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CIBAFI BRIEFING

Resilience and Responsibility: The Strategic Imperative of Sustainability Standards in Islamic Finance

This briefing examines how Islamic financial institutions can leverage sustainability standards to enhance market competitiveness while fulfilling their ethical mandate. Drawing on expert insights, it maps the convergence between Islamic principles and global sustainability frameworks, offering strategic pathways for institutions to adapt and thrive in an evolving financial landscape.

1. Introduction

The integration of sustainability principles into financial practices has become a global imperative, reshaping the landscape of the financial industry. Islamic finance, with its inherent focus on ethical and socially responsible practices, is uniquely positioned to contribute to and benefit from this shift towards sustainable finance. However, the question of whether specific sustainability standards are necessary for Islamic finance, or if existing global standards are sufficient, presents both opportunities and challenges that warrant careful consideration.

This briefing aims to explore the potential need for sustainability standards tailored to Islamic finance, examine the benefits such standards could provide, and address the complexities involved in their development and application. It draws insights from recent developments in global sustainability standards and incorporates findings from interviews with key stakeholders in the Islamic finance industry.

The objectives of this briefing are to:

- Provide an overview of recent developments in sustainability standards relevant to the financial sector.
- Present key findings on the perceived importance and specific needs for sustainability standards in Islamic finance.
- Examine the challenges and opportunities related to the development, adaptation, and application of these standards in the Islamic finance context.
- Offer recommendations for Islamic financial institutions (IFIs), standard-setting bodies, and regulators.

As sustainability becomes increasingly central to financial decision-making and risk management, it is crucial for IFIs to navigate this evolving landscape effectively. This briefing seeks to equip senior executives, regulators, and other stakeholders with insights to inform their strategies and policies regarding sustainability in Islamic finance. It aims to contribute to the ongoing dialogue on how Islamic finance can enhance its role in promoting sustainable development while maintaining its core principles and values.

2. Recent Developments in Sustainability Standards

The global landscape of sustainability standards is rapidly evolving, with a growing emphasis on environmental, social, and governance (ESG) issues. This shift is significantly impacting the financial sector, including Islamic finance. In Asia, regulators such as the Monetary Authority of Singapore and Hong Kong authorities have introduced new sustainable financing frameworks. In Malaysia, Bursa Malaysia recently updated its sustainability reporting guide, while the Advisory Committee on Sustainability Reporting (ACSR) has issued a consultation paper on the potential adoption of the International Sustainability Standards Board (ISSB) standards. Europe has implemented the European Sustainability Reporting Standards (ESRS) under the Corporate Sustainability Reporting Directive (CSRD). Türkiye has made sustainability reporting mandatory from 2024 under the Turkish Sustainability Reporting Standards (TSRS). In the United Arab Emirates (UAE), 2024 has been declared the "Year of Sustainability", marked by the introduction of new disclosure principles. Globally, the focus on sustainability frameworks is becoming increasingly prominent.

Global Sustainability Standards Landscape

Several key initiatives have emerged to standardize sustainability reporting. The ISSB, established in 2021, has introduced IFRS S1 and S2 to focus on general sustainability and climate-related disclosures. Although the Task Force on Climate-related Financial Disclosures (TCFD) has been disbanded, the standards it developed continue to significantly impact global climate reporting. Originally focused on the financial sector, the TCFD's framework has influenced reporting practices across various industries. Today, organizations like the ISSB are building on this foundation, creating broader standards that apply to a wider range of industries. In parallel, the Basel Committee on Banking Supervision (BCBS) is advancing new climate disclosure provisions under the Basel Framework, such as its recent "Disclosure of climate-related financial risks" initiative. The International Association of Insurance Supervisors (IAIS) is also addressing climate risks through its current initiative on supervisory guidance. In the EU, the ESRS under the CSRD are mandatory for many companies. Meanwhile, the Global Reporting Initiative (GRI) remains a widely used framework for reporting on broader economic, environmental, and social impacts.

In this context, the International Organization of Securities Commissions (IOSCO) established the Sustainable Finance Task Force (STF) in February 2020 to enhance corporate sustainability reporting amid rising demand for reliable disclosures. By June 2021, IOSCO proposed a vision for global sustainability-related disclosures, advocating for consistent international standards, comparable metrics, and coordinated reporting practices. During the ISSB's formation, IOSCO launched a Technical Expert Group in early 2021 to evaluate ISSB's recommendations and engaged stakeholders for insights. This led to the endorsement of IFRS S1 and S2 standards on July 25, 2023, after which IOSCO called on its 130 member jurisdictions—regulating over 95% of global financial markets—to incorporate these new standards into their regulatory frameworks.

Additionally, other significant frameworks are influencing sustainability efforts in the finance sector, particularly in green financing. The International Capital Market Association (ICMA) Green Bond Principles and the European Green Bond Standard provide guidance on issuing bonds aligned with sustainable development goals. In Southeast Asia, the Association of Southeast Asian Nations (ASEAN) Green, Social, and Sustainability Bond Standards initiative facilitates ASEAN capital markets (AMCF) in tapping green finance to support sustainable regional growth and meet investor interest in green investments. These standards, alongside global reporting initiatives, are critical in driving the alignment of sustainability reporting, improving transparency, and fostering accountability across organizations.

Tabel 1: Global Developments in Sustainability Standards

Framework/Standard	Purpose	Key Focus Areas	Application for Financial Institutions	Current Status/ Updates
GRI	Provide sustainability reporting framework	Greenhouse gases, energy, waste, labour, human rights	Report sustainability performance to stakeholders	Widely recognised and applied globally
Sustainability Accounting Standards Board (SASB)	To develop and disseminate sustainability accounting standards	Industry-specific ESG standards	Disclose ESG factors	Now under IFRS Foundation; transitioning to ISSB
TCFD	Provide Climate-related financial risk disclosure framework	Governance, strategy, risk management, metrics	Assess and report climate risks/opportunities in investments & lending	Disbanded in 2024; responsibility transferred to ISSB
ESRS	Guides companies in complying with the Corporate Sustainability Reporting Directive	Detailed reporting for each ESG category: environmental, social, and governance	Governance, strategy, and impact, risk and opportunity management	Large EU-listed companies must report under ESRS from January 1, 2024, with other large companies following from January 1, 2025
ISO Standards (14001, 32210, 26000)	Provide Environmental and social responsibility guidelines	Environmental management, social responsibility	Implement environmental and social management systems	Internationally recognised; applicable across industries, including finance
ISSB	Global sustainability disclosure standards (IFRS S1 & S2)	IFRS S1: Broad sustainability disclosures IFRS S2: Climate-related disclosures (Scope 1, 2, 3 emissions)	IFRS S1: Board oversight, target setting, controls integration across functions. IFRS S2: Governance, strategy, risk management, metrics & targets	Effective from 1 January 2024 for annual reporting periods
BCBS disclosure framework on climate related financial risks	Explore the use of Pillar 3 of the Basel Framework to promote a common disclosure baseline for climate-related financial risks across internationally active banks	Disclose key information about banks' risks, capital, and risk management practices	Governance, strategy, risk management, sectoral exposure, financed emissions, physical risk, and forward-looking forecasts with flexibility for evolving data	The Basel Committee released its consultative document, "Disclosure of climate-related financial risks," with written comments collected by 14 March 2024
Climate risk supervisory guidance - International Association of Insurance Supervisors	Advice to supervisors on how ICP 9 (Supervisory Review and Reporting) and ICP 20 (Public Disclosure) may be applied in the context of climate-related risks	Developing supervisory reporting regimes, enhancing public disclosure, addressing macroprudential concerns, and promoting supervisory cooperation	Climate-related financial risks, including governance, strategy, risk management, and metrics. This helps supervisors assess the institutions' resilience to climate risks	Public consultation on climate risk supervisory guidance until 28 October 2024

Emerging Trends in Sustainability Reporting

While these initiatives have provided critical frameworks for standardised reporting, emerging trends are shaping the evolution of sustainability standards.

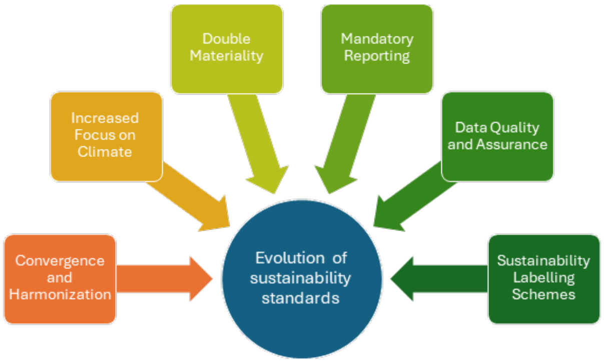
At the forefront of these trends is the convergence and harmonization of various frameworks, such as aligning ISSB's IFRS standards with those of the GRI and ESRS. This movement seeks to reduce complexity for businesses operating across different jurisdictions. Alongside this, the focus on climate-related disclosures, spurred by the now-disbanded TCFD, has sharpened attention on how environmental risks impact financial performance and corporate strategy. Additionally, the rising prominence of double materiality—particularly within the European Union—reflects a broader understanding of sustainability, where companies are increasingly expected to account for both financial and societal impacts in their reporting.

Another key development is the introduction of sustainability labelling schemes for collective investment funds, notably in the EU and UK. These schemes are designed to combat greenwashing and increase transparency by ensuring that funds using ESG-related terms meet defined sustainability criteria. In the EU, for instance, new guidelines require such funds to have at least 80% of their assets aligned with ESG objectives in ways stated in their investment strategies, helping to protect investors from misleading sustainability claims[1].

As sustainability standards continue to evolve, the trend towards mandatory reporting and the emphasis on data quality will play a key role in ensuring that disclosures are not only comprehensive but also reliable and subject to external assurance. This shifting landscape highlights the need for companies to remain adaptable and proactive in meeting both current and emerging sustainability reporting requirements.

1. EU finalises investment fund labels to combat greenwashing | Reuters

Figure 1: Trends impacting the development of Sustainability Standards



Relevance to Islamic Finance

Sustainability standards are increasingly vital for the financial sector, promoting transparency, accountability, and resilience. For Islamic finance, this presents important implications:

- Regulatory Compliance: IFIs must adapt to mandatory sustainability reporting in many jurisdictions.
- Stakeholder Expectations: Investors and customers expect robust sustainability practices and transparency from all financial institutions, including Islamic ones.
- Alignment with Islamic Principles: Many sustainability principles align with Islamic finance, allowing institutions to highlight their inherent focus on sustainability.
- Competitive Positioning: Strong sustainability practices can help IFIs stand out in the global market.
- Risk Management: Disclosing sustainability-related risks, especially climate risks, is crucial for effective risk management.

Figure 2: Islamic Finance Sustainability Integration

As the sustainability standards landscape continues to evolve, it is crucial for IFIs to stay informed and proactive in addressing these developments. Several Islamic infrastructure organizations have already initiated significant projects related to sustainability standards. These efforts were showcased in the Islamic Sustainability Standard Roadmap, announced in conjunction with COP28, and involved collaboration between CIBAFI, the Islamic Financial Services Board (IFSB), and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), with support from the Central Bank of the UAE.

CIBAFI has also been actively contributing to the development of sustainability frameworks. Its sustainability guide for IFIs provides comprehensive guidance on integrating sustainability into the core business activities of IFIs, based on five key principles. Furthermore, CIBAFI has developed a greenhouse gas (GHG) emissions measurement tool tailored to Islamic finance. This tool aligns with international efforts and offers guidance on measuring and reporting the GHG emissions associated with the financing and investment portfolios of Islamic banks.

Additionally, the IFSB has integrated TCFD recommendations into its IFSB-22 standard on Disclosures to Promote Transparency and Market Discipline and is working on a Guidance Note on the management of climate-related financial risks for the Islamic banking sector.

The next section will explore how the global trends intersect with the unique needs and perspectives of the Islamic finance industry.

3. Sustainability Standards and Islamic Finance: Key Findings

To gain valuable insights into the current state and future direction of sustainability standards in Islamic finance, CIBAFI conducted interviews with 16 experts from diverse sectors, including banking practitioners, regulators, academics, and sustainability specialists. Although the questions covered Islamic finance broadly, the responses may have been more reflective of the banking sector, as a significant portion of the industry practitioners were bankers.

The interviews revealed a broad consensus on the importance of sustainability standards for IFIs. However, opinions varied on the specific approach and implementation strategies. Key themes that emerged include:

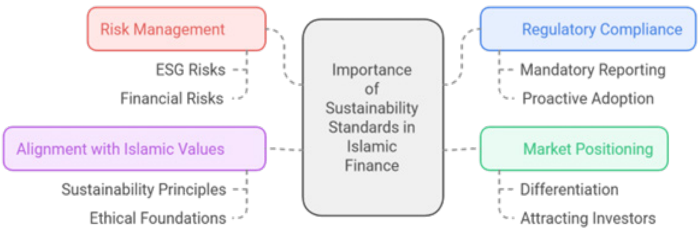
- The need for alignment between sustainability standards and Shariah principles.
- The importance of customization to address the unique characteristics of Islamic finance.
- The role of collaboration in developing effective standards.

The responses also showed some systematic differences between groups, particularly between academics and industry practitioners. Academics prioritize ethical frameworks, long-term value, and tailored sustainability aligned with Islamic principles, while industry practitioners focus on practical issues like compliance, cost management, and adapting global standards. This highlights a divide between conceptual concerns and operational implementation.

Perceived Importance of Sustainability Standards in Islamic Finance

Most respondents agreed that sustainability standards are essential for addressing modern financial and ethical challenges. They highlighted their importance in mitigating ESG risks, which are increasingly viewed as financial risks. With the global shift toward mandatory sustainability reporting, respondents emphasized that IFIs must adopt these standards proactively. Strong sustainability practices can help IFIs stand out and attract socially conscious investors, while also aligning with the ethical foundations of Islamic finance. Overall, the consensus underscores the need for sustainability standards to promote ethical practices and financial resilience in the Islamic finance sector.

Figure 3: Perceived Importance of Sustainability Standards in Islamic Finance



Areas Requiring Specific Sustainability Standards

The recognition of sustainability standards as crucial for managing ESG risks, ensuring regulatory compliance, enhancing market positioning, and aligning with Islamic values highlights their importance in Islamic finance. This consensus underscores the need for comprehensive, tailored standards to tackle the sector's diverse challenges.

In this context, the interviewed experts identified several potential critical areas where specific sustainability standards could significantly benefit Islamic finance. These areas not only align Islamic financial practices with global sustainability goals but also respect Shariah principles. By focusing on these key areas, IFIs can address the unique challenges they face while advancing their commitment to sustainability. The key areas identified include:

- Shariah-Compliant ESG Screening: Developing standards that integrate ESG criteria with traditional Shariah screening processes. This approach ensures that investment decisions not only adhere to Shariah compliance but also consider ESG factors, thus promoting ethical and sustainable investment practices.
- Green and Sustainable Sukuk: Establishing comprehensive guidelines for the issuance and management of green and sustainable sukuk. These guidelines would address the specific requirements for ensuring that sukuk contribute positively to environmental sustainability and align with Islamic finance principles.
- Impact Measurement: Creating robust frameworks for measuring and reporting the social and environmental impacts of Islamic financial products and services. These frameworks would facilitate transparency and accountability, enabling stakeholders to assess the true impact of their investments and operations.
- Climate Risk Assessment: Implementing tools and methodologies specifically designed for assessing climate-related risks within Islamic finance portfolios and operations. Effective climate risk assessment is essential for mitigating potential financial impacts related to climate change and ensuring resilience in Islamic financial practices.
- Sustainable Islamic Microfinance: Developing standards to integrate sustainability principles into Islamic microfinance products and practices. This includes ensuring that microfinance initiatives not only support economic development but also adhere to sustainability criteria, enhancing their social and environmental benefits.
- Governance and Transparency: Establishing guidelines for governance structures and disclosure practices related to sustainability in IFIs. Clear governance frameworks and transparent reporting mechanisms are vital for maintaining trust and demonstrating commitment to sustainability.
- Sustainable Supply Chain Finance: Formulating standards for incorporating sustainability criteria into Islamic trade finance and supply chain finance products. This involves ensuring that supply chain financing supports sustainable practices and contributes positively to the overall sustainability of the supply chain.

It is important to note that some of the points raised are based on expert opinions, and, without clear arguments regarding their validity, they may require further research. It was not possible within the interview format to probe some of the issues in depth, for example the perceived deficiencies of some of the existing standards in these areas.

Familiarity with Existing Standards

The effective implementation of sustainability standards in the context of Islamic finance depends on understanding existing international frameworks. The varying familiarity with global standards among Islamic finance professionals reveals a gap that must be addressed to enhance sustainability practices.

The interviews revealed varying levels of familiarity with existing international sustainability standards among Islamic finance professionals:

- High Familiarity: Standards like TCFD and GRI were well-known.

- Moderate Familiarity: Frameworks such as the ISSB standards and Carbon Disclosure Project (CDP) were recognized by some respondents.
- Low Familiarity: Standards like ISO 14000 (Environmental Management) and SA8000 (Social Accountability) were less familiar to most respondents.

This variation in familiarity highlights the need for education and capacity building within the Islamic finance industry regarding global sustainability standards, especially those that have gained traction and are widely applied. Again, the format of the interviews meant that questions could be asked only about a limited number of standards. In particular, capital markets standards, such as those relating to green bonds/sukuk, or to funds, were not explored.

The findings from these interviews underscore the growing recognition of sustainability's importance in Islamic finance. They also highlight potential issues that may drive the need for tailored approaches that address the unique characteristics and principles of Islamic finance while aligning with global sustainability trends. The next section will explore the challenges in implementing these sustainability standards in the context of Islamic finance.

4. Challenges vs. Opportunities in Implementing Sustainability Standards

Implementing sustainability standards in IFIs presents several challenges, which vary between strategic, operational, and technical aspects. These challenges reflect the views of interviewed experts.

Strategic and Conceptual Challenges

Aligning sustainability standards with Shariah principles is particularly complex due to the differing interpretations across regions and schools of thought. Integrating ESG criteria with traditional Shariah screening requires expertise in both areas, further complicating the development of Shariah-compliant financial products that meet global sustainability standards. This challenge was highlighted by several academics, who emphasized the need for more tailored frameworks that address both ethical and religious considerations.

Operational and Technical Constraints

On the other hand, operational constraints add practical difficulties, particularly for smaller IFIs that lack the financial and technical resources to fully adopt comprehensive sustainability standards. The absence of in-house expertise necessitates additional training or reliance on external consultants. This was noted by industry practitioners, who pointed out that adapting internal systems for sustainability data collection and reporting is resource-intensive and may strain smaller institutions.

Data Quality and Availability

Data quality and availability are significant hurdles, especially in Islamic finance, where historical sustainability performance data is scarce. Experts pointed out that the lack of standardized sustainability metrics complicates sector-specific data collection, benchmarking, and trend analysis. This issue is compounded by the difficulty of verifying data accuracy from clients and investees, which increases the complexity of reporting. Both academics and practitioners agreed that this challenge is shared across financial institutions, including conventional banks, particularly in jurisdictions with less developed sustainability infrastructures.

Regulatory and Market Challenges

Navigating the varying sustainability regulations across different jurisdictions further complicates compliance for IFIs, especially those operating internationally. In regions where the market for sustainable Islamic finance products is still nascent, demand and innovation are limited, creating a barrier to widespread adoption. Balancing stakeholder expectations—ranging from regulatory bodies to ethically conscious investors—adds another layer of complexity. Practitioners especially noted this challenge, as it affects both conventional and Islamic institutions operating in similar environments.

Many of these operational and data challenges are not unique to IFIs and are shared by conventional banks of similar size, especially those operating in the same jurisdictions.

Despite these challenges, addressing them presents significant opportunities for IFIs. Aligning with Maqasid Shariah enhances the ethical and social responsibility of IFIs, potentially strengthening their market position and appeal to ethically conscious investors. Sustainability-focused products, such as green Sukuk and sustainable trade finance, offer opportunities for market expansion and innovation. Moreover, adopting sustainability standards early on prepares IFIs for future regulatory changes, facilitates international operations, and builds stakeholder trust through improved governance and transparency.

Table 2: Challenges vs. Opportunities in Implementing Sustainability Standards

Category	Challenges	Opportunities
Alignment with Shariah Principles	• Interpretation Variations: Inconsistencies in Shariah interpretations. • Screening Criteria: Integrating ESG with Shariah screening. • Product Innovation: Complexity in developing new products.	• Alignment with Maqasid Shariah: Fulfill Shariah objectives. • Strengthened Social Impact: Enhance community welfare. • Ethical Differentiation: Market differentiation through robust practices.
Operational and Resource Constraints	• Cost Implications: Significant financial investment required. • Technical Expertise: Lack of in-house sustainability expertise. • Systems and Infrastructure: Challenges in adapting systems. • Capacity Building: Need for staff education.	• Resource Efficiency: Improved resource management and cost reduction. • Talent Attraction and Retention: Attract top talent through sustainability credentials. • Long-term Value Creation: Sustainable business opportunities.
Data Availability and Quality Issues	• Limited Historical Data: Difficulty in trend analysis. • Data Granularity: Challenges in obtaining detailed sector-specific data. • Standardization of Metrics: Lack of standardized metrics. • Data Verification: Ensuring accuracy and reliability.	• Improved Disclosure Practices: Enhanced transparency and stakeholder trust. • Data-Driven Decision Making: Better strategic and operational decisions.
Regulatory and Market Challenges	• Diverse Regulatory Landscape: Compliance challenges across jurisdictions. • Market Maturity: Nascent market for sustainable products. • Stakeholder Expectations: Balancing diverse expectations.	• Future-Proofing: Preparation for regulatory changes. • Regulatory Engagement: Opportunities to shape future policies. • Cross-Border Operations: Facilitates international expansion.
Industry-Specific Challenges	• Concentration in Certain Sectors: Challenges in sector diversification. • SME Focus: Difficulties in implementing standards for SMEs. • Profit-Sharing Models: Unique challenges in risk assessment.	• New Product Development: Innovation in products like green Sukuk. • Sector Diversification: Explore new sustainable sectors. • Synergies with Fintech: Enhances financial inclusion and development.
Global Standards Adaptation	• Contextual Relevance: Balancing global standards with Islamic finance context. • Rapid Evolution: Need for constant updates. • Double Reporting Burden: Potential for duplicated efforts.	• Shaping Global Standards: Influence global sustainability standards. • Cross-Industry Partnerships: Foster knowledge exchange and market expansion. • Contribution to SDGs: Significant impact on UN SDGs.

5. Stakeholder Collaboration and Standard Development

The development and implementation of sustainability standards in Islamic finance require a collaborative effort involving various stakeholders. This section sets out the views of the experts on the roles of different entities and on the importance of their cooperation in creating effective and widely accepted standards.

Role of Existing Islamic Finance Organizations

The role of existing Islamic finance organizations is pivotal in advancing sustainability within the sector. The following points highlight some of the potential contributions that could be made by various infrastructure organizations, as suggested by the interviewed experts.

a. AAOIFI:
- Integrate sustainability considerations into existing accounting and auditing standards.
- Develop specific sustainability reporting standards for IFIs.

b. IFSB:
- Incorporate sustainability risk management guidelines into prudential standards.
- Provide guidance on supervisory approaches to sustainability in Islamic finance.

c. CIBAFI:
- Facilitate industry dialogue and knowledge sharing on sustainability practices.
- Conduct research and provide training on sustainability in Islamic finance.

d. International Islamic Financial Market (IIFM):
- Develop standardized documentation for sustainable Islamic financial products.
- Promote market practices that integrate sustainability into Islamic capital markets.

Potential for New Specialized Bodies

Building on the efforts of existing organizations, there may be a potential for creating new specialized bodies to address sustainability in Islamic finance more effectively.

a. Islamic Sustainability Standards Board:
- Some respondents suggested creating a dedicated body to develop and oversee Islamic sustainability standards.
- This could ensure focused attention on sustainability issues specific to Islamic finance.

b. Cross-Industry Task Force:
- A collaborative task force comprising representatives from various Islamic finance organizations could work on harmonizing sustainability approaches.

Importance of Regulatory Involvement
a. Central Banks and Financial Regulators:
- Develop regulatory frameworks that support sustainable Islamic finance.
- Provide guidance on integrating sustainability into risk management and reporting.
- Establish disclosure requirements for sustainable Islamic financial products.
- Develop frameworks for green and sustainable Sukuk issuance.

b. International Bodies (e.g., IFSB, AAOIFI):
- Collaborate with global standard-setters (e.g., ISSB) to ensure Islamic finance perspectives are considered.

Engagement with Shariah Scholars
a.Shariah Boards:
- Provide guidance on aligning sustainability practices with Shariah principles.
- Contribute to the development of Shariah-compliant sustainability screening criteria.

b. Shariah Standard-Setting Bodies:
- Develop Shariah standards that incorporate sustainability considerations.
- Offer interpretations on emerging sustainability issues in Islamic finance.

Collaboration with Global Sustainability Organizations
To enhance the global impact of Islamic finance, collaboration between Islamic infrastructure organizations and global sustainability organizations is key.

a. Engagement with ISSB:
- Ensure Islamic finance perspectives are considered in global sustainability standards.
- Explore ways to adapt ISSB standards for IFIs.

b. Partnerships with Sustainability Initiatives:
- Collaborate with organizations like UN PRI, UNEP FI to align Islamic finance with global sustainability goals.
- Participate in industry working groups on sustainable finance.

Industry Associations and Professional Bodies
Industry associations and professional bodies are instrumental in promoting sustainability within Islamic finance.
a. National Bankers Associations:
- Facilitate knowledge sharing and best practices among member institutions.
- Advocate for supportive policies and regulations.

b. Professional Certification Bodies:
- Develop sustainability-focused professional qualifications for Islamic finance practitioners.
- Integrate sustainability modules into existing Islamic finance certifications.

Academia and Research Institutions
Academia and research institutions contribute significantly to the development of sustainable Islamic finance through research and education.
a. Universities and Research Centers:
- Conduct research on the intersection of Islamic finance and sustainability.
- Develop curriculum and training programs on sustainable Islamic finance.

b. Think Tanks:
- Provide policy recommendations for promoting sustainable Islamic finance.
- Analyze market trends and opportunities in sustainable Islamic finance.

Technology and Data Providers
Finally, technology and data providers are essential for advancing sustainability in Islamic finance through innovative solutions.

a. Fintech Companies:
- Develop tools for sustainability data collection and analysis in Islamic finance.
- Create platforms for sustainable Islamic financial product distribution.

b.ESG Data Providers:
- Adapt ESG data and ratings methodologies for Islamic financial instruments.
- Provide Shariah-compliant sustainability indices.

Effective collaboration among these stakeholders can lead to the development of comprehensive, widely accepted sustainability standards for Islamic finance. This collaborative approach ensures that standards are practical, aligned with Shariah principles, and compatible with global sustainability initiatives. The next section will offer recommendations from our experts for various stakeholders to advance the integration of sustainability standards in Islamic finance.

6. Recommendations
Based on the findings from expert interviews, the following recommendations are proposed for key stakeholders in the Islamic finance industry to advance the integration of sustainability standards:

For IFIs:
a. Develop a Sustainability Strategy:
- Integrate sustainability into the core business strategy and governance structure.

- Align sustainability goals with the institution's Islamic values and principles.

b. Enhance Capacity Building:
- Invest in training programs to build internal expertise in sustainability.
- Develop sustainability competencies across all levels of the organization.

c. Improve Data Management:
- Implement robust systems for collecting, analyzing, and reporting sustainability data.
- Ensure data quality and reliability through regular audits and verifications.

d. Engage in Product Innovation:
- Develop Shariah-compliant sustainable financial products (e.g., green Sukuk, sustainable trade finance).
- Integrate ESG considerations into existing Islamic financial products.

e. Collaborate with Stakeholders:
- Actively participate in industry initiatives and working groups on sustainable Islamic finance.
- Engage with regulators, standard-setters, and Shariah scholars on sustainability issues.

For Standard-Setting Bodies:

a. Develop Islamic Sustainability Standards:
- Create comprehensive sustainability standards tailored to Islamic finance principles.
- Ensure alignment with global sustainability standards while addressing unique aspects of Islamic finance.

b. Provide Implementation Guidance:
- Develop practical guidelines and tools for implementing sustainability standards in IFIs.
- Offer sector-specific guidance for areas like Islamic banking, Takaful, and Islamic capital markets.

c. Promote Harmonization:
- Work towards harmonizing sustainability approaches across different Islamic finance standard-setting bodies.
- Collaborate with global sustainability standard-setters to ensure compatibility.

For Regulators and Supervisors:

a. Establish Regulatory Frameworks:
- Develop clear regulatory expectations for sustainability practices in Islamic finance.
- Integrate sustainability considerations into prudential regulations and supervisory processes.

b. Encourage Disclosure:
- Implement mandatory sustainability reporting requirements for IFIs.
- Promote transparency in sustainable Islamic financial products.

c. Provide Incentives:
- Consider regulatory incentives for sustainable Islamic finance practices (e.g., preferential risk weightings for green assets).
- Support the development of sustainable Islamic finance markets through enabling policies.

For Industry Associations:

a. Facilitate Knowledge Sharing:
- Organize forums, workshops, and training sessions on sustainable Islamic finance.
- Develop and disseminate best practices and case studies.

b. Advocate for Supportive Policies:
- Engage with policymakers to promote enabling environments for sustainable Islamic finance.
- Represent the Islamic finance industry in global sustainable finance initiatives.

For Academic and Research Institutions:

a. Conduct Targeted Research:
- Investigate the impact of sustainability practices on IFIs' performance and risk profiles.
- Explore innovative approaches to integrating sustainability in Islamic finance products and services.

b. Develop Educational Programs:
- Create specialized courses and degree programs in sustainable Islamic finance.
- Integrate sustainability modules into existing Islamic finance curricula.

For Technology Providers:

a. Develop Specialized Tools:
- Create software solutions for sustainability data management and reporting in IFIs.
- Develop AI and machine learning applications for ESG analysis in Islamic finance.

b. Support Market Infrastructure:
- Develop platforms for trading and managing sustainable Islamic financial products.
- Create tools for assessing and verifying the sustainability credentials of Islamic financial instruments.

These recommendations, reflecting the views of industry experts, aim to create a comprehensive ecosystem that supports the integration of sustainability standards in Islamic finance. By addressing the needs of various stakeholders, these actions can help overcome challenges and capitalize on opportunities in sustainable Islamic finance. However, further research may be needed to refine certain points and ensure their relevance and practical implementation across different contexts.

7. Conclusion

The integration of sustainability standards into Islamic finance represents a significant opportunity for the industry to enhance its ethical foundations, improve risk management, and contribute to global sustainable development goals. This briefing has explored the current landscape, challenges, opportunities, and potential pathways for implementing sustainability standards in IFIs, based on a set of expert interviews.

CIBAFI BRIEFING

Resilience and Responsibility: The Strategic Imperative of Sustainability Standards in Islamic Finance

Key findings include:

- Alignment with Islamic Principles: Sustainability standards largely align with the core principles of Islamic finance. This natural alignment provides a strong foundation for integrating sustainability into Islamic finance practices.
- Growing Importance: There is a clear recognition among industry stakeholders of the increasing importance of sustainability in finance. IFIs that proactively adopt sustainability standards are likely to gain competitive advantages and better position themselves for future regulatory requirements.
- Unique Challenges: While IFIs face many of the same sustainability challenges as conventional financial institutions, they also encounter unique issues related to Shariah compliance, product structures, and market characteristics. Addressing these challenges requires tailored approaches and standards.
- Need for Collaboration: Developing and implementing effective sustainability standards for Islamic finance necessitates collaboration among various stakeholders, including financial institutions, regulators, standard-setting bodies, Shariah scholars, and technology providers.
- Opportunities for Innovation: The integration of sustainability standards presents opportunities for product innovation in Islamic finance, potentially leading to new market segments and enhanced appeal to a broader range of investors and customers.
- Capacity Building: There is a pressing need for capacity building within the Islamic finance industry to develop expertise in sustainability practices, data management, and reporting.

Looking ahead, the Islamic finance industry is well-positioned to play a significant role in advancing sustainable finance globally. By leveraging its ethical foundations and innovative structures, Islamic finance can contribute unique perspectives and solutions to global sustainability challenges.

To realize this potential, key priorities for the industry include:

- Developing comprehensive, Shariah-compliant sustainability standards that align with global best practices while addressing the specific needs of Islamic finance.
- Enhancing transparency and disclosure practices related to sustainability performance and impact.
- Fostering innovation in sustainable Islamic financial products and services.
- Strengthening collaboration between Islamic finance institutions, regulators, and global sustainability initiatives.
- Investing in education and capacity building to develop a workforce skilled in both Islamic finance and sustainability practices.

As the global focus on sustainable development intensifies, the Islamic finance industry has a unique opportunity to demonstrate leadership in ethical and responsible finance. By embracing sustainability standards and practices, IFIs can not only enhance their own resilience and market position but also make a significant contribution to addressing pressing global challenges.

The path forward will require commitment, innovation, and collaboration from all stakeholders in the Islamic finance ecosystem. However, the potential rewards – both in terms of industry growth and positive impact on society and the environment – make this a journey well worth undertaking.

Acknowledgements

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References

For more information about the references, please access the following link:

References of CIBAFI's 20th Briefing

About CIBAFI

CIBAFI is an international non-profit organisation founded in 2001 by the Islamic Development Bank (IsDB) and a number of leading Islamic financial institutions. CIBAFI is affiliated with the Organisation of Islamic Cooperation (OIC). With over 140 members from more than 30 jurisdictions from all around the world, CIBAFI is recognised as a key piece in the international architecture of Islamic finance. Its mission is to support the Islamic financial services industry's growth by providing specific activities and initiatives that leverage current opportunities while preserving the value proposition of Islamic finance. CIBAFI is guided by its Strategic Objectives, which are 1) Advocacy of Islamic Finance Values and Related Policies & Regulations; 2) Sustainability and Innovation Integration; 3) Industry Research and Analysis; and 4) Professional Development.

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