

General Council for Islamic
Banks and Financial Institutions



المجلس العام للبنوك
والمؤسسات المالية الإسلامية

CIBAFI

Sustainability Guide for Islamic Financial Institutions (IFIs)

Guidelines for Islamic Banks

Highlights

2022

ABOUT THE SUSTAINABILITY GUIDE

Purpose of the 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.

Who and What is it Meant for

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.

Scope of Application

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”.

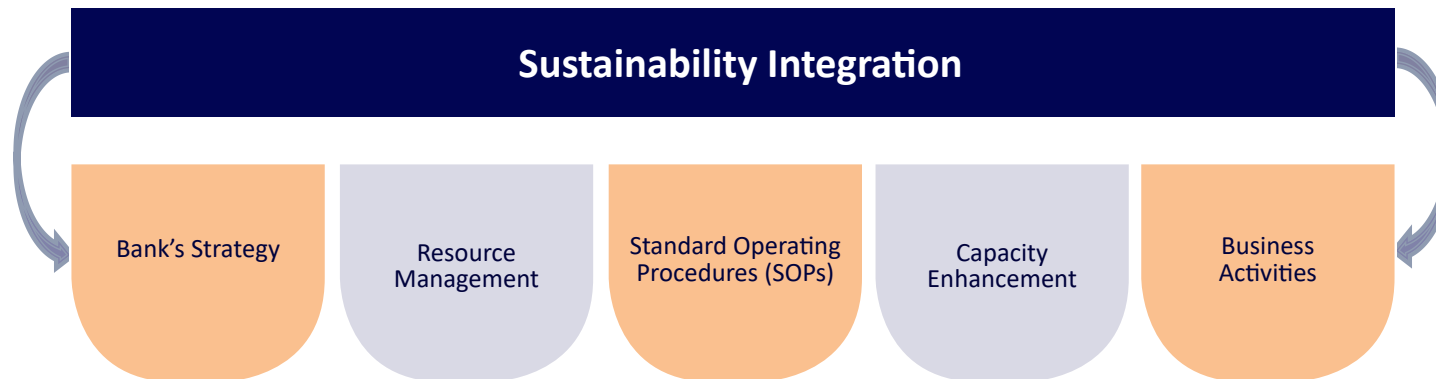
Principle 1

Sustainability Integration



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



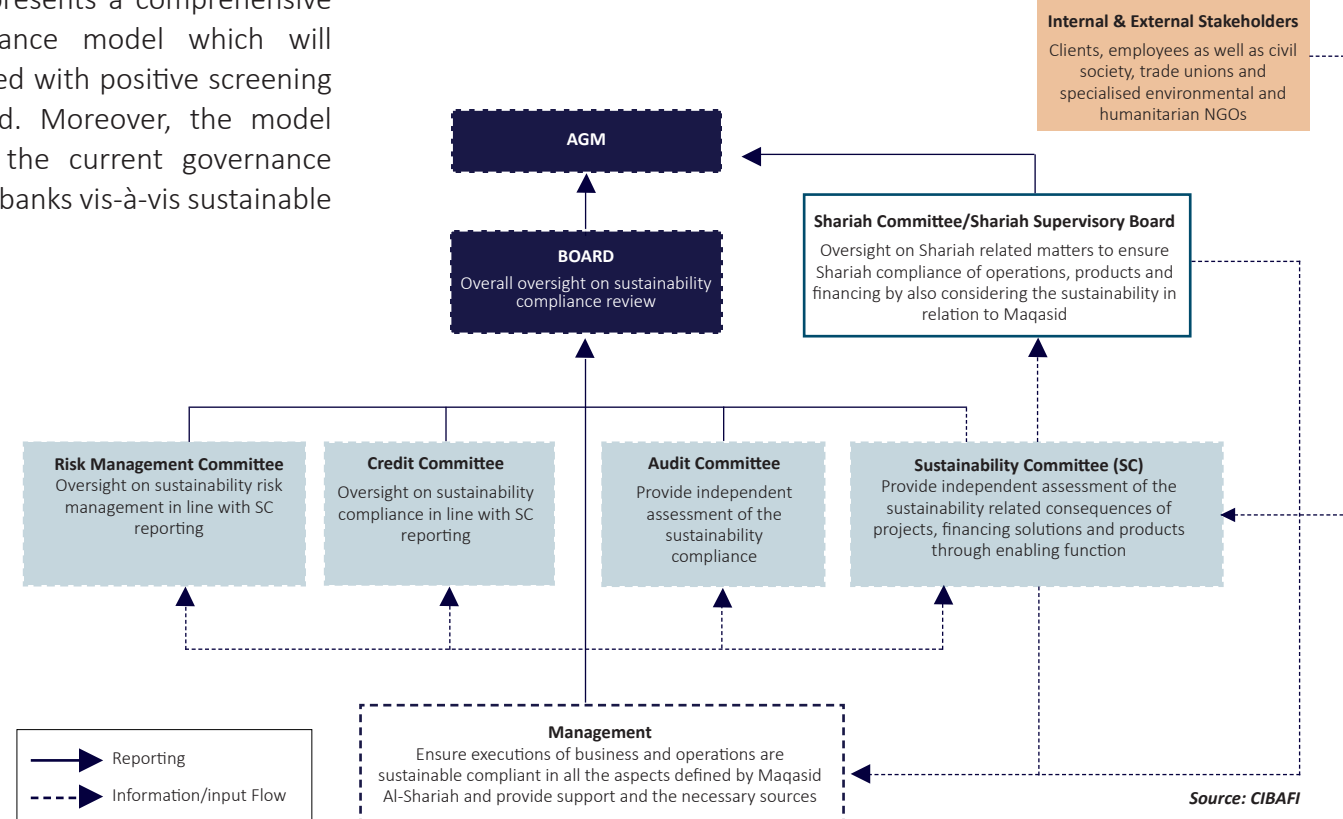
Principle 2

Sustainability Governance



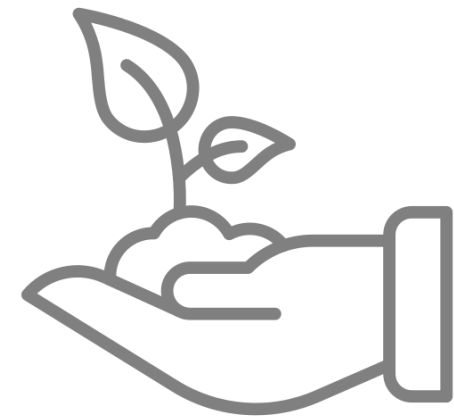
Islamic banks, as responsible institutions, are expected to develop the necessary governance framework for practising and reporting sustainable development. This Principle presents a comprehensive stakeholder-driven sustainability governance model which will ensure negative screening is complemented 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.

Stakeholders' Interest Augmented Sustainability Governance Model



Principle 3

Environmental and Social Sustainability Risk Management



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



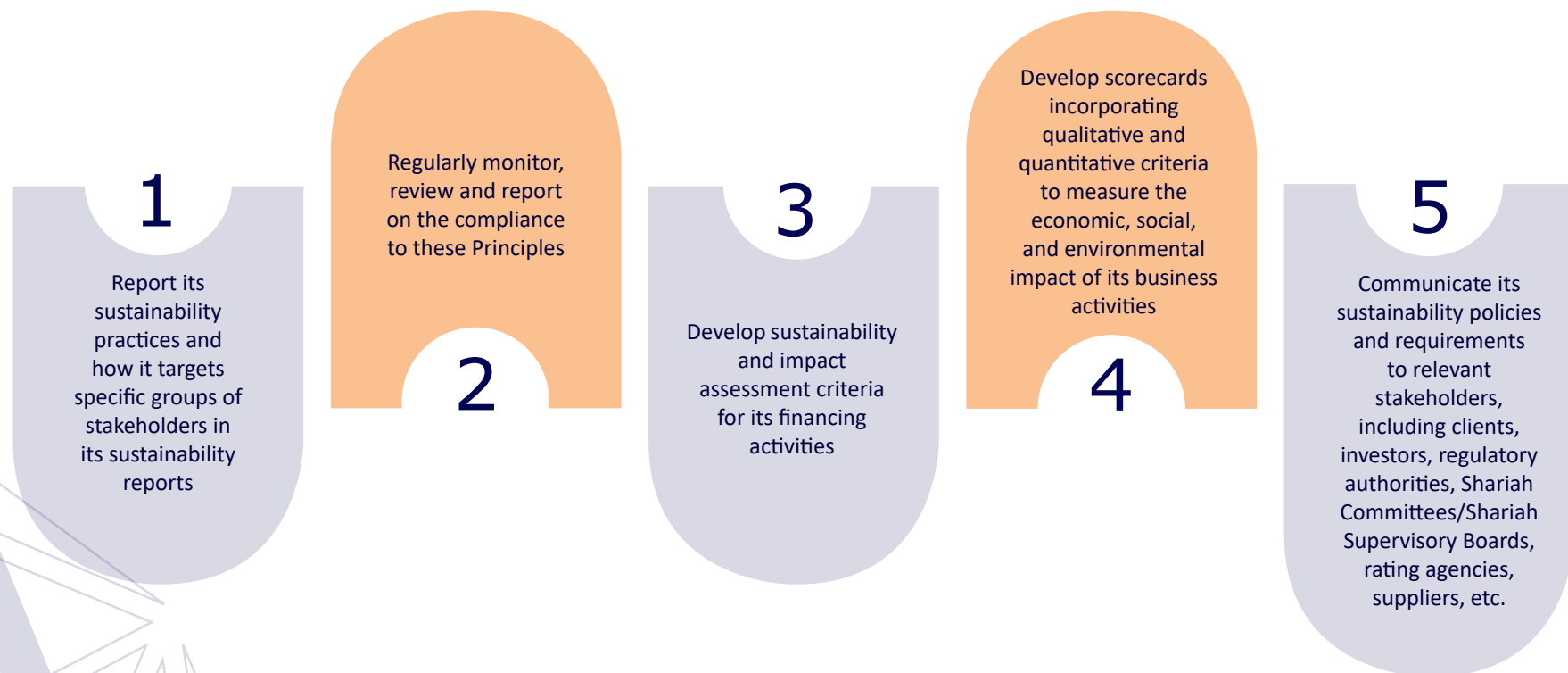
Principle 4

Monitoring, Reporting and Communication



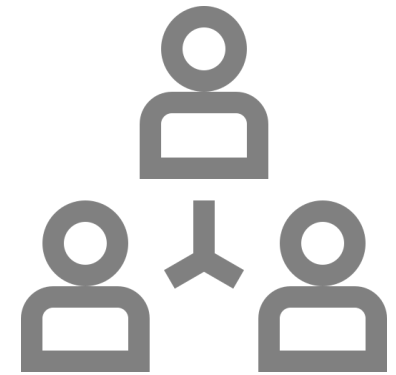
The development of measuring, monitoring, and reporting tools enhances the credibility of a Bank in terms of sustainability integration. The objective of this Principle is to measure how banks can and should have a positive impact by deploying capital and resources.

In applying the principle, the Bank should:



Principle 5

Coordination and Collaboration



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.

**Scan the QR Code to download the full version of the
CIBAFI Sustainability Guide:**



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