

Islamic finance down, far from out



Sharia gain. Photo: AFP

- **Nasya Bahfen**
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IN THE aftermath of the US financial crisis, the future is uncertain for Islamic investment in Australia.

While the impact of the global credit crisis has had a minor effect on sharia-compliant investments compared with debt-laden conventional bourses, some stocks that dominate Islamic indices have fallen.

And the lack of confidence in the banking and finance sector has made Islamic finance providers from the Middle East and South-East Asia hesitant to set up shop Down Under.

The Dow Jones Islamic Market Financials Index measures the performance of about 70 sharemarkets around the world that are sharia-compliant, or in line with Islamic ethics. "Conventional banks and insurance companies are banned from the DJIM universe," says Gerard al-Fil, a Dubai-based financial journalist and portfolio manager.

"Non-Islamic or haram sectors, such as alcohol, tobacco, weapons, pornography and gambling companies are likewise excluded."

The index lost 2.74% in September — a month in which conventional sharemarkets lost a fifth of their value. In that month, AIG, Fannie Mae and Freddie Mac all became de facto state-owned enterprises, while the Lehman Brothers declared bankruptcy and the Bank of America took over Merrill Lynch.

As sharemarkets around the world were rattled by the rapid changes on Wall Street, Islamic stocks also felt the impact.

Mr Fil says other asset-based investments might still drag down the Islamic indices. "The Islamic markets are very heavy on basic materials and raw materials and these prices dropped as well."

But Islamic stocks were sheltered from the most extreme jolts to the global financial market, by a historical and theological tendency to avoid credit.

"Islamic stocks operated in the wider global stockmarkets, so the effects of the crisis will be felt," says Hussain Rammal, a lecturer in international business at University of Adelaide.

"But due to restrictions placed by these Islamic markets, such as restrictions on investment in

conventional banks and other lending institutions, the impact would be lower."

Dr Rammal believes Islamic indices are in a stronger position than conventional sharemarkets precisely because of the sharia-compliant financing sector's stringent conditions. "The entire Islamic financing system is based on asset-financing," he explains. "Islamic institutions do not lend money, rather they invest in the assets required."

Australia has a nascent Islamic finance sector, dominated by investment co-operatives based out of Melbourne and Sydney such as the Muslim Community Co-operative of Australia, or MCCA.

But neighbours including Singapore and Indonesia have well-established sharia-compliant financial institutions, while Malaysia is the regional Islamic finance powerhouse.

Mohamed Ridza, a Malaysian lawyer specialising in Islamic finance law, says Australia is well placed to learn from the region's adoption of sharia-compliant investments.

"Singapore has also started undertaking Islamic finance, Thailand is following suit, Brunei has also been looking at it for quite some time. And Indonesia has even passed their first sukuk law, that would give them an avenue to actually provide rupiah financing and also US-dollar-based financing, especially for infrastructure projects," he says. Sukuk are the Islamic equivalent of bonds.

Based on the region's historical performance, Islamic sharemarkets are likely to be in a stronger position to weather the effects of the credit squeeze.

"Even during the Asian crisis of 1997, the Islamic financial system performed better than the conventional financing system," Dr Rammal says.

Mr Fil says the decision by the US Securities Exchange Commission to ban short-selling was "in line with sharia".

"The message of Islamic finance is, yes, you can earn money, even if you deny short-selling and exclude options, swaps and hedge funds from your portfolio," he says.

MCCA marketing manager Nail Aykan says Australia's Islamic finance sector might benefit in the long run from the attention paid to sharia-compliant investments. But he warns that in the short term, the global credit crisis will affect co-operatives like the MCCA.

"Because banks are not lending to other banks, there's hesitation at the moment among the Middle Eastern and Asian Islamic finance providers to come to Australia," he says.

"The Muslim community in Australia is also not immune to the vulnerability in the market and they're hesitant to make any kind of financial investment right now."

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