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Integration between ESG Goals and Value-Based Intermediation Approach within the Paradigm of Islamic Finance

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Abstract

Environmental, Social, and Governance (ESG) goals is a trending topic for scholarly discussion around the globe because of their emphasis on the social and environmental impact of human activities on the society. They are also linked with the performance of institutions and governance effectiveness. A *Shariah*-compliant Islamic finance structure or governance framework contributes to achieve sustainability and tackle global issues and challenges. From the ESG perspective, there is no doubt there are many barriers and challenges in implementing these goals, especially in financial institutions. Apart from other approaches, the Value-based Intermediation (VBI) approach is introduced to achieve the common objectives within the Islamic financial system. This research aims to integrate the ESG goals and VBI approach in the Islamic finance paradigm. It is a qualitative research that includes a bibliometric analysis, where the secondary data was extracted from the available literature comprising research papers, books, and institutional and organizational reports. Simulataneously, statistical information extracted from the Scopus database was used for bibliometric analysis. We found that there are a lot of commonalities between these concepts like sustainability is one of them that is linked with ecological footprints and social impacts and governance efficiency. Islamic banking needs to transform from profit-oriented to value-oriented, as it is closer to the fundamental principles of the *Shariah* and global objectives. In this regard, the implementation of ESG screening with *Shariah* screening and VBI element in Islamic finance products and services is important.

***Keywords*:** environmental, social, and governance (ESG) goals, Islamic finance, *Shariah* compliance, value-based intermediation (VBI)

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Introduction

Environmental, social, and governance (ESG) goals, are trending topics around the world that are getting more attention among researchers because they focus on social and environmental impacts and have linked better financial performance with good governance. Aside from the disruptions caused by the pandemic, ESG-related risks are seen as a major concern since 2019. The demand for sustainable and ESG-focused portfolios continue to rise. It is important to note that this trend also affects Islamic finance markets. For example, even though green and sustainability Sukuk are still young, they are growing by double digits. Investors eventually are becoming interested in socially responsible investment funds and environmental, social, and governance (ESG) funds. A study titled "ESG Integration and Islamic Finance: Complementary Investment Methods" (2019) stated that Islamic finance and ESG investing are two approaches to raise money and invest, which share many of the same basic ideas.

Also, Islamic finance can be a significant sector when it comes to putting ESG standards into place for global sustainability. Islamic finance has a lot of untapped potential as a major, non-traditional source of financing for long-term sustainability. SDGs, more specifically, ESGs can't be achieved without the help of Islamic financial instruments. They encourage development that is good for the society and establish a link between economic growth and social well-being.

There is another notion known as Value-based Intermediation (VBI) presented as a part of a strategic paper by Bank Nagara Malaysia (BNM) and other stakeholders. VBI is defined as follows:

"An intermediation function that aims to deliver the intended outcomes of Shariah through practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment, consistent with the shareholders' sustainable returns and long-term interests" (Bank Negara Malaysia, 2017).

The VBI structural paper was issued/published on July 20, 2017. It reaffirmed the VBI goals and provided methods and plans to make VBI the strategic direction for the Islamic banking industry. BNM wanted to hear what people think about the proposed initiatives. This included suggestions for specific problems or areas that needed more work and other ideas that could be looked into. VBI is important to establish Islamic banking as a key and leading agent of positive change in the financial system. It works in a network economy based on shared values, such as honesty, inclusion, and sustainability. VBI is important for the Islamic financial industry to meet the *Maqasid Al-Shariah* (Ismail et al., 2020).

VBI instructions state how important it is for Islamic financial institutions to be able to work together to achieve *Maqasid Al-Shariah.* These are achieved through practices, conduct, and offerings that have a positive and long-lasting effect on the economy, community, and environment without damaging the financial benefits of shareholders.

ESG is very important for the future growth of the Islamic banking industry because it brings together economic growth, social inclusion, and environmental and social sustainability (Mahadi et al., 2019; AlAnsari et al., 2020). Hence, this study explores the ESG approach and its implications for the Islamic finance industry. It analyzes the association between ESG and VBI guidelines, highlights their importance, and also demonstrates as how to implement them in Islamic finance in a more efficient way with the aim to achieve the global common core objective of sustainability. This study is divided into several sections. The first section includes an introduction to these concepts and signifies their importance. The second section deals with a detailed review of available literature on the subject. The third section is about the ESG concepts more broadly to understand, whereas the fourth section deals with VBI application. Fifth section is about the integration of ESG and VBI integration with respect to Islamic Finance services. Conclusion is given in section six, followed by recommendations in section seven.

Over the last few decades, the concept of sustainability is emerging in financial services which is focused on the effects of the Pandemic and ESG goals. Value-based intermediation is the continuity of these financial infrastructure needs. So, in this study we try to understand the application of these two concepts and how are they interlinked with each other? The broader objectives of this study are as follows:

- To discuss the ESG approach along with its practical implementation for Islamic finance.
- To find out the core objective of VBI that could be for Islamic financial services and could be adopted.

Literature Review

Environment, Social, and Governance (ESG) Factors

With the global COVID-19 pandemic, there has been a significant change in economic and social structures. The regulatory bodies and supervisory institutions have started to realize this issue and its impacts. So, there are many principles and guidelines that have been documented before, like SDGs, and ESG goals. ESG became visible in 2020, with massive rallies supporting enhanced racial justice and fairness and increased focus on business' broader social obligations, as stated in the Global financial services report.

Shakil et al. (2019) conducted an empirical study about ESG performance and linked it with the financial performance of banks. The study concluded that environmental and social performance has a significant positive effect on banks' financial performance. However, there is little impact of governance on bank performance in the case of developing markets.

Mustafida and Fauziah (2021) conducted a study about the implementation of ESG in *Shariah* stock screening in financial institutions. They concluded that almost all institutions enjoy good corporate governance, although some of them have had sustainability issues. A novel criterion for screening *Sharia* stocks is urgently required for observing sustainable performance. Also, Erragragui and Revelli (2016) found that there were no adverse effects on returns owing to the use of ESG screening on *Shariah*-compliant stocks. In contrast, portfolios with a solid record in governance, products, and environmental concerns performed significantly better.

Miskam and Abdullah (2021) discussed the legislative and regulatory activities by asset managers aimed to encourage ESG in the Islamic fund industry in Malaysia. They concluded that these actions enhance the overall performance. The performance of Islamic enterprises was examined in terms of ESG by Qoyum et al. (2021). They discovered a substantial impact of adopting Islamic criteria regarding performance and advised investors to invest in Islamic firms with strong ESG performance.

Al Ansari et al. (2020) suggested that there are still a lot of problems to solve before ESG and Islamic finance can collaborate. However, combining Islamic finance and ESG may be helpful in the future. The first step to obtain a higher ESG score is to figure out how to work around the problems and limits of ESG integration.

Friede et al. (2015) carried out an empirical bibliographic review of 2000 studies on the relationship between ESG and financial performance. It showed that real-world data strongly supports the business case for ESG investments. About 90% of studies showed a positive link between ESG and Corporate Financial Performance (CFP). It is suggested that investors need to know how to include ESG criteria in their processes to take advantage of the value-adding potential of ESG factors. In the future, the researchers should try to learn more about how the different ESG criteria amalgamate with each other.

Adoption of Value-Based Intermediation (VBI) in Islamic Finance

As previously stated, VBI strives to achieve *Shariah*-compliant outcomes through techniques, behavior, and products that have a positive and long-term impact on the economy, community, and environment, following the shareholders' long-term interests and sustainable profits (Shamsudheen et al., 2020). Since VBI is issued in the form of a document, which provides good content for the operationalization of VBI techniques in the banking industry, as well as for future study (Roshayani et al., 2018). Several scholarly works demonstrate its importance and emphasize its adoption as suggested by Ismail et al. (2020). The Islamic banking community must support the initiative, not just because it helps the banks stay open, but also because it may bring Islam back to Islamic banks as a whole.

Mahyudin et al. (2020) stated that in VBI, corporate governance and performance are essential. Kassim and Markom (2020) applied VBI as a benchmark and concluded that value-based regulations contribute to the sustainability of the Malaysian Islamic financial system.

Ayub (2019) postulated that western and conventional institutions are speedily turning their attention towards ethics and values-based financing. So, it is the greater responsibility and duty of Islamic banks to adopt VBI and focus more on project financing, keeping in view the higher objectives of Islamic principles. VBI is a long journey that requires a significant transformation of mindset among key stakeholders. As stated by Hassan and Nor (2019), five *Shariah* principles are embedded in VBI.

Mahadi et al. (2019) suggested investigating how VBI works and how it's supposed to be used. VBI makes it easier for Islamic banks to offer useful services to their customers and new ideas based on Islamic social finance. Shamsudheen et al. (2020) identified the measures and remedies required to address the prevalent economic consequences of COVID-19. They said that financial institutions are compelled to respond to the policies implemented by various governments, and they are certainly value-based intermediaries. In a recent study Yusof and Ali (2021), spoke about how the board, management, and *Shariah* Committee may influence VBI's performance. The authors came to the conclusion that in order to successfully adopt VBI, a number of important stakeholders need to be involved and work together. However, the internal drivers—the board, management, and the *Shariah* Committee—must be committed.

Methodology for Content Analysis on ESG

This study is based on the qualitative method with secondary data available in the form of research documents and reports. It also employs bibliometric analysis. The articles for content analysis were retrieved using inclusion and exclusion benchmarks to enhance their suitability for a comprehensive bibliometric analysis. Only those studies were extracted that included the word ESG in their title. There were four subject limitations for extraction. The four selected subjects were economics and finance, business and management, social sciences, and environmental sciences. The tools used for this analysis were VOSVIEWER, R Studio, and Excel.

Results of Bibliometric Analysis on ESG

The following table summarizes the content analysis of ESG based on Scopus. The current research incorporated research papers published during the period 2007-2022 from 220 sources, including 588 documents with 391 authors. Table 1 includes all the details of the basic information collected during the analysis.

Table 1

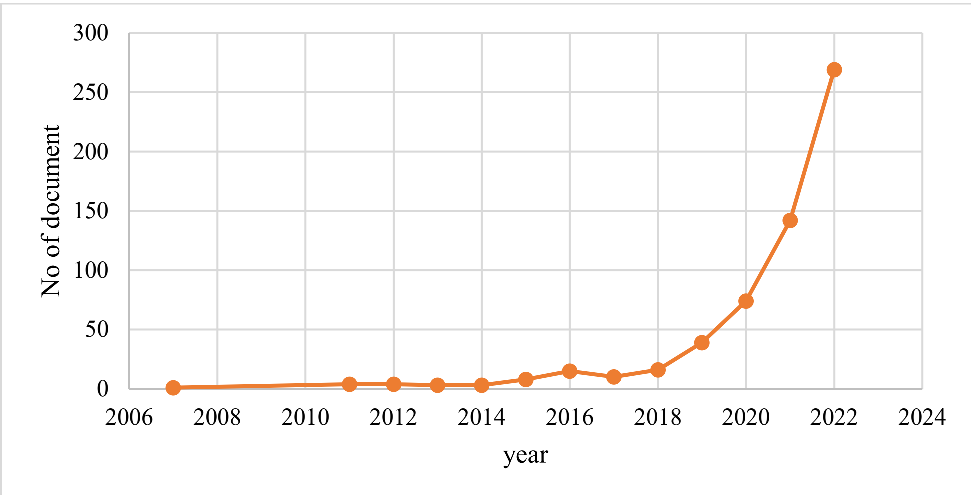
Deceptive Results from Scopus Data

Timespan	2007:2022
Sources (Journals, Books, etc)	220
Documents	588
Average years from publication	1.39

Average citations per documents	11.87
Average citations per year per doc	3.851
References	29547
Document Types	
Article	588
Document Contents	
Keywords Plus (ID)	0
Author's Keywords (DE)	1456
Authors	
Authors	1391
Author Appearances	1601
Authors of single-authored documents	93
Authors of multi-authored documents	1298
Authors Collaboration	
Single-authored documents	104
Documents per Author	0.423
Authors per Document	2.37
Co-Authors per Documents	2.72
Collaboration Index	2.68

Figure 1

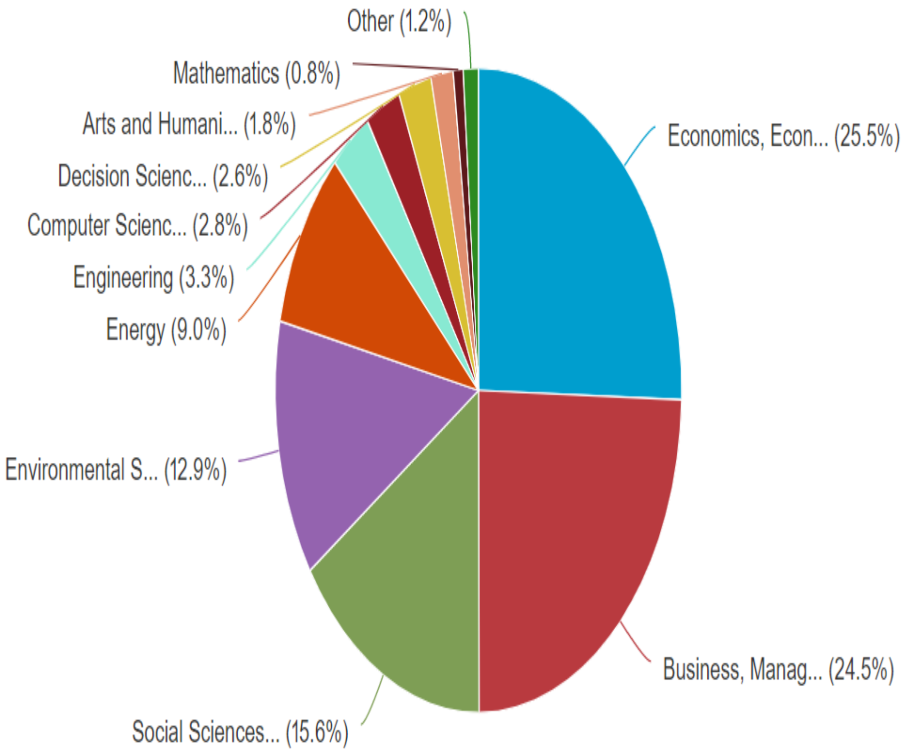
Article Production Per Year for the Period 2007-2022 Based on Scopus Data



This figure clearly illustrates that the number of articles on ESG increased with each passing year, starting from 2007. The first paper was published in 2007 as per Scopus data. While, the number has increased exponentially since 2019. The total number of papers in 2019 was 39, in 2020 it reached 74, in 2021 the number was 149, and by September 2022, 269 papers had been published. This shows the importance of ESG, sustainability, and the future of the next generations.

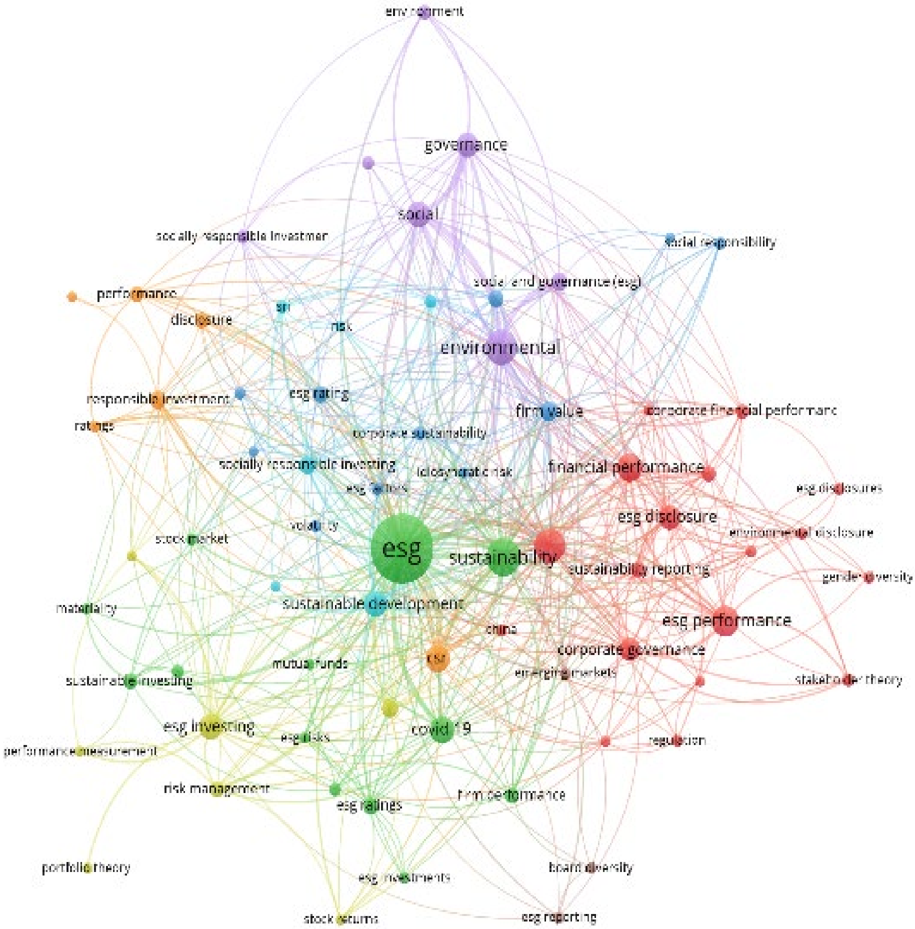
Figure 2

Documents by Subject Area Based on Scopus



This figure shows that the highest number of papers published on ESG belonged to economics and finance (318: 25.5%), followed by business and management (306: 24.5%), social sciences (195:15.6%), and environmental sciences (161: 12.9%), respectively. This depicts the relevance of ESG within these subjects and the institutions and economic policies related to them.

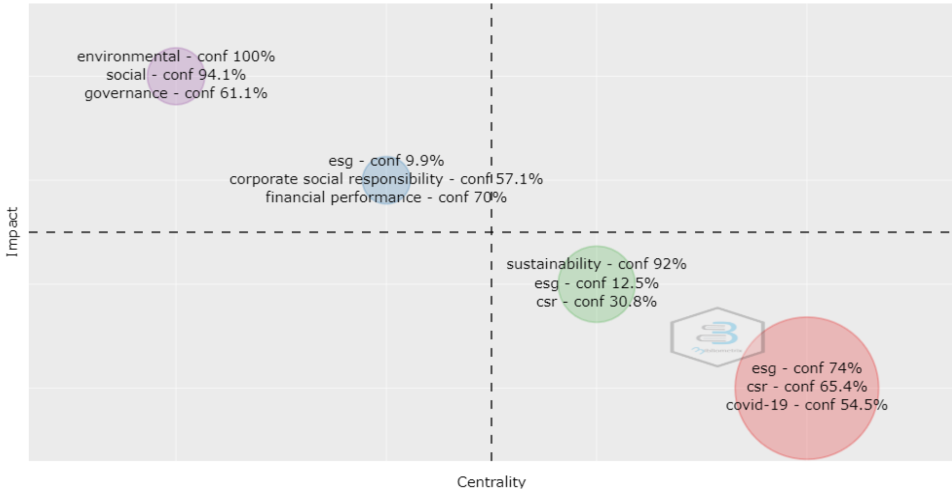
Figure 3
Co-occurrence of Keywords



This figure shows the keywords that lead to themes discussed in the published literature related to ESG. It can be seen that ESG is co-related with sustainability, responsible finance, socially responsible investment, and corporate sustainability. Another point of consideration is that firms, financial institutions, and corporations are also moving toward embracing the ESG notion.

Figure 4

Clusters by Document Coupling using R Studio



The above figure shows that there are four major clusters in the available literature based on Scopus data. The main cluster consists of 143 documents that cover the three main pillars of ESG, namely environmental, social, and governance. It can be seen how these studies cover ESG and other related areas, such as sustainability, financial performance, corporate social responsibility, and COVID-19. In other words, it shows that ESG is linked with these areas. The following figure of the world cloud of authors' keywords depicts the same fact, albiet differently.

Figure 5

Word Cloud of Authors' Keywords using R Studio

Broader Overview of the ESG Concept

In this section, we broadly discuss the concept of ESG and that why do institutional investors care a lot about sustainability? Investors must look beyond the immediate future to identify long-term risks and opportunities that might influence their capacity to preserve and increase wealth for future generations. Their investment horizons can stretch for decades, in contrast to the weekly cycle of company earnings. ESG investment is particularly crucial in this area (Pensions & Investments, 2022). Examples of ESG are given below.

Figure 6
Examples of ESG

Note. Source: Pictet Asset management Guide 2022

Approaches of ESG Implementation

ESG investment can be approached in a variety of ways via asset utilization. In recent studies, ESG approaches have been divided into three categories, namely ESG integrated, ESG binding, and positive approach.

Integrated Approach

This approach has been discussed by different scholars in well-reputed advisory and regulatory reports (Yusof & Ali, 2021; Laldin et al., 2021; Principles for Responsible Investiment, 2019; Bank Negara Malayisa, 2019) . In an integrated strategy, when analysing stock or bond, the asset manager takes ESG issues into account. These factors, which can have a big effect on a business's success, are weighed along with other financial factors that affect an investment decision. The investment, on the other hand, has no good effects on the environment or society. As already stated, more than half of the global institutional investing sector which controls over $45 trillion in assets takes ESG issues into account in some way during the investment process (Pensions & Investments, 2022).

Binding Approach

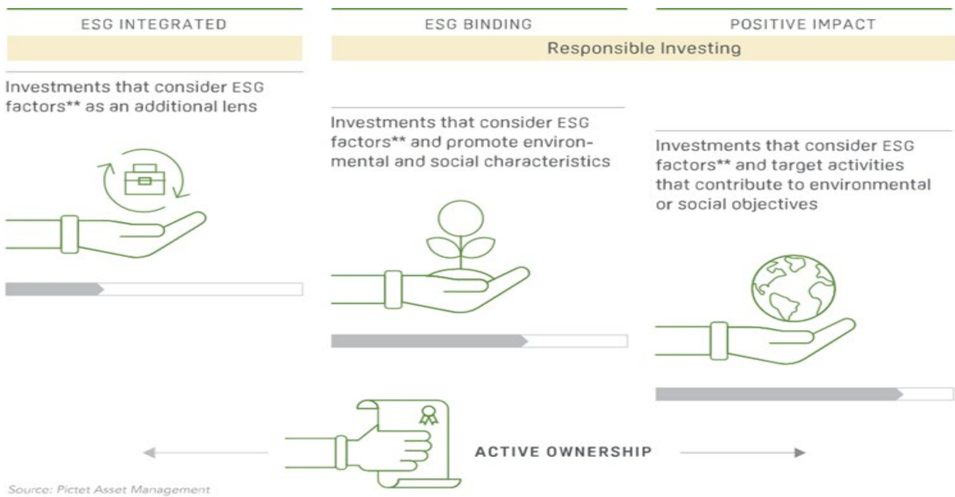
An ESG-binding idea is one in which the investors build their portfolio around the best performing ESG companies. Techniques such as ‘best-in-class’ or ‘positive tilt’ are part of the binding category. These try to put more weight on the shares of companies with low perceived sustainability risks and less weight on the shares of companies with high perceived sustainability risks, as long as there are good governance standards.

Positive Approach

To qualify as an impact strategy, investments must provide a demonstrated positive social or environmental benefit, in addition to a financial return. Investors typically use an impact approach in the form of a thematic strategy that focuses on a specific topic, such as clean water or clean energy. These three approaches are depicted by the figure below.

Figure 7

Examples of ESG approaches



Global Initiatives

Global issues, such as social inequality and climate change, are too big for any individual or nation to handle solely. They require mutual assistance and efforts to resolve. This has led to the establishment of ESG standards and guidelines, as well as the notion of responsible funding.

The Principle of Responsible Investment (PRI), which was introduced in 2006 and backed by the UN, was one of the first ESG initiatives. Its goal was to create a framework for responsible investment through ESG disclosure and assessment.

PRI ensures that ESG factors are included in the investment process. It focuses on six main aspects including ESG issues in investment research and decision-making as well as in ownership rules and practises, thus ensuring that invested businesses provide enough ESG information.

Islamic Finance Initiatives

Islamic finance aims to promote sustainability. As reported by the Annual Report ICD 2020, some of the events and investment projects linked to ESG goals continue to gain acceptance in Islamic finance.

- Dubai Financial Market issued an ESG guidebook because investors were asking for detailed ESG reporting and wanted to use this information to make better decisions.
- Bank Islam Malaysia Berhad's (BIMB) subsidiary Investment Management Berhad (IMB) has made its first online platform for robo-intelligence a sustainable *Shariah*-ESG investment platform. Bank Islam Malaysia Berhad wholly owns this subsidiary.
- The Islamic Corporation for Development (ICD) would work with Finterra, a blockchain consulting firm in Singapore, to help businesses grow in the long-term. This would enable ICD to reach out to communities and people in the countries that aren't as well off.
- Agency for Bond Pricing Malaysia announced the first ESG Bond Index Series.
- Greener *Sukuk* were made available for projects involving renewable energy and other environmental issues that greatly impacted the society.
- The Islamic Development Bank (IDB) issued *Sukuk* worth $1.5 billion to help COVID-19 programmes in 57 countries.
- The Indonesian government issued *Wakalah* global *Sukuk* worth $2.5 billion to help the country's economic and social development.

Dubai's most important financial institutions have signed a Memorandum of Understanding (MoU) to work together to improve the green *Sukuk* market and the Climate Bonds Initiative (CBI).

ESG and Islamic Finance Integration

Modern Islamic finance and ESG investments both have 20th century origins. Despite the prospect of substantial overlap between the two sectors, their investment strategies are advancing independently and at different rates in the Middle East.

Islamic finance and ESG investing are complementary capital-raising investment techniques that share many core values, such as the need to be good stewards of the society and the environment. Both have sufficient policies and rules that each may take advantage of and both offer something to both Muslim and non-Muslim investors. Some of their recurring elements also apply to traditional financial instruments. The following graph compares ESG investment practices in conventional and Islamic finance.

Figure 8

Incorporating ESG in Islamic and Conventional Finance Investment Practices

Never | Rarely (low levels) | Sometimes (medium levels) | Often (high levels) | Always

PRACTICE	ESG INVESTING	ISLAMIC FINANCE	CONVENTIONAL FINANCE
Systematic ESG integration	Medium levels	Low levels	Low levels
Screening	High levels based on client-specific/fund-specific screening policies	100% application based on *shariah*	Low levels
Company engagement on environmental and social issues	High levels	Low levels	Low levels
Voting	High levels	Low levels	Medium levels
Dividends	No restrictions	100% of dividends are subject to a "purification" process	No restrictions
Interest/*riba* earned	No restrictions	No *riba* permitted	No restrictions
Security lending	High levels with leading practitioners applying rules that ensure they can vote	No security lending permitted, assets must be owned, and *riba* is prohibited	High levels
Shorting	Low levels	No shorting permitted and assets must be owned	Low levels
Restriction on high leverage	No restrictions	100% application to avoid earning *riba* directly and indirectly through exposure to high-interest earning companies	No restrictions

Note: *Riba* refers to interest-based transactions, which are prohibited within Islamic finance.

Note. Source: guiding document by CFA Institute ESG Integration Pg 3

Shared Characteristics of ESG and Islamic Finance Screening

Islamic finance's fundamental themes include financial stability and economic growth, poverty reduction and wealth distribution, financial and social inclusion, and environmental conservation. As a result, Islamic finance has been able to capitalize on these parallels and become a natural platform for disseminating green financing components (Al Ansari et al., 2020).

The prohibition of investing in businesses that provide illicit products and services, such as those that manufacture tobacco, alcohol, pork, pornography, guns, gambling, and human trafficking, is crucial to Islamic banking. Similar to ESG investment, *Shariah*-compliant products are scrutinised to weed out certain businesses. In order to align their portfolios with the beneficiaries'/clients' values and promote the development of a sustainable and equitable society without endangering people or the environment, investors who use ESG investing strategies, such as those who invest in *Shariah*-compliant products, avoid particular activities and products. A screening procedure that includes one or more of the following standards may be utilised for ESG products.

1. Establish absolute restrictions (for example, prohibit cigarettes, cluster bombs, alcohol, pornography, weapons, and gambling).
2. Implement relative limitations (such as excluding businesses that earn 10% or more of their revenue from cigarettes).
3. Forbid businesses/issuers from disobeying global standards including the UN Guiding Principles on Business and Human Rights.
4. Eliminate issuers and corporations with a spotty ESG history.

The financial benefits of ESG considerations in investment research, decision-making, and processes are frequently included in ESG investing solutions. As part of ESG efforts, active ownership practises (such as corporate voting and participation) may also be used to lower risks, boost returns, and improve the ESG performance and transparency of businesses and issuers.

VBI and its Application

The Governor of Bank Nagara Malaysia (BNM) stated that VBI substantially influences the business model of Islamic financial institutions, including the drivers of profitability and risks. The words of a regulator should not be taken lightly. Since VBI has an influence on organizational business models, it offers a significant challenge to the industry. To be successful, the program requires a strategic shift among the industry participants, their supply chain, and chnage in the attitude of the current workforce as well as the expectations of its owners (Ismail et al., 2020). Since the default state of the existing stakeholders is predicated on a profit maximization mindset, accomplishing the above initiative is unlikely. Hence, this research aims to examine the concerns and obstacles industry participants confront. Following that, they should make recommendations for possible next steps to guarantee that the VBI project is realized

The summary of the 34 pages of the strategic paper by BNM is classified into four parts as shown below.

Figure 9

Summary of Strategic Paper by BNM

Part I :	Unlocking full potential of Islamic Finance
Part II :	Realigning focus towards creating greater socio-economic impact
Part III :	Defining common underpinning thrusts of value-based intermediation
Part IV :	Creating enabling environment for adoption of value-based intermediation

Note. Source: BNM Strategic Paper

The VBI concept needs three significant implementations in the current Islamic banking practices.

1. Availability of innovative products and services in the market for the greater impact of socioeconomic development.
2. With innovative products there is also a need for the implementation of practices and techniques for bringing these services to the market.
3. The utilization of specific skills and infrastructure that is important but not owned by Islamic banking institutions.

Furthermore, Islamic banks must operate within a VBI network that includes a wide range of participants, network institutions, knowledge providers that share knowledge and experience on value-based best practices, support groups that raise awareness and understanding, business ventures with shared value concepts, and government agencies that help to support the VBI ecosystem. The following table illustrates the overall implementation and effects of using the VBI method on banking procedures.

Figure 10

Implementation and Effects of VBI Method on Banking Procedures

Impact-based Assessment	Comprehensive Measurement	Impact-focused Disclosure	Constructive Collaboration	Inclusive Governance
Impact-based assessment provides equal attention to applications' potential impact to the society, environment and economy	Comprehensive performance measurement, covering both ***financial and non financial indicators***	***Impact-focused disclosure*** covers details of customers that they lend to and invest in (i.e. purpose, location and result)	Constructive collaboration with wider stakeholders, including those with no direct business relationships such as NGOs, societies and governments	Active engagement with multistakeholders including traditional and non-traditional stakeholders in decision making process
Impact	**Impact**	**Impact**	**Impact**	**Impact**
Optimum allocation of resources to productive economic activities	Balanced motivation to achieve short-term and long-term outcomes	Enhanced confidence among customers and public	New insights, wider opportunity and knowledge in improving business impact	Greater alignment between stakeholders' expectation and business focus

Note. Source: BNM document 2017

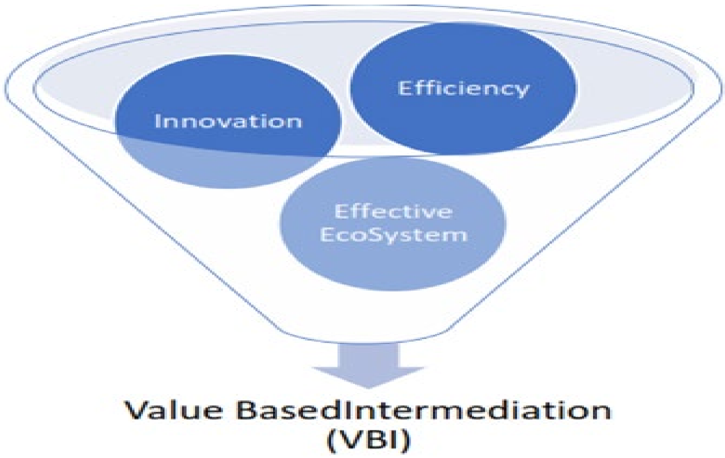
VBI and ESG Integration for Islamic Finance Services

In the developed world, there are associated elements with the VBI idea, which are active, such as ESG, ethical banking, Sustainable and Responsible Investment (SRI), and Sustainable Development Goals (SDGs), and so on (Mallick, 2019). *Shariah*-based ideals and qualities comprise the primary distinguishing and distinctive essence of VBI, for example, concentrating on enterprise and community empowerment. Due to strong regulator backing and engagement, as well as a well-developed market infrastructure, the Islamic banking business in Malaysia now needs to move to the next level with the application of VBI by all Islamic banks, depending on their scope and capabilities.

The focus of VBI is on minimising and preventing the negative effects of Islamic banking practises, behaviours, and services. Islamic banks must consider how their practises, conduct, and supply of financial services may affect the welfare of individuals, the environment, the climate, the community, and the society. This calls for bank employees to be aware of and knowledgeable about environmental issues, such as climate change, ocean acidification, air pollution, urban sprawl, waste management, ozone layer depletion, water contamination, damage to soil and land, forest loss, rising carbon footprint, impact on marine life, and public health issues (Ismail et al., 2020).

SDGs have been in place since 2012. However, BNM issued VBI for implementation in 2017. In this regard, there is a need for empirical studies on SDGs and VBI with joint venture concepts, since awareness of these concepts and knowledge is poor, as stated by Ismail et al. (2020). Scholars have urged all levels of the society to raise their degree of knowledge and comprehension of the SDGs. Education is a crucial element of sustainable development, according to the United Nations Educational, Scientific, and Cultural Organization (UNESCO). It reads, “Technological solutions, political control, or financial means cannot fulfil sustainable development alone.” We need to change the way we think and behave. VBI places a strong emphasis on four key tenets, namely an entrepreneurial mindset, community empowerment, great self-governance, and best business conduct. As stated by Mallick (2019), there are other benefits of VBI for financial institutions. For the implementation of VBI, three important things should be kept in view, namely (1) innovation, (2) efficiency, and (3) an effective ecosystem, as shown in the figure below.

Figure 11
Key Ingredients of VBI



VBI discusses the structure of appreciable plans with an innovative approach to financial products and services, with an emphasis on financial inclusion to reach underserved markets. For example, according to a 2016 review, BankIslam Malaysia introduced Al-Waqf Home financing, while developing various residential and commercial units in collaboration with a real estate company. VBI allows Islamic banks to improve resource efficiency, employee performance, and business partner relationships.

VBI fosters a win-win scenario for all stakeholders by improving their current abilities and supporting the community, with the objective of benefiting all individuals. Agro bank, for example, has collaborated with BERNAS to give farmers a RM 50 million working capital loan in exchange for free technical service consultation to enhance their living circumstances and productivity (Mallick, 2019).

With reference to the above discussion, we can say that for an efficient innovative ecosystem we need an integrated approach to Islamic Financial Products and services. The value-based concept and ESG screening for the development of products and issuance of services can be utilized as stated by Khan (2020). In this regard, it would be more effective to develop a product based on the *Shariah* and ESG. Such type of a product would be according to the principles of VBI and may help to achieve global financial sustainability goals.

Conclusion

The discussion about ESG and other SDGs goals has been very prominent for the last few years. There are several initiatives taken by different institutions towards achieving these goals efficiently. Islamic finance has huge potential for investing and playing their socio-economic role in achieving these goals, without compromising their own objectives. With the continuity of these efforts, the VBI concept was launched for more effective results. In the above discussion we find that there are a lot of commonalities between the concepts of ESG and VBI, like sustainability, which is linked with ecological footprints and social impacts and governance efficiency. Islamic banking needs to transform from profit-oriented to value-oriented, as it is closer to the fundamental principles of the *Shariah* and global objectives. In this regard, the implementation of ESG screening with *Shariah* screening and VBI element in Islamic finance products and services is important.

Recommendations

- VBI should be implemented in a comprehensive way keeping in view its practical implications.
- As per different scholars, empirical studies are needed for a better understanding of ESG goals and the VBI concept.
- Training sessions should be held to improve the understanding of Islamic banking personnel.
- Central banks should address the ESG goals, their related risks, and promote the VBI venture.
- Academicians should work for the integration of ESG screening and VBI implementation in broader ways in Islamic finance.

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