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10<sup>th</sup> April 2019

**Eric Usher**  
Head  
UNEP Finance Initiative  
International Environment House  
11-13 Chemin des Anémones  
CH-1219 Châtelaine  
Geneva, Switzerland

Dear Mr. Usher,

### **CIBAFI Comments on the UNEP FI Principles for Responsible Banking**

The General Council for Islamic Banks and Financial Institutions (CIBAFI) presents its compliments to the United Nations Environment Programme Finance Initiative (UNEP FI) and takes this opportunity to express its appreciation of the work that the UNEP FI does to promote sustainable practices within the financial industry.

CIBAFI is an international body representing Islamic financial institutions globally, who offer financial services and products complying with Islamic rules and principles (Shariah). CIBAFI acts as the voice of the Islamic finance industry, and our members comprise more than 130 Islamic banks and non-bank financial institutions, both large and small, from 34 jurisdictions.

We welcome this opportunity to offer our comments and recommendations on the consultative document (CD) of the UNEP FI Principles for Responsible Banking. The comments contained in this letter represent the views of CIBAFI Secretariat and feedback received from our members.

1. We see a very considerable overlap between the Principles and the underlying ideals of Islamic finance, which see finance as in the service of society and of human development. The Principles are therefore of great interest to our members. Our annual Global Islamic Bankers' Survey, the 2019 edition of which will be published in May, this year has a special focus on our members' contributions to the Sustainable Development Goals (SDGs) in particular. It is clear from this survey that, although there is more that could be done, our members are very conscious of their social responsibilities, including those to development and the environment. However, although our members vary in size and location, they are mainly smaller institutions in emerging markets and therefore need to be able to apply the Principles in terms of local action. Our subsequent comments largely reflect this perspective.

2. It is noted within the CD and the Principles that there is generally a focus on environmental objectives (naturally enough given their genesis in the UNEP). Although frequent references are made to the SDGs, the main focus is on environmental needs. In general, smaller banks in emerging markets are well-placed to contribute to some of the other SDGs, including Goal 1 (No Poverty), Goal 8 (Decent Work and Economic Growth) and Goal 9 (Industry, Innovation and Infrastructure), as well as to Goal 2 (Zero Hunger) and Goal 10 (Reduced Inequalities), particularly through financial inclusion. Therefore, CIBAFI and its members believe it would be better if the Principles had a broader emphasis on the SDGs, including some that smaller and emerging market banks may have more impact on. It is also recommended for the Principles to be more flexible allowing those banks to focus on a limited / focused set of goals which have greater relevance in the respective region.

3. One of the examples in the implementation guidance, under Principle 1, discusses briefly but helpfully the alignment between the SDGs and Islamic banking. CIBAFI and its members noticed that there would be scope to expand this further, for example by referring

to the ability to use zakat, waqf and other philanthropic funds in support of the SDGs. Also, the document may expand more on Islamic finance as a medium for the achievement of the Principles due to the natural alignment of its core values with these Principles. This will in turn also encourage Islamic banks to follow the Principles.

More generally, CIBAFI members noted that the examples given within the document are more reflective of practices adopted by large multinational banks than smaller ones; thus, it would be better if the Principles provided more examples of how smaller banks with presence in a limited set of countries or in smaller regions may also adopt them.

For both these reasons, therefore, CIBAFI and its members believe that the document could provide more examples of good practices by Islamic banks, particularly in financial inclusion, in support of education, and in infrastructure financing. These may include Islami Bank Bangladesh Limited's micro finance programme named "Rural Development Scheme" which aims for financial inclusion, poverty alleviation and empowerment of women. Others include initiatives taken by Real Estate Commercial Bank – Sudan, in financing low-income housing complexes and infrastructure (through lighting projects and water supply in villages), and by integrating and empowering the economically active poor into productive economies through providing sustainable financial services to micro-finance clients. We are happy to expand on these examples or to offer others if you would find it helpful.

**4.** Under Principle 1, and under Principle 5, the CD mentions conducting a materiality assessment to determine where a bank's portfolio and service offerings generate or could potentially generate the most significant positive and negative impacts related to the frameworks given. CIBAFI members noted that by limiting the assessment to these portfolios, this may not coincide with the portfolios which are most profitable to the banks. Given that profitability represents one of the main objectives for shareholders, it may be better to also target the portfolios that are most important to the bank and look into how to turn them into creating positive impacts.

5. Under Principle 2, the CD mentions defining and monitoring KPI for portfolio adjustments over time to increase positive and reduce significant negative impacts. CIBAFI members noted that as banks aim for profitability, they may sometimes put forward specific financing or investments to the clients which are not in the best interests of these clients. Especially in the context of emerging markets, where inclusion and the elimination of poverty are important goals, such behaviour may itself have negative impacts on achievement of the SDGs. Thus, the KPIs set should consider the impact on the client, with a view to reducing the negative impacts generated from retail and small business portfolios in particular.

6. Also under Principle 2, the CD mentions a number of initiatives to be taken for continuous improvement. CIBAFI members noted that these practices may be quite costly on the banks, in addition to their increased regulatory requirements. Thus, it is suggested for the Principles to give more flexibility for the banks in their implementation, stating clearly that not all these are enforced on the banks when registering with the Principles. This is advised to be considered for other initiatives as well. For example, under Principle 3, some of the steps advocated imply that banks can expect to play a significant advisory role towards their clients on sustainability matters; for most smaller banks, this would imply a level of expert resource that they could not be expected to have.

7. Under Principle 3, CIBAFI members suggest that the Principles could add that once banks have identified and classified their retail base, public financial awareness sessions could be held for increased positive impact. Also, within the examples on encouraging sustainability when financing corporates, there are examples of corporate internal practices that could be added, for example supporting economic empowerment for woman and youth through the improving of their working environment and supporting their development and growth.

**8.** Under Principle 4, CIBAFI members noted that some of the points mentioned for consultation with stakeholders are very broad and may impinge on issues of commercial confidentiality. It can be very difficult to have discussions on matters of corporate strategy with a broad stakeholder base in sufficiently detailed terms for them to contribute meaningfully on the issue of sustainability without breaching this confidentiality. Some further guidance on this would be helpful.

**9.** Under Principle 5, the document may include an example of how sustainability auditing can operate in practice for the effective governance of banks in this area.

**10.** Under Principle 6, CIBAFI and its members believe that some of the information provided in the bank’s public reporting may be divided in two parts to include internal and external positive impacts. Internal positive impact would cover the effect on the banks themselves through resource efficiency, working conditions, policies and practices, employees’ awareness on sustainability issues, etc. while external positive impact would cover broader impacts on society and the environment.

**11.** CIBAFI members noted that the timeline of 24 months offered to “starter bank” to establish targets and demonstrate progress on the targets should be extended as the current timeline may not be sufficient for banks in smaller regions to demonstrate reasonable progress on SDGs and other social development goals.

**12.** CIBAFI members also recommend that registration with the UNEP FI Principles may be allowed on a solo basis without requiring all subsidiaries of the group to necessarily comply with the guideline.

13. The document employs some terms that are more tailored to conventional banks than Islamic ones, in particular the term “loans”. CIBAFI members believe that this term should be replaced by “financing” which is broader, and will accommodate Islamic financial institutions’ specificities.

14. CIBAFI members noted that adopting the Principles is likely to involve significant compliance costs for banks, especially smaller ones. While we recognise that the code is intended to be a voluntary one, banks will be more likely to adopt it if they are encouraged and supported by their regulators in doing so. We therefore hope that UNEP FI will be engaging with financial services and other regulators to create this supportive environment for implementation.

We remain at your disposal should you need any further clarifications on the above.

Yours sincerely,



**Abdelilah Belatik**  
Secretary General