, it will be much higher than their conventional counterparts."

To operate efficiently, banks must strike the right balance between revenue-generating assets with long durations and the ability to turn assets into cash quickly to meet short-term liabilities. Tackling the liquidity-management problem is made more difficult by an undeveloped secondary market for Shariah-compliant products, constraining the pool of investments that banks can tap to execute an efficient liquidity management program.

"Islamic financial institutions face more challenges than their conventional counterparts since they cannot invest in typical interest-bearing liquidity instruments," Gordon Scott told attendees during a May 2004 seminar organized by Fitch Ratings in association with the BMA. Scott, who is managing director for financial institutions at Fitch Ratings, also pointed out that a nascent interbank market for commodity-backed short-term transactions is developing.

Sometimes it's relatively easy to identify the gain that derives from riba, especially when investing in countries that require corporations to provide regularly updated financial information... Islamic schools do agree that where you can trace a portion of your investment income to riba, you must donate that portion to charity to cleanse your investment earnings.

### PURIFICATION OF MUTUAL FUND GAINS

One reason Islamic mutual funds appeal to Muslim investors is that the vast majority of these funds, both in the US and around the world, calculate the tainted income that makes up part of the fund's income distribution. Some funds also calculate tainted total return figures, which take into account purification ratios for both dividends and capital gains.

The fund reports these figures to their shareholders so that they can calculate the amount of their fund income to give to charity. In some cases, the fund itself handles the purification and distributes only acceptable income to its shareholders. In either case, this vastly simplifies the complexity of purifying investment income for individual investors.

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## A Great Leap Forward



Yavar Moini, 37, is working to bring Islamic finance into the mainstream.

Moini kicked off his career with an MBA from the Stern School of Business in New York City and then joined Citibank in his native Pakistan as a conventional corporate banker. But it was not until he joined First International Investment Bank (FIIB), a joint venture between American Express and a local business group, that he showed his flair for product innovation. At FIIB, which developed fixed-income products for the Pakistani market, he and his colleagues broke new ground by structuring the first corporate debt issue and first commercial paper issue in Pakistan.

Since FIIB was also a market maker, Moini found that he not only had to create the products but also try to develop a secondary market for them. The experience gave him a taste of the challenges he would later face in the Islamic banking industry, where the structure of most Shariah-compliant short-term instruments discourages secondary trading. The lack of acceptable, freely tradable money-market-type investments makes it difficult for banks to manage their liquidity.

Moini shifted his focus to Islamic finance when he left FIIB to join Islamic Development Bank (IDB) in Jeddah, Saudi Arabia. The IDB fosters the development of Muslim communities using economic and social initiatives that conform to Islamic law. After a series of rotations, Moini landed in IDB's treasury department, focusing on fund creation and asset management. The multilateral organization faced the same problem — a lack of liquid, Shariah-compliant short-term investments — as many of its member banks.

“There are probably US\$50 billion to \$60 billion, conservatively speaking, that sit in commodity *murabaha* [installment sales] placements,” Moini says. “The transactions are not fully Shariah-compliant, but they are tolerated because of a lack of viable alternatives. Your money gets locked in for three months, six months, while earning sub-LIBOR returns.”



By the time Moini left IDB in 2000, he was ready to leverage his background in Islamic banking and investing. As a consultant in the Islamic Financial Services Group at Ernst & Young Bahrain, he helped conventional and emerging industry players understand the landscape of Islamic finance.

When Moini left Ernst & Young two years later, he joined a private equity firm. At Estithmaar Ventures, a joint venture between Deutsche Bank and the Investment Office of Dubai, he was responsible for structuring deals and facilitating the potential participation of Islamic investors. The fund looked at telecommunications, media, and technology companies from the Indian subcontinent to North America. “When you are committed to operating in accordance with Muslim principles, media and technology companies tend to be quite acceptable. They have low leverage ratios and would be included in most Islamic equity indices. Telcos,” he adds wryly, “are a different story.”

Being able to put together deals that would win the approval of a firm's Shariah board brought Moini to the attention of Dubai Bank. In October 2004, he joined the two-year-old institution to lead the development of its Islamic Structured Finance unit, which will offer structured products for both retail and wholesale clients. Moini and his people (much of the team is in place, and appointments to the Shariah board are almost complete) will look at Islamic financial engineering in project, trade, and corporate finance deals. They will also create products targeted to sophisticated retail investors. But the biggest challenge remains in developing viable short-term instruments.

“If you can come up with money market products that address these needs — liquidity, greater Shariah acceptability, tradability, and offering competitive returns — then I think you have a winner on your hands,” he says. “Such products will not only reward their creators but also will mark the beginning of an Islamic money market. That will be a great leap forward for our industry.”



In July 2004, for example, the BMA announced that it was finalizing an Islamic repurchase agreement. The instrument gives banks holding BMA sukuk greater flexibility to meet short-term liquidity needs. Despite such developments, Scott remains leery. “In the context of the overall industry, we believe that there is not yet sufficient depth in these markets for them to be viewed as a reliable and efficient alternative to the global interbank and fixed-income market.”

## GROWING PAINS



The Islamic finance industry is comparatively young, so it's not surprising that the industry is experiencing growing pains.

The available talent pool is small, and recruiting qualified personnel to run Shariah-compliant programs remains a human resource headache. Finding qualified personnel to create, monitor, and administer Shariah-compliant products and services often means training conventional bankers (who may not even be Muslim). Although a number of universities in Muslim countries offer business courses guided by Islamic principles, the industry still lacks widely recognized certification programs.

Another obstacle is the lack of uniform standards. Interpretations of the Shariah can diverge widely between Islamic nations in the Middle East and other parts of the world. Malaysia presents a particularly interesting case. Although it has a completely secular financial system in place, the country claims to have the highest Islamic banking growth rate in the world. The government is reportedly aiming to increase the share of Islamic financial services providers to 20 percent of the banking and insurance (or *takaful*) industry by 2010. Differences in approach can make it bumpy for professionals who try to adapt their financial business practices in one Islamic country to another.

Assessing the performance of Islamic banks is often confounding for experienced regulators, let alone newcomers to the sector. The problem is a lack of adequate transparency and disclosure. Clear reporting related to doubtful accounts, past due receivables, financing to related parties, amounts written off, composition of capital, and declines in the value of investments is often inadequate or presented only according to principles developed by the AAOIFI.

To date, the AAOIFI has issued nearly 60 standards on accounting, auditing, governance, and ethics. Central banks and national accounting organizations either adopt the pronouncements as written or adapt them to take into account local circumstances. While AAOIFI accounting is moving closer to the body of International Accounting Standards (IAS), the two systems are still far enough apart that practitioners must be trained in AAOIFI standards to measure a bank's performance. The AAOIFI is also in the process of developing a Certified Islamic Public Accountant program.

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**BASHIR AHMED, CFA**  
Financial Training Consultant

The lack of uniformity hampers efforts to set up international Islamic banking and investment structures not only across borders but within them. Scholars often have different perspectives on the Shariah, causing compliance guidelines to differ from one commercial entity to the next. The most widely recognized Islamic finance experts are already thinly stretched, sitting on a dozen or more boards. One suggested solution is to have one Shariah board within a country, enabling the experts to consolidate their responsibilities.

Islamic banks that want to compete on the global stage must eventually align themselves with Basel II, the international banking standard. This means developing the necessary operating procedures and technological capability. On the other hand, conventional banks that already comply with Basel II and make the strategic decision to enter the Islamic banking business must reengineer their processes to make their activities Shariah compliant.

Finally, there is the persistent skepticism that interest in Islamic finance is being driven by marketing needs rather than the sector's own merits. After all, much of the academic research in Islamic finance is being carried out in the West, and major Western banks sit at the forefront of Islamic banking. “Is Islamic finance just an extension of Western finance, or is it an alternative paradigm?” asks Bashir Ahmed. “Let's face it, the Islamic label sells in Muslim markets.”

Indeed, the promise of ethical investment is attracting even non-Muslim populations in those markets. For example, Chinese Malaysians are significant consumers of local products and services that comply with Islamic precepts because they are attracted by the concept of ethical investing. To meet the growing demand for Islamic finance worldwide, new instruments, such as a Shariah-compliant fund of hedge funds, are being generated; many are untested. As with all financial innovations, the key to their success will be their performance. **■**

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