

SHARED RISK & REWARD

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Islamic Finance & The Environment

My Reading List

- The Muslim 7-Year Action Plan on Climate Change, 2010-2017 ([pdf](#))
- Globalized Eco-Islam: A Survey ([pdf](#))
- Business Insider: [Here's why Islam could end up being a key ally for environmentalists](#)

Blog Posts This Week

- [Islamic mega-bank redux](#)
- [Shari'ah risks are not the only risks to Islamic repo](#)
- [Islamic Development Bank sukuk size up-sized from expectations](#)

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In the 37 years since the first formal Islamic bank opened, the industry has thrived. Despite some criticism about the reliance on debt-based products, much work has been done offer new products to meet customers' financial needs. However, the Islamic finance industry has so far been limited to focusing on the financial screens, and avoiding financing activities where there is a specific prohibition (e.g. pork, gambling, alcohol production).

Much less attention is focused on avoiding activities where there is not a clear line dividing permissible and impermissible. There are almost no situations where investments are favored based on their positive impact apart from the bottom line. One area with a particular lack of attention in Islamic finance is environmental impact.

Islamic finance is supposed to work for the benefit of all of humanity. One area where Islamic finance should do more is by including both positive screens and additional negative screens that overlap with sustainable finance. This could include environmental impacts, discussed here, or other areas like poverty reduction.

A [post on Business Insider](#) summarizes many examples where scholars and organizations with a

specifically Islamic focus have laid out the case for environmentalism within Islam, which was significantly broader than I expected. When the Muslim 7 Year Action Plan on Climate Change (see the link to the left) was released in 2009, the Assistant Secretary General of the UN Development Program, Olav Kjørven, said: "The role of Islam could be one of the decisive factors tipping the planet towards a sustainable future."

The significant potential identified for Islam in moving the planet towards environmental sustainability will rely in many ways on the involvement of Islamic finance. Incorporating Islamic finance into a broader move towards sustainability will connect it with another rapidly growing area of finance that focused on many of the same goals, even though it is not based on Islamic principles.

Islamic and sustainable finance have each gone through a process of evolution to compete with the mainstream conventional finance industry, but each have developed differently, and each is likely to benefit from more cooperation, and a more conscious incorporation of environmental screens (both positive and negative) within Islamic financial institutions can start the discussion.

Until next week,
Blake Goud