Social Responsibility Trends at Islamic Financial Institutions

Based on 2009 Social Responsibility Survey

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Organizing Institutions

DinarStandard
Growth Strategies for OIC* Markets

Dar Al Istithmar
دارُالإستثمار
The Global Leader in Islamic Financial Innovation

Supporting Institution

Accounting and Auditing Organization for Islamic Financial Institutions

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In the Name of God the Most Merciful the Most Beneficent

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Executive Summary

This report on *Social Responsibility Trends at Islamic Financial Institutions* presents the results of an extensive survey on Social Responsibility at Islamic Financial Institutions (IFIs) carried out during summer and fall of 2009 by Dinar Standard and Dar Al Istithmar with the support of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

With the exponential growth of Islamic finance, there has been a simultaneous increase in the expectations gap between Islamic finance practitioners and civil society members about the role that Islamic financial institutions (IFIs) should play in society. The purpose of the survey conducted was to benchmark IFIs with the recently released AAOIFI standards that cover 13 aspects of social responsibility such as client engagement, employee welfare, charity, environment, investment quotas and others. The objective is to provide some empirical data to benchmark trends in social responsibility.

Some key findings of the survey were:

- *Clients*: 100% of respondents answered yes to having a policy to screen prospective clients which is actively implemented. Similarly 97% have an organizational policy that deals with client responsibly.
- *Employees*: 83% of respondents' state having policies that provide equal opportunity to all their employees, 93% have policies that ensures merit-based salary and promotion, and 86% having policies that specifically prohibits any kind of discrimination. However, when it comes to having policy to monitor employees from different backgrounds and gender, the response was mix with only 52% admitting to having such a monitoring policy and 48% not having any such policy.
- *Charity:* 76% indicated that they had polices for charitable activities whilst 17% had none. Charitable activities remains a strong priority for IFIs, but most do not consider utilising their fund mobilizing capabilities to raise funds for charities or emergency causes (only 34% said they do.)
- *Responsible Investments*: 55% responded yes to having some policy in investment quotas on social, developmental and environment orientated investments, whilst 38% did not have such policy. However, amongst the three types, environmental related investment quotas had the least focus (38%).
- *Zakah/ Waqf Management:* Only 10% of respondents said they had a policy to manage Waqf properties on behalf of clients, while only 33% said they managed Zakah on behalf of clients

A set of socially responsible programs shared by the respondents and profiled in this report include a Charitable Takaful Savings plan, a social impact based investment program, and a Sharia compliant micro-finance initiative amongst others.

Overall, the results suggest that IFIs do have a good start on most aspects of social responsibility, contrary to criticisms leveled at the industry. However, this varies widely between institutions. Also, the IFIs have yet to move from the negative screening framework which is primarily based on avoidance (first generation) to the positive action framework which is based on both avoidance and engagement in socially responsible activities (second generation.) This is where IFIs can really make a difference given their financial institution infrastructure. The results should not necessarily be generalized as it may be affected by response bias, since only pro-active and socially responsible institution may feel the need to respond to the survey.

Organizing Institutions/ Acknowledgements

DinarStandard™

DinarStandard™ (DinarStandard.com) is a growth strategy and market intelligence consultancy focused on OIC (Organization of the Islamic Conference) markets. It uniquely leverages original market and consumer insights that enable clients to expand into new markets, identify new investment opportunities, and develop high impact marketing strategies. The DS100, Top 100 Businesses of the Muslim World ranking, has become a key competitiveness benchmark. Other research focuses on OIC Industry Clusters and the global *Muslim Lifestyle Market*™ and is regularly covered by media such as The Economist, Forbes, Zaman (Turkey,) Star (Malaysia), Arab News (Saudi Arabia) and many others. This original perspective and consulting is supported by a network of world-class 25+ analysts and consultants.

Dar Al Istithmar

Dar Al Istithmar (DI), a global Shari'a advisory firm based in the United Kingdom, is a joint venture between Oxford Islamic Finance, a renowned research institute, and Russell Wood Limited, an FSA regulated entity in the United Kingdom and member of the London Stock Exchange. Harnessing the strength of its team of experienced Islamic financial consultants and its Shari'a Supervisory Board consisting of world renowned Shari'a Scholars, Dar Al Istithmar offers a unique combination of Islamic financial expertise and research capabilities to lead the development of innovative Islamic financial products. Dar Al Istithmar has been awarded the "Best Islamic Assurance and Advisory Services" in 2006 and the "Best Islamic Advisory House" in 2007 by Euromoney.

Supported By:

Accounting and Auditing Organization for Islamic Financial Institutions

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), based in Bahrain, is the international organization responsible for development and issuance of standards on accounting, auditing, ethics, governance, and Shari'a standards for Islamic finance industry. AAOIFI standards have been adopted as part of regulatory requirements for Islamic financial institutions in leading Islamic finance jurisdictions including Bahrain, Dubai International Financial Centre, Jordan, Qatar, Sudan, and Syria as well as by Islamic Development Bank group. In order to support technical understanding and application of the standards, AAOIFI also offers Certified Islamic Professional Accountant and Certified Shari'a Adviser and Auditor professional development programs as well as financial contract certification program.

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Introduction

Purpose: The purpose of this report is to analyse the results of a survey undertaken by Dar Al Istithmar and Dinar Standard to assess the level and extent to which Islamic financial institutions (IFIs) undertake socially responsible activities.

Industry Profile: On the back of oil prices and increased religiosity in Muslim countries post 9-11, Islamic finance has catapulted onto the global stage by demonstrating consistently strong growth rates averaging higher than the growth rates of conventional institutions.

Industry Critique: Simultaneously and perhaps as a consequence, the Islamic finance industry has increasingly been the subject of a lot of criticism, particularly from the intelligentsia/academic communities. In 2007, Sheikh Taqi Usmani declared that the majority of Sukuk did not in fact comply with the Islamic rules of profit and loss sharing, while they appeared to take that form. Similarly, in 2009, the International Council of Fiqh Academy declared that some forms of a common cash financing mechanism (tawarruq) were considered a deception containing an element of usury.

The essence of the criticism, borne out of the similarity between the economic outcomes of transactions carried out by IFIs and conventional financial institutions, is that IFIs have a greater purpose than merely replicating the substance of conventional financial institutions in a Shari'a compliant legalistic manner. IFIs should instead engage in a higher proportion of productive profit and loss sharing investments and attempt, through policy shifts, to rebalance wealth distribution by investing in projects and countries with greatest social and economic need.

Social Responsibility: The expectation gap between the intelligentsia/academic community and industry practitioners may have partly arisen as a result of a lack of communication and disclosure on the part of the IFIs to appropriately market their socially responsible activities. This could perhaps be attributed to a lack of understanding of what stakeholders would like to know about and perhaps also due to Islamic injunctions about conducting good or socially responsible activities with modesty.

The survey and the ensuing results seek to address this expectations gap by benchmarking the initiatives of Islamic financial institutions with the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) Governance standard on Corporate Social Responsibility Conduct and Disclosure.

Survey Methodology

Data Collection: The Report results are based on a voluntary, self-assessment survey, comprising 23 sets of questions. The survey and its 13 components are wholly based on the Accounting and Auditing Organisation for Islamic Financial Institution's (AAOIFI) Governance Standard No. 7: Corporate Social Responsibility Conduct and Disclosure for Islamic Financial Institutions. All, full or subsidiary, Islamic Financial Institutions were eligible to participate. The survey was sent to the largest Islamic Financial Institutions (full, or subsidiaries) and other eligible Institutions were invited to complete it online or submit through fax, email or regular mail. Survey answers had to be signed off by a company's relevant representative.

The survey questions cover the following areas of social responsibility:

Survey question categories

1	Screening clients for Shari'a compliance
2	Responsible dealing with clients
3	Earning and expenditure prohibited by Shari'a
4	Employee Welfare
5	Zakah
6	Qard Hasan
7	Reduction of adverse impact on environment
8	Social, development and environment based investment quotas
9	Customer service
10	Micro, small business and social savings and investments
11	Charitable activities
12	Waqf Management
13	Other Miscellaneous activities not covered

The full set of survey questions are available online to download from:
http://www.dinarstandard.com/maqasid/

Scoring: The survey was designed in a manner to ensure that respondents could answer all the questions as easily as possible, with a binary YES/NO tick box response required of respondents. If the questions were not relevant, then the respondents could state that it was not applicable by ticking a N/A box. This provided them a wide degree of flexibility to answer YES to the question if they thought they were conducting the activity which was the subject of the question.

Survey Limitations: This methodology has two limitations, which may affect the accuracy of the results. First, there is no scale of potential responses (e.g. 1,2,3,4,5) which provides the respondent with some degree of latitude to answer the question, where he/she may not be sure whether or not their organization fully complies with the question. As a result, the respondent may have, if in doubt, ticked off the YES box, even though the activity may not be fully carried out by the respondent's organization.

Second, there is no mechanism by which the responses can be independently verified since many of these activities are not publicly disclosed or audited by a third party institution. Nevertheless, to avoid gross misrepresentation, the survey responses had to be signed off by the company's relevant representative, without which the response would not be valid.

Survey Sample

All, full or subsidiary, IFIs were eligible to participate and the invitation to participate in the survey was sent to the Chief Executive Officers of 154 of the largest IFIs to complete the survey online or submit it through fax, email or regular mail. 29 institutions completed the survey with a broad degree of representation from across the world.

Out of a total population of Islamic Financial Institutions world-wide of 462 institutions sourced from DinarStandard's database, the response rate represents a 90% confidence level with a +/- 14.8% margin of error. Figure1 provides the response distribution in terms of the type of IFI. The number of institutions per type is evenly distributed and represents broadly the distribution of the type of IFIs.

Figure 1. Distribution of IFIs by type

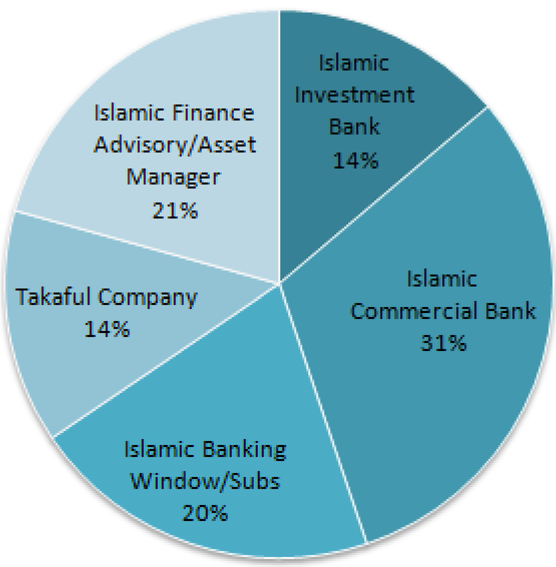


Figure 2. Distribution of IFIs by country

Country	# Responses	% Responses
Algeria	1	3.45%
Bahrain	5	17.24%
Bangladesh	1	3.45%
Brunei	1	3.45%
Canada	2	6.90%
France	1	3.45%
Hong Kong	1	3.45%
Indonesia	1	3.45%
Iran	1	3.45%
Jordan	1	3.45%
Malaysia	3	10.34%
Pakistan	1	3.45%
Saudi Arabia	2	6.90%
Singapore	1	3.45%
South Africa	1	3.45%
Sudan	1	3.45%
Thailand	1	3.45%
Turkey	1	3.45%
UAE	3	10.34%
Total	**29**	**100.00%**

Figure 2 provides the number of responses from each country which shows a good geographic distribution across the main IF markets. It is interesting to note that responses were also received from Canada, France and Hong Kong, all of which do not have explicitly licensed IFIs. However, these institutions are Islamic windows or investment companies, which are not necessarily regulated as IFIs. Nevertheless, for the purposes of the survey, the sample size and distribution is within acceptable limits and therefore allows us to make valid inferences about the universe.

However, the sample may be affected by response bias, since only institutions which are concerned about social responsibility in the Islamic Finance industry or actually conduct themselves in a socially responsible manner may only respond to the survey.

Results

Screening and dealing responsibly with clients

100% of respondents answered yes to having a policy to screen prospective clients which is actively implemented. Similarly 97% of the respondents agreed to have an organizational policy that deals with clients responsibly whilst only 3% stated that this policy was not relevant for their organisations.

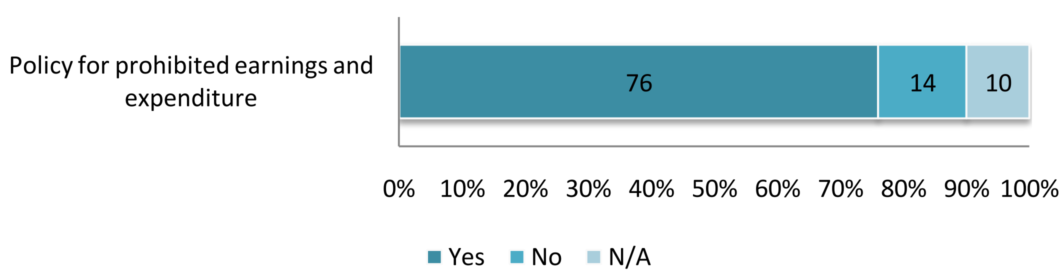
Questions asked:

- *Does your organisation have a policy to screen prospective clients that is actively implemented?*
- *Does your organisation have a policy for responsible dealing with clients that is actively implemented?*

Earning and Expenditure prohibited by Shari'a

74% of the respondents agreed to have a policy which deals with earning & expenditure prohibited by Sharia, whilst 14% stated no and only 10% stated that it was not relevant. These responses indicate that more the mature the organizations, then there is more tendency to adhere to such a policy whilst new organisations in the field of Islamic finance tend to overlook such a policy.

Figure 3. Policy on earning and expenditure prohibited by Shari'a



Questions asked:

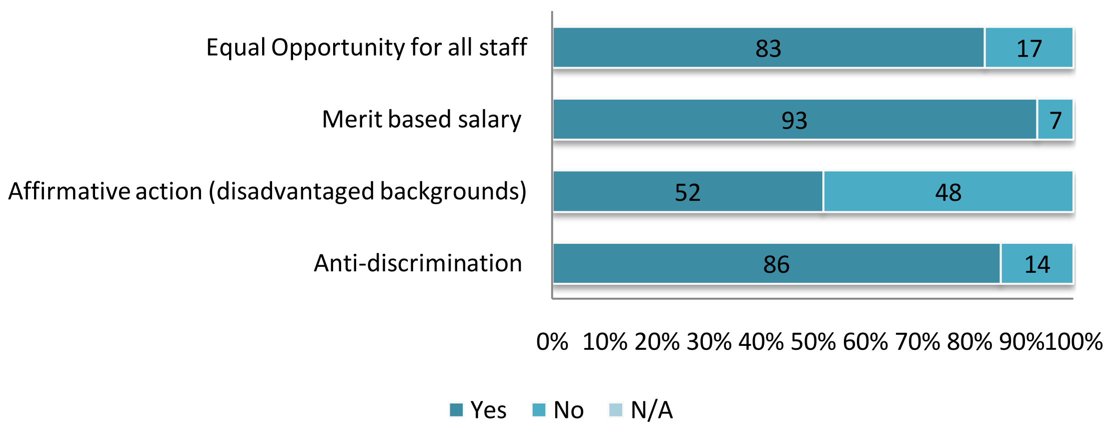
- *Does your organisation have a policy to deal with earnings and expenditure prohibited by Shari'a (impermissible or haram transactions) that are actively implemented?*

Employee Welfare

With regards to employee welfare there was high agreement in organisations having policy that provides equal opportunity to all their employees (83%) and policy that ensures merit-based salary and promotion for all their employees (93%) and 86% responding to having a policy that specifically prohibits any kind of discrimination.

Interesting that when it comes to having policy to monitor employees from different backgrounds and gender, the response was mix with only 52% admitting to having such a monitoring policy and 48% not having any policy of such. This indicates that whilst the organisations do not intentionally exclude any employees from their workforce, there is no transparent method to illustrate their compliances to their own policies.

Figure 4. Policy on employee welfare



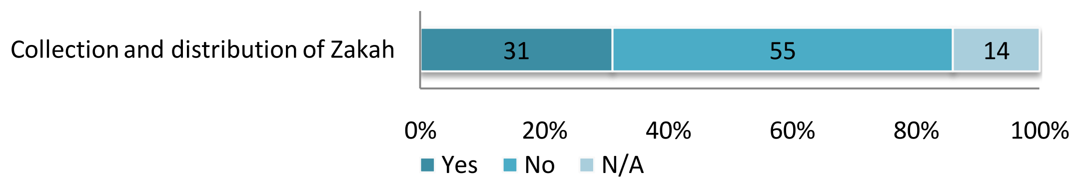
Questions asked:

- *Does your organisation have any policy which requires equal opportunity for all employees, regardless of gender, race, religion, disability or socio-economic background?*
- *Does your organisation have any policy that specifically requires merit-based salary and promotion structure for all employees, regardless of gender, race, religion, disability or socio-economic background?*
- *Does your organisation have any policy that specifically requires establishing, monitoring and acting on realisable quotas/targets for employment of staff from disadvantaged backgrounds, with disabilities, from a minority/excluded group, and/or from under-represented groups in the formal economy (including females)?*
- *Does your organisation have any policy that specifically prohibits discrimination, including and not limited to gender, race, religion, disability or socio-economic background, penalties for such discrimination and avenues for complaints for such discrimination without any manner of recrimination?*

Zakah

There was a mixed response to the questions on whether the organisation had any policy to collect and distribute Zakah revenues on behalf of the customer and clients as only 31% agreed to have such a policy but 55% insisting they had no policy.

Figure 5. Policy on Zakah management on behalf of clients



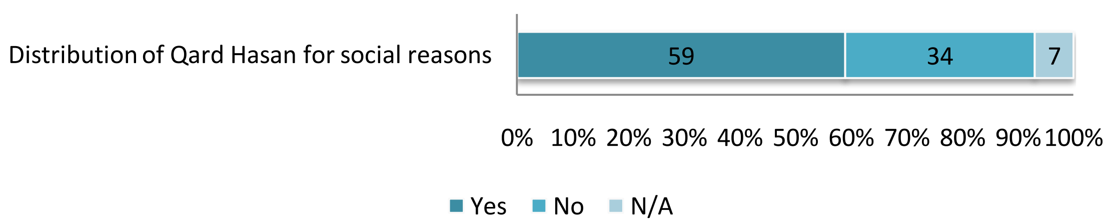
Questions asked:

- *Does your organisation have a policy to collect and distribute Zakah revenues on behalf of clients, customers or shareholders?*

Qard Hasan

The response to having a policy on Qard Hasan was the opposite of the Zakah questions in terms of 59% having such a policy to adhere to social reasons and 34% not having any policy at all. It seems that the answers to these questions were inversely related.

Figure 6. Policy on Qard Hasan



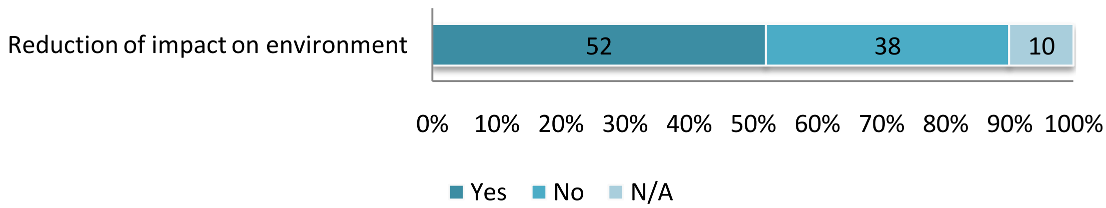
Questions asked:

- *Does your organisation have a policy for Qard Hasan distribution for social reasons?*

Reduction of impact on environment

In connection to the organisations proactive policy for reducing the impact the organisation had on its environment, the result was balanced as only 52% indicated that they had some kind of policy whilst 38% indicated that they had none at all. This is an unexpected result as Islam and similarly contemporary CSR recommends the protection of the environment, unless it is detrimental to the needs of humans.

Figure 7. Policy on environmental impact



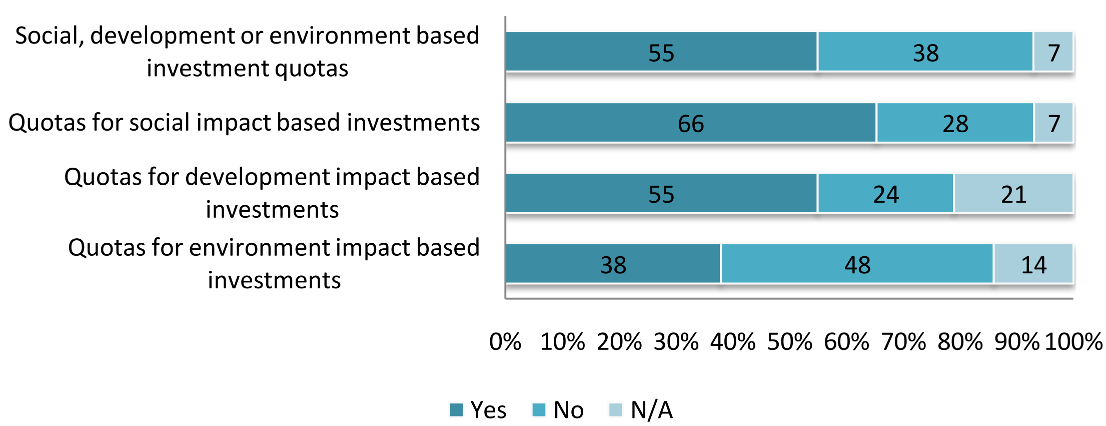
Questions asked:

- *Does your organisation have a proactive policy for reducing the impact of your organisation on the environment?*

Social, development and environment based investment quotas

As per the above point, 55% responded yes to having some level of policy in investment quotas on the social and environment orientated investments, whilst 38% did not have such policy. This backs up the view of the organisations in terms of their policy towards the environment. Also, 66% indicated that they have some level of quotas on investments that are made in social projects whilst only 28% indicated that this is not the case.

Figure 8. Policy on social, development and environment investments



There is tendency for IFIs to invest in projects that have more development opportunity which gained responses of 55% favourably. In contrast, investing in projects that have environmental impact only received

38% favourable and 48% stating that environmental concern does not play a part in their investment decision making, suggesting that while reducing the impact of the IFI on the environment was important, investing in projects that assisted in the preservation of the environment was not as high a priority.

As most of the organisations are based in the OIC countries, this trend is not much of a surprise as development commands higher priority in these countries whilst in more mature countries, it is expected that the environment will have a higher influence in the investment decision making process.

Questions asked:

- *Does your organisation have a proactive policy for social, development oriented and/or environment based investment quotas?*

- *Does your organisation have quotas/targets for social-impact investments, based on the role that the investments play in any of the following:*
  a) *assisting poor and needy individuals and families, by financing business opportunities and/or education?*
  b) *assisting orphans?*
  c) *assisting heavily indebted individuals or families with unfortunate circumstances?*
  d) *assisting in the provisioning of health and medical services to impoverished communities or areas?*
  e) *assisting in the development of research and education facilities, particularly those that utilize and empower disadvantaged individuals or communities?*
  f) *assisting the development of small and medium sized entrepreneurs and family businesses?*
  g) *encouraging the development of Islamic and native societal culture?*
  h) *discouraging contemporary social ills and vices, opportunities and/or education?*

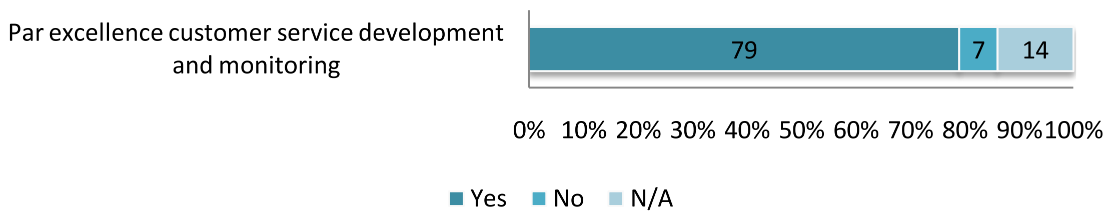
- *Does your organisation have quotas/targets for development impact investments (tick the box if your organisation is active in any of the following)*
  a) *that offer significant growth potential for the country of operation or for another developing country?*
  b) *that significantly contribute to the development of infrastructure in the country of operation or for another developing country?*
  c) *that have a significant proportion of small to medium size enterprises (SME) or indirectly rely on small to medium size enterprises (SME)?*
  d) *that directly or indirectly assists in the alleviation of social and economic disadvantages and discrimination, including and not limited to the micro-finance industry and third-sector organizations?*

- *Does your organisation have quotas/targets for environment impact investments, based on the role that the investments play in:*
  a) *protecting the environment?*
  b) *reducing the impact of development on the environment?*
  c) *encouraging individuals and institutions to protect and preserve the natural environment and reduce the impact of development on the environment?*
  d) *increasing the use of renewable, sustainable sources of energy and/or reducing the reliance on scarce non-renewable sources of energy?*

Par excellence customer service

Majority of the respondents (79%) had a policy or development plan for excellent customer service, which is not a major surprise, given that, most if not all service organisations will have major investment and training in this area.

Figure 9. Policy on customer service



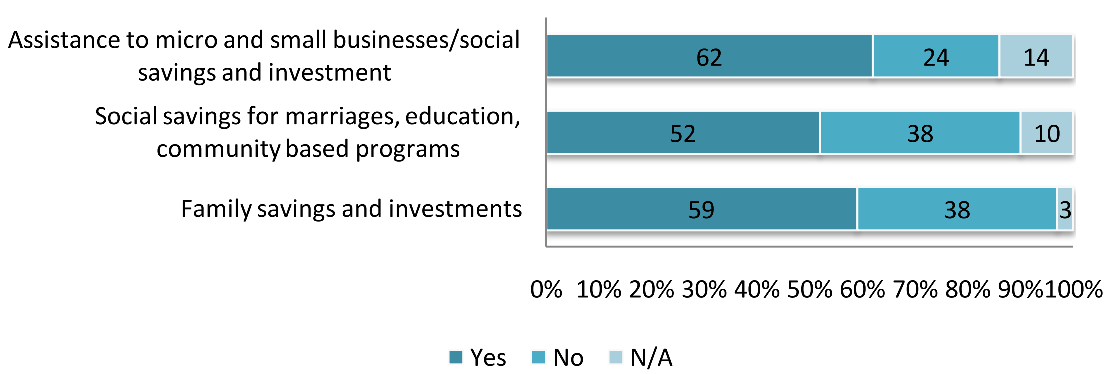
Questions asked:

- *Does your organisation actively implement any policy to develop AND monitor par excellence customer service skills of employees (and contractors)?*

Small Business and social savings

In connection to small business and social savings the response was fairly balanced with 62% indicating that they had a policy to assist small businesses and encourage social investments and a similar favourable response was made for any social welfare programs (52%).

Figure 10. Policy on small business and social savings



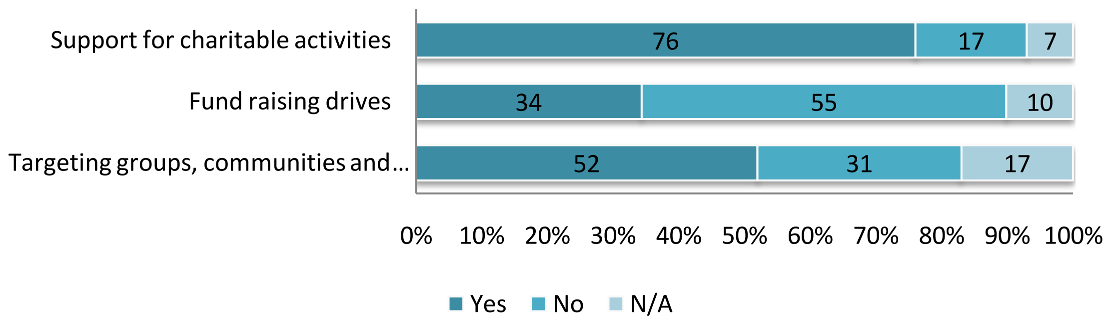
Questions asked:

- *Does your organisation actively implement any policies to assist micro and small businesses and/or social savings and investments?*
- *Does your organisation encourage through pro-active policies social savings for marriages, children?s education, community based programs or other social welfare programs?*
- *Does your organisation encourage, through pro-active policies, family savings and investment?*

Charitable activities

In terms of charitable activities, 76% indicated that they had polices for such activities whilst 17% had none. Only 34% said 'yes' when it came to fundraising or administrating emergency funds from their clients whilst 55% said 'no' to this question. 52% responded positively for having polices for targeting groups, communities and institutions that requires assistance.

Figure 11. Policy on charitable activities



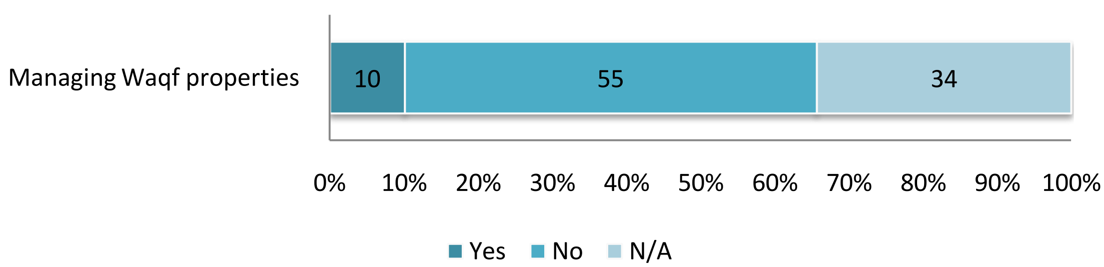
Questions asked:

- *Does your organisation have pro-active policies/support for charitable activities?*
- *Does your organisation establish/admin. fundraising drives (emergency, other) from amongst its clients?*
- *Does your organisation actively target groups, communities or institutions that require assistance, including and not limited to poor and needy individuals, orphans, heavily indebted individuals or families with unfortunate circumstances, health and medical services?*

Management of Waqf properties

In terms of the organisation having a policy to manage Waqf properties on behalf of their client, 55% indicated that they had no such policy and 34% indicating that this was not relevant to their organisation.

Figure 12. Policy on management of Waqf on behalf of clients



Questions asked:

- *Does your organisation have pro-active support/policies to manage Waqf properties on behalf of their beneficiaries?*

Analysis & Recommendations

Contrary to perceptions about the apparent lack of socially responsible behavior in IFIs, the results suggest that IFIs have in fact taken substantial measures towards social responsibility. However, there are still many gaps in terms of the various potential opportunities/issues that are not being addressed.

Charitable activities are a strong priority but retain their traditional approach

76% of IFIs surveyed reported that they have policies or support for charitable activities, which suggests that most IFIs do consider this as a strong priority, without any other external influences or pressures. However, only approximately half of the IFIs (52%) surveyed actually target specific groups, communities or institutions that require assistance, which suggests that many IFIs do not have a pro-active role in scoping out needy causes. This traditional approach to charitable activities is also evident from the fact that the IFI do not utilise their infrastructure, which is conducive to mobilizing funds, to administer fund raising charity drives for emergency or recommended causes, such as orphanages and natural disasters.

Pro-active assessment of needy causes and utilizing their financial infrastructure (clients and network) to mobilize funds raising drives would take IFIs commitment to charitable activities to a higher level of sophistication and impact.

COMMENDABLE PROGRAMS

Charitable Takaful Savings Plan - Bahrain based IFI (*Ta'zur*):

An interesting and unique case of charitable fund raising was developed by a Bahrain based IFI, which utilized it's enhanced ability to structure annuities along with its mutual protection (*takaful*) capabilities to develop the world's first charitable *takaful* savings plan. The essential basis of this not for profit product is that it allows donors to invest the charity amounts over several years and then eventually be able to contribute the lump sum to a charity of their choice at the end of the term. What is unique about the product is that, in the event that the donor suffers from critical illness or disability, the *takaful* protection that is built into the program replaces the donor and continues to pay the amounts the donor intended to pay, so that the charity would receive the full benefit at the end of the term.

Charitable Programs - (*HSBC Amanah*)

One multinational institution with a strong Islamic banking subsidiary franchise has contributed to charitable institutions that provide Shari'a compliant micro-finance to the world's poorest in countries such as Pakistan and Sri-Lanka. The institution, in a partnership with a charitable organization, also initiated the *Jaipur Artificial Limb Project* in Karachi and Islamabad whereby 950 people received free service. These artificial limbs are so efficient that after its fitting, a person can walk like a normal person without a stick or support, and even run, ride a bicycle and climb a tree.

Social welfare and development a strong priority

Majority of IFIs surveyed claim that they have quotas/targets for social impact (66%) and development (55%) impact investments, which suggests that IFIs are utilising their enhanced investment distribution capability to contribute to social welfare and development. This is a strong rebuttal to critics who suggest that IFIs do not consider such metrics when evaluating where and what to invest in. It also notable that within the two types, social-impact investments (e.g. support services for the poor, orphans, disadvantaged communities etc.) and development-impact investments (e.g. national development, infrastructure, SME support etc.), social-impact investments gets more focus. This is further supported by the fact that 21% considered development-impact investments not to be relevant versus only 7% considered social-impact investments not to be relevant to them.

It also significant to note that a big percentage of respondents do not have any social/development focused investment quotas.

COMMENDABLE PROGRAMS

Social Impact based Investment - (*Jordan Islamic Bank*):

This IFI located in Jordan, targets professionals and craftsmen, with the intention to help citizens who have the right skills but no funds and employment to sustain themselves and their families. Although the financing is provided through either Murabaha (cost plus mark up deferred sale) or Musharaka (partnership), the principles are in line with profit sharing concept which is highly recommended by Islam and Islamic finance is often criticized for not reaching out or engaging with the poor on these terms. The IFI mentioned financed 692 projects in the period from 1 January 2009 – 30 April 2009 and provided total financing equivalent to USD 8.2 million.

Environment has predominantly taken priority in preservation, not investment

An interesting theme to emerge out of the survey was that while the majority of institutions (52%) were concerned to reduce their impact on the environment (evidenced by policies to that effect), only 38% were actually targeting environmental impact through specific and dedicated quotas. There may be reasons for this, including the hypothesis that is prevalent in Muslim societies that Islamic principles do not give priority to the environment over other basic human requirements, such as shelter, clothing and food for the poor, societal needs and care for the orphans. This is evidenced by the lack of environmental initiatives by Islamic charities[1]. Nevertheless, environment still remains a concern and many institutions (52%) have adopted policies to reduce the impact of the IFIs on the environment.

Given a worldwide concern for climate change and other environmental issues, this is an area that the IFIs should definitely allocate increased attention to. Some IFIs such as HSBC Amanah driven by its conventional counterpart extensive experience in this area, could be a great source to learn from.

[1] For instance see Muslim Aid and Human Appeal International, two of the best run Islamic charities available.

COMMENDABLE PROGRAMS

Environment preservation related policies – (*Jordan Islamic Bank*):

This IFI has several policies to reduce their impact on the environment, which includes:

- Prohibition of smoking in any premises of the IFI;
- Cigarette or tobacco production companies are not financed;
- Ensuring minimal use of paper through transference to e-mail technologies;
- Prohibition of financing old cars as a result of their impact on the environment;
- Ensuring that factories financed by the IFI are in compliance with government emissions and environmental regulation and standards.

Second Generation Environment Policies/ Investment Strategy - (*HSBC Amanah*):

This IFI, a conventional institution with a prominent Islamic bank subsidiary has set themselves goals to reduce electricity, waste, water and CO_2 emissions in the following manner.

This would, to the extent that the subsidiary is regulated by the same standards, apply directly to the activities of the IFI itself. During 2008, the last full audited year, the institution achieved significant reductions across all 2008 environmental metrics. (4.6% reduction for energy, 9.9% reduction for water, 15.5% reduction for waste, 4.7% reduction for $C0_{2)}$

The same institution also has a very unique and focused investment strategy to tackle some of the environmental issues, within its capacity. They are developing proactive investment strategies around waste management opportunities for more effective waste mitigation as well as a renewable energy source. Similarly, they are looking at ways to create access to the capital markets for forest operators and, in return, enable them to monetize future cash flows. In water financing, its projections forecast, from 2006 to 2025, the world will need to spend between US$1.8 trillion and US$3 trillion on installing, operating, and maintaining water and sewage facilities. Due to the potential lack of available funding, there will be a potential shortfall of between US$1.3 trillion and US$2.4 trillion, which means private sector financing, is very significant. With its conventional parents experience is such financing, the IFI is looking at such opportunities that will not only include large scale investment from a project finance point of view but will also provide opportunity within several underlying technologies, such as filtration membranes, disinfection systems, information technology for water utilities, water pumps, and pipes.

The proactive environmental policies as well as related investment strategy mentioned here are parts of Group wide HSBC initiatives. The investment strategies reflected above doesn't imply that these are being implemented today by the Islamic window – HSBC Amanah. However it's worth highlighting as a good reference for IFIs to consider.

Concentration on serving, screening and responsible dealing with customers

It is apparent that within socially responsible activities, most IFIs placed service (79%), screening (97%) and responsible dealing with customers (76%) as a priority.

This suggests that banks are conducting themselves in a risk mitigation and value enhancing manner, which while being in line with Islamic social responsible norms, are also driven by bottom line concerns about retaining and increasing value from customers. This is in and of itself a good indicator, but not enough to suggest that IFIs do conduct themselves in a socially responsible manner outside of their vested interest.

High quality employee welfare policies but yet to move to second generation employee welfare

Interestingly, IFIs place a strong emphasis on preserving the rights of employees and thereby guaranteeing their welfare, with 83% having a policy to ensure equal opportunity, 93% having a policy to ensure merit based salary and 86% having an anti-discrimination policy. However, two issues deserve special attention.

The protections afforded by these policies are not clear and cannot be assessed without reference to the actual policy wording, the complaints/redress mechanisms available in the IFIs and whether these complaints/redress mechanisms are readily accessible by all levels of staff, regardless of their background. Therefore, the high quality results should be qualified unless further detail is supplied.

The second issue is that only half of the respondents (52%) have an affirmative action (disadvantaged backgrounds) policy. This means that the IFIs are not as proactive when it comes to identifying disadvantaged groups and providing them the equal opportunity they require for the group to gain an equal standing in society.

COMMENDABLE PROGRAMS

Anti-Discrimination Policy - (*Al Baraka Islamic Bank South Africa*):

This IFI in South Africa (a country that has had an infamous reputation for rascism and apartheid), has readily supplied its anti-discrimination policy. This may have been borne out of their recent historical heritage, as the policy of the bank states:

"This policy has been formulated in an effort to redress the historical impacts or South Africa's recent history with regards to employment opportunities and other discriminatory practices that may have existed at the Bank. Accordingly, the Bank commits itself to ensuring equal employment practices, by enforcing the right of fundamental equality between men and women in employment, as well as the right of every person to be protected against employment discrimination on the grounds of race, gender or disability. By so doing, the Bank commits itself to continue the process of ongoing transformation in order to provide full employment to all persons from the designated groups."

The IFIs policy is classified second generation where it covers affirmative action for prospective and existing employees with disadvantaged backgrounds. To this extent, the policy requires the appointment of an equity committee which is vested with the following responsibilities:

- *That the departmental targets established for Employment Equity purposes may be reviewed and monitored by the Committee, with recommendations being made to the Departmental Head and Management Committee should the targets be inadequate or over ambitious.*

- *Monitor the applicability of the Employment Equity Policy and propose amendments should it be necessary*
- *Monitor recruitment and placement decisions, both internal and external. and debate these decisions should they be considered to be unfair, biased or improperly managed.*

Managing Waqf/ Zakah for clients - an opportunity ignored?

Only 10% of respondents said they had a policy to manage Waqf properties on behalf of clients, while only 33% said they managed Zakah on behalf of clients. A low response rate here shows an opportunity that IFIs should consider.

Qard Hasan (gratuitous loan)

Qard Hasan, an important form of social service in Islam, is practiced fairly well as 59% of the respondents said they have a policy for Qard Hasan for social reasons. However, we would expect that this is practiced fairly universally and the subsequent emphasis should be more around the impact, reach and effectiveness of such measures.

Overarching recommendation:

Upon a substantive review of the responses and the supporting documentation supplied, it is evident that IFIs with varied nuances do have a good start on most aspects of social responsibility covered by this survey. However, this first introductory survey has not been able to assess in its entirety the real extent and impact of social responsibility by IFIs.

Within its limited sample, it is evident that the majority of IFIs have yet to embrace the concept of financial institution utility to enhance their social responsibility. Financial institutions have the ability to redirect funds from the capital rich to the capital deficient to ensure the redistribution of wealth in the long term.

As an example, one method to efficiently utilize an Institutions infrastructure is by maintaining policy targets for financing to SMEs and micro-finance entrepreneurs in the developing world. Micro-finance and SME finance has continuously proven to be a sustainable revenue stream, subject to appropriate risk management strategies, including portfolio diversification, low concentration risk and stringent credit and social collateral requirements.

Where IFIs do not have access to developing country micro-finance, they can invest their funds through dedicated micro-finance fund managers who will ensure that appropriate risk mitigation techniques are achieved and the funds are distributed and recovered in an appropriate manner. Where IFIs do not have the risk capital, they can utilise their charitable funds to conduct such operations in a pilot project up until the project demonstrates sustainability of capital and profitability over a period of time, while minimizing risk for the IFI.

At the same token, IFIs can also invest in particular industry sectors that demonstrate social and/ or environmental impact while providing profitable revenue streams, such as education, healthcare addressing the needy water desalination, waste management etc.

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