ABOUT THE SUSTAINABILITY GUIDE

The Sustainability Guide for Islamic Financial Institutions (IFIs) is developed to promote sustainable development in the Islamic banking industry by supporting Islamic banks in integrating sustainability in their business activities while considering environmental, social, and economic objectives.

The Guide is designed as a guidance tool for Islamic banking practitioners working at various levels in Islamic banks. Implementing the Five Principles of Sustainability can drive sustainability in the Islamic banking industry while fostering collaboration between Islamic banks, regulators, standard-setting bodies, and other international institutions who share the same goals of sustainability.

The Guide is considered a general reference for Islamic banks, however, the Principles can also be applicable, with some modifications, to other segments of the Islamic financial services industry such as Islamic capital markets, Takaful, and Islamic social finance institutions. Moreover, this Guide makes only limited reference to procedures for sustainability integration in deposit services, products development, and some other services.

Definition of Islamic Sustainable Development

An essential part of the Islamic paradigm is that the universe and the Earth were created with a very fine balance (mizan) and that human beings are expected to maintain or sustain that balance. Islamic financial institutions have their own part to play in fulfilling this Islamic paradigm to restore mizan; therefore, this is something that should permeate all their actions.

The Sustainability Guide, therefore, defines Islamic sustainable development as:

"Recognising the complementarity nature of all the stakeholders to reach unity (tawhid) within the balance (mizan), which requires the recognition and provision of an opportunity space for the given (fitra) development path for each stakeholder to reach their perfection, where the growth of each stakeholder has to be in harmony with other stakeholders’ leading to inter-and-intragenerational justice (adalah) through the actualization of equilibrium-based (ihsani) governance".
An Islamic bank should consider the impact of its business activities by adopting a proactive integration approach whereby sustainability objectives are identified, implemented, and assessed. This approach should encompass five key areas which are:

**A Top-Down Approach for Sustainability Integration in Banks’ Business Activities**

- **Bank’s Strategy**
- **Resource Management**
- **Standard Operating Procedures (SOPs)**
- **Capacity Enhancement**
- **Business Activities**
Islamic banks, as responsible institutions, are expected to develop the necessary governance framework for practising and reporting sustainable development. This Principle presents a comprehensive stakeholder-driven sustainability governance model which will ensure negative screening is complemented with positive screening so that Shariah’s goals can be achieved. Moreover, the model provides a significant development on the current governance structure to elevate the position of Islamic banks vis-à-vis sustainable development.

**Risk Management Committee**
Oversight on sustainability risk management in line with SC reporting

**Credit Committee**
Oversight on sustainability compliance in line with SC reporting

**Audit Committee**
Provide independent assessment of the sustainability compliance

**Sustainability Committee (SC)**
Provide independent assessment of the sustainability related consequences of projects, financing solutions and products through enabling function

**Management**
Ensure executions of business and operations are sustainable compliant in all the aspects defined by Maqasid Al-Shariah and provide support and the necessary sources

**AGM**
Overall oversight on sustainability compliance review

**BOARD**
Overall oversight on sustainability governance

**Shariah Committee/Shariah Supervisory Board**
Oversight on Shariah related matters to ensure Shariah compliance of operations, products and financing by also considering the sustainability in relation to Maqasid

**Source:** CIBAFI
Environmental and social sustainability is an essential consequence expected to be delivered by Islamic banks. Therefore, Islamic banks must consider individuals and other stakeholders as part of their extended stakeholders as expected by the Islamic paradigm and aim to ensure equilibrium in the society implying that everyone receives an equitably distributed wealth, and that the natural environment is allowed to grow and develop as intended.

This Principle presents an integrated approach for environmental and social sustainability risk management for Islamic banks which is as follows:

**Environmental and Social Sustainability Risks Management Process**

1. **Identification**
   - Screening of activities and industries

2. **Categorization**
   - Assigning E&S risk levels based on internal models or industry standards

3. **Analysis**
   - Extensive analysis for medium and high-ESG risk transactions

4. **Mitigation**
   - Risk mitigation measures for issues that have been identified in the screening and analysis stages

5. **Monitoring**
   - Based on a predefined action plan that is informed by the Sustainability Guide
The development of measuring, monitoring, and reporting tools enhances the credibility of a Bank in terms of sustainability integration. The objective of this Principle is to measure how banks can and should have a positive impact by deploying capital and resources.

In applying the principle, the Bank should:

1. Report its sustainability practices and how it targets specific groups of stakeholders in its sustainability reports

2. Regularly monitor, review and report on the compliance to these Principles

3. Develop sustainability and impact assessment criteria for its financing activities

4. Develop scorecards incorporating qualitative and quantitative criteria to measure the economic, social, and environmental impact of its business activities

5. Communicate its sustainability policies and requirements to relevant stakeholders, including clients, investors, regulatory authorities, Shariah Committees/Shariah Supervisory Boards, rating agencies, suppliers, etc.
This Principle highlights the significance to leverage on local, regional, and international partnerships to accelerate the integration of sustainability objectives in the Bank’s business activities while supporting the achievement of national visions and strategies as well as international standards.

To implement this Principle, a Bank should:

1. Commit to relevant international standards and best practice initiatives to accelerate the contribution of the Islamic financial industry to sustainability.

2. Support and participate in the CIBAFI sustainability initiatives to promote sustainability integration at the Islamic financial industry level.

3. Collaborate with other Islamic financial institutions locally, regionally and internationally to further the implementation of the Principles.

4. Contribute to stakeholders engagement and dialogue on sustainability-related issues and initiatives.
SUSTAINABILITY GUIDE
IMPLEMENTATION PROCESS

The implementation of the Sustainability Guide should be based on an integrated approach to incorporating the Principles in the Bank’s business plans and activities. This consists of several stages with key action areas per stage, as depicted in the figure below:

Bank’s Integrated Approach to Incorporating the Principles

1. **Internal Assessment of Sustainability Focus Areas**
   The Bank should refer to the national development plans and strategies as well as any priority sectors set by the respective governments where the Bank operates. These could include the national commitments under the 2015 Paris Agreement, its SDGs agenda, the Nationally Determined Contributions (NDCs) targets, national taxonomies, national visions, national development strategies, etc.

2. **Alignment with the Bank’s Vision, Mission, and Strategy**
   The Bank should align the Sustainability Focus Areas with its vision, mission, and strategy. The Bank should also establish a Sustainability Strategy with specific and measurable targets.

3. **Operational Integration**
   The Bank should incorporate sustainability in the Bank’s business activities.

4. **Internal and External Education**
   The Bank should focus on the internal and external capacity building and awareness initiatives to promote sustainability integration.

5. **Monitoring and Reporting**
   The Bank should develop monitoring and reporting mechanisms which ensure the quality of reported sustainability information.
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Scan the QR Code to download the full version of the CIBAFI Sustainability Guide: