

EDITORIAL

Need for Moving to the VBI based Paradigm of Governance of Islamic Finance Institutions

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Abstract. The vulnerable global financial market conditions both in developed and developing economies provide an opportunity to Islamic banking and finance institutions to come with real and long-term solutions as envisaged in the theory of Islamic economics and finance. Islamic finance that has a natural link with social and responsible finance is founded on shared values and the intended outcomes of Shari'ah for value creation and the prevention of harm to individuals and societies. This editorial article is to draw the attention of the regulators of the IBFIs, particularly in countries like Pakistan, to adopt the emerging paradigm and ecosystem comprising sustainability and value-based governance, awareness, and corporate social responsibility. It suggests a new governance paradigm aiming at adopting different strategies for the objectives, Shari'ah advisory, capacity building, sustainability factors like ESG, and availing the opportunity of developing Islamic finance according to its value proposition. That way, it could play an effective role in ending extreme poverty, improving the health of the community, and welfare of human society at large. It requires a paradigm change in the governance regime. Besides making a positive contribution to realize the SDGs, it will help the IBFIs in achieving the high purposes of Shari'ah.

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INTRODUCTION

In the process of financialization in global finance over the last four decades, the financial sector and institutions have increased their share in the nations' wealth vis-a-vis nonfinancial, particularly commodity producing, sectors and entities (Beeferman & Wain, 2016). The banks' business model focused only on enhancing the 'shareholders value' without taking care of the social responsibilities. Lately, after the failure of the Millennium Development Goals (MDGs) in reducing the sufferings of most of human beings, it was realized that an all-encompassing growth and sustainability would require some social, moral and ethical functions. This realization led to the UN's Sustainable Development Goals 2015-30 agenda.

Islamic finance is founded on shared values and the intended outcomes of Shari'ah which

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promotes value creation and the prevention of harm to individuals and human societies. It puts Islamic finance naturally at the forefront to drive the sustainability agenda (Shamsiah, 2021). The vulnerable global financial market conditions both in developed and developing economies provide an opportunity for Islamic finance scholars and practitioners to come with a real and long-term solution as envisaged in the original theory of Islamic economics and finance. Islamic finance has a natural link with social and responsible finance given the '*maqāṣid-al-Sharī'ah*' (IFDR 2021, p. 26). It is not only possible for Islamic banking and finance institutions (IBFIs), but also a means to realize the *maqāṣid* provided they apply the principles of Islamic finance in their true perspective.

The Islamic finance industry is progressing steadily. According to Refinitiv's IFDR (2021), its size is estimated to rise from \$3.374 trillion in 2020 to \$4.94 trillion in 2025, an average growth of 8% in the next five years. Conceptually, the core principles of Islamic finance i.e., risk sharing and asset-backed nature prevent an economy from becoming over-financialized and leveraged (WB-IsDB; 2016). The objective can be accomplished by properly and equitably linking banking and finance with business and the economy (World Bank, 2016). However, the issue to be pondered is that Islamic finance that is based on the social and ethical concepts practically deviated from its theory and followed generally the conventional paradigm. While conventional finance is increasingly adopting CSR and Value-based finance, only a few Islamic finance regulators and institutions are adapting to the emerging trend. They rather needed to learn the lesson and converted grossly to the new paradigm of social, responsible, and ethical finance not only for sustainability but also for realizing the higher purposes of Sharī'ah.

The failure in ensuring proper governance for realizing socio-economic and sustainability related objectives has caused serious harm to human societies in both developed and developing world. The UNs' *World Social Report 2020* documented a deep divide within and across countries despite an era of extraordinary economic growth and widespread improvement in living standards. It might be the reason that even in conventional finance, banks are under increasing pressure to finance the transition to a greener, more sustainable future while remaining profitable at the same time.

This editorial article is to draw the attention of the regulators of the IBFIs, particularly in countries like Pakistan, to adopt the emerging paradigm and ecosystem comprising sustainability and value-based governance, awareness, and corporate social responsibility (CSR). Besides making a positive contribution to realize the SDGs, it will help the IBFIs in achieving the high purposes of Sharī'ah (*maqāṣid*).

Emergence of the Value based Initiatives and Regulations

The Value-Based Intermediation (VBI) that emerged in global finance in the wake of the global financial crisis, 2008 (Islamic Development Bank, 2016) tends to create an environment where social and governance aspects and the SDGs could be better served. As indicated in the Islamic finance indicator rulebook, VBI may involve:

- a) Social finance and related investments/offerings have social impact development of research and education investments showing targets for such investments that

play a role in assisting the poor, needy, and the indebted individuals and families not able to pay,

b) Development based investments/offerings having significant growth potential in an economy, infrastructure of a country, micro businesses, or SMEs, and

c) Environment based investments that help in protecting the environment.

CSR, one major part of VBI, refers to the responsibility to be taken by the IBFIs in all their operations towards the stakeholders including shareholders, customers, employees, communities and the environment (Khatun et al., 2015). It is considered mainly a form of self-regulation to be adopted by any business to make it socially accountable to itself, its stakeholders and the public. A CSR company must act in a way that is ethical, minimizing the harms of the business operations and providing socially responsible services. As hinted at by Szdedi et al. (2020), *"CSR-related activities include a firm's participation in cause marketing, donations and charity, social welfare, disaster relief, pollution control and transparency, which benefit the organization and add to the firm's long-term survival in the market"*.

The whole philosophy of Islamic finance represents a responsible investing approach, which is currently taken as a way of sustainable resource management. Practically, however, the Islamic finance industry, in most of the jurisdictions, continues to work with the conventional mindset that caused serious problems for the global and the national economies, and for mankind. Over the last fifty years, the wealth is being siphoned to financial institutions' owners/shareholders. "Banks produce no usable product or any 'wealth', yet their usury robbery almost doubles their net assets (wealth) every 10 years" (SEDM Website). IBFIs that also started operations about 5 decades ago, have been doing the same and increasingly replicating conventional instruments and products focusing on profitability, but ignoring the Sharī'ah compliance in spirit, and the *maqāṣid*.

With the emergence of the social paradigm in conventional finance, a few of Islamic finance regulators and institutions also started moving to social and CSR-based finance and better linkage between finance and the real sectors. However, the Sharī'ah compliance, per se has not been given due consideration that is harming the integrity of Islamic banking and finance systems as being operated across the globe. The majority IBFIs are focusing the business and earnings maximization irrespective of the Sharī'ah compliance, social responsibility and sustainability aspects. Pakistan that emerged as a leader in Islamic finance in the 1980s is among such jurisdictions that neither has been able to lend credibility to Islamic finance stakeholders in general nor has started moving to social and sustainable finance. Some guidelines have been given by the State Bank for green finance and environmental due diligence (EDD). But, as the same are not mandatory, these are getting the least importance by conventional and Islamic banks. CSR in terms of social justice and entrepreneurial development for the low-income groups is the neglected area.

As such, the IBFIs might not be able to realize the socio-economic and CSR related objectives as per the potential of the system. It requires changes in governance paradigm, rules and regulations for the IBFIs.

Changing the Governance Regimes

Banking and non-banking financial institutions undertake a specific type of direct or indirect intermediation business for channeling the household, family and corporate sectors savings to commodity producing and services sectors and the consumers. Any social or ethics-related objectives cannot be realized without effective governance. For financial intermediation in Islamic perspective, the IBFIs need to abide by the rules of the Sharī'ah for realization of higher purposes (*maqāṣid*) of Sharī'ah.

The current Islamic banking and finance model suffers from serious inherent flaws in respect of fulfilling social and value-based responsibilities simply because it is based on the conventional business model. With this business model, the IBFIs cannot yield any better results as almost all their strategic and operational efforts, resources, brains, and time are geared at "*profit maximization*". Whatever they do is mimicking the conventional products by way of any stratagem. Changing this model that is enriching the capitalists or the shareholders of the banks is not thinkable unless the governance model is redesigned on the basis of justice, equity, social responsibility, and environmental due diligence.

Governance is the most important element of the Islamic finance industry that instills consumers' and investors' confidence. The Sharī'ah governance provides legitimacy to the business and operations of the IBFIs. The relevance of *maqāṣid-al-Sharī'ah* would imply that the governance rules would also target equity, fair treatment, justice to all stakeholders, particularly to small deposit holders and employees.

The economists are suggesting correction of the finance system that led to failures in the global economy and finance. Islamic finance is the outcome of divine injunctions in finance and the exchange system. Its paradigm leads to stability by linking financial services to the productive and real economy, and by providing a moral compass for market-based exchange system. It is a prerequisite for sustainable development and hence for fulfilling the promise of Islamic moral economy (IME) (Asutay, 2013). Therefore, it is a rather more intensive requirement of the IBFIs to move to the CSR and SRI approaches because it more fits in the philosophical foundations of Islamic finance to realize the objective of achieving social inclusion, justice, and equity.

For Sharī'ah legitimacy, therefore, Islamic banks need to uphold social objectives, promote Islamic values towards their staff, clients, and the public, and contribute to the social welfare of the community they operate in, promoting sustainable development projects and alleviating poverty. It is a mandatory developmental milestone, not an option, on the road to Islamic finance because a robust normative context is one of the prime bases of Islamic banking and finance.

Islamic Finance Industry Moving to Social Finance

All IBFIs across the world are working under the supervision of Sharī'ah advisory committees or personnel who routinely certify that the operations of their respective institutions are Sharī'ah compliant. It may imply that the objective of providing the opportunity of *ḥalāl* earnings to those who required that for financial intermediation has been achieved at least to the extent of certification by the Sharī'ah people. However, the IBFIs might not be moving

to achieve the objective of socio-economic justice, even in the long run. The actualities of the IBFIs in terms of fulfilling such objectives are discouraging (Nor & Asutay, 2015). IBFIs must avoid interest, speculation and short selling per se, and gambling. In addition to that, IBFIs and their regulators need to reconsider the CSR and sustainability identity of Islamic finance as a divine system.

Lately, a move in CSR direction has been witnessed in a few markets namely, Saudi Arabia, Malaysia, Indonesia (financial inclusion through crowdfunding, fintech, and accessibility to a fast-growing digital ecosystem) and to some extent in Bahrain, the UAE and Turkey. Particularly, the financial industry in Malaysia is enhancing its governance structure for offering the value-based solutions to the community (IFDR, 2021, . 7). These countries, also including Bahrain, are working for the expansion of their fintech sectors with the objective of financial inclusion and accessibility to a fast-growing digital ecosystem.

Islamic funds based on equity, mixed portfolios or *ṣukūk* investments continue to support sustainable investment mandates through SRI funds. *Waqf* investment funds are booming in Malaysia and Saudi Arabia. Overall, Islamic funds with sustainability mandates grew to \$542.3 million by the end of 2020. The Capital Market Authority in Oman issued in July 2021 draft guidelines in line with Oman Vision 2040. The guidelines also cover the sustainable and responsible investment (SRI) *ṣukūk* including green, social and *waqf ṣukūk*.

Efforts are also underway to enhance transparency, accountability, and disclosure of sustainability-linked practices by a wider group of stakeholders. While ESG-linked sovereign green *ṣukūk* have been issued in Malaysia's and Indonesia across 2020 and 2021, Saudi Electricity Co raised funding from one green *ṣukūk* issue. The Etihad Airways issued the first-ever transition *ṣukūk* to manage the airline's shift towards a decarbonized economy.

In Malaysia, the VBI Community of Practitioners (COP) is supporting the transition towards the sustainability agenda. In a few instances, the VBI COP members have been empowered to lead sustainability efforts at their respective financial groups. They are also developing guiding documents to complement the broader industry's responses to climate change. During 2020-21, they issued six VBI sectoral guidelines that complement the Climate Change and Principle-based Taxonomy (CCPT) that Bank Negara Malaysia (BNM) issued in April 2021. Specifically, these serve as risk management toolkits for palm oil, renewable energy, energy efficiency, manufacturing, construction and infrastructure, and oil and gas (Refinitiv, IFDR 2021). The Islamic banking industry has also supported approximately 4,500 renewable energy and green projects worth more than \$2.2 billion. The issuance of the VBI for *takāful* (VBIT) Framework in June 2021 marks the application of VBI principles also to the *takāful* institutions. It may also include affordable coverage for lower-income groups against adverse life events and farming communities against adverse weather conditions. Other VIBT related activities and community empowerment include:

- a) Affordable life protection coverage for low-income families,
- b) Inclusive protection for the disabled person from *zakāh* and charity fund; and
- c) Crops *takāful* coverage for farms and plantations
- d) *Takāful* participants may be allowed to donate the sum covered for any welfare ac-

tivities, provide health coverage to the lower income groups, and enhance awareness about *takāful*.

Social Responsibility related Activities of the IBFIs

Social responsibility is compulsory for individuals and institutions in any Islamic society when it comes to the implementation of *zakāh* and '*ushr* systems. Besides, the activities and funds involving charities, *qiraḍ ḥasan*, and *awqāf* are voluntary. All these components may jointly reflect the CSR activities undertaken by any banks or financial institutions. Both components will reveal the financial institution's obligations towards other stakeholders. It may require different policies to be framed by the IBFIs that may include, inter alia, policy for screening clients, deposits weightage, pool management and profit distribution.

CSR activities may generally involve the distribution of funds through *zakāh*, *qaraḍ ḥasan*, *awqāf* and other charities. It would involve the adoption of stakeholders' approach, work environment, employee pay packages and promotions, and general welfare policies in the market in which they operate. It will distinguish Islamic finance institutions from their counterparts and indicate the extent to which they might be contributing towards realizing the higher purposes of Sharī'ah. In this context, AAOIFI issued Governance Standard No.7 for the IFIs outlining mandatory and recommended conducts to implement CSR.

Pakistan as a Case Study in the Governance of Islamic Banks

The State Bank of Pakistan (SBP) introduced a comprehensive Sharī'ah Governance Framework (SGF-2015) comprising the organs like Sharī'ah Advisory Committee (SAC) in SBP, Sharī'ah boards in all Islamic Banking Institutions (IBIs) and related functions like Sharī'ah review, and internal and external Sharī'ah audit. The SGF assigned a special role to the banks' BOD, executive management, Sharī'ah Board, Sharī'ah review and Sharī'ah audit.

While the primary objective of the SGF-2015 is to strengthen the overall Sharī'ah compliance environment of IBIs, compliance with the principles as enshrined in the Qur'ān and the *Sunnah* of the Prophet (PBUH) is the essence and *raison d'être* of the Islamic banking industry. Establishing a fair and just society has been indicated as an overarching objective of Islamic banking and finance [SBP, SGF, P. 1]. The Vision and Mission of SBP regarding Islamic banking, as given in the Strategic Plan (2021-2025) for promoting Islamic banking indicate to evolve Islamic banking system leading to an equitable and inclusive economic system (SBP, 2021). SBP resolved to promote Islamic banking to increase its market share up to 30 percent of the overall banking industry by 2025. The plan is said to have an "*extensive focus on improving public perception of Islamic banking as a distinct and viable system capable of catering to financial services needs of various segments of the society. It would capitalize on the potential of Islamic finance for achieving the shared vision of a vibrant and sustainable Islamic banking sector in Pakistan*" (SBP, 2021).

This author conducted a detailed qualitative study and analyzed the SGF-2015 (Ayub, 2021). Five major questions put before the 32 research participants of the study pertained to i) Sharī'ah boards' structure, members' expertise, conflict of interests; ii) AAOIFI's Sharī'ah Standards (SS) as the basis for giving Sharī'ah opinions; iii) Implementation of the SGF realization of the objectives; iv) Role of banks' BODs and Senior Management; and

v) Effectiveness of internal review and audit, external audit and regulatory inspection on Shari'ah compliance. The participants included Islamic banks' Shari'ah boards members, experienced Islamic banking practitioners, Shari'ah reviewers and auditors, and the academicians/researchers in Islamic economics and finance.

According to the findings of the study, no progress has been made in Pakistan in moving to social finance. Further, there are some built-in flaws in the SGF and conflicts of interests, leading to failure in the achievement of SGF's core objective of improving the level of Shari'ah compliance. The issues causing failure included:

a) Absence of any one basis for Shari'ah opinions and products approval: Shari'ah boards are free to give any opinion based on their *ijtihad* and *qiyas*. AAOIFI's Shari'ah standards (SS) are either not mandatory, or the Shari'ah boards make their interpretation, and deem legal compliance, as they perceive, sufficient for Shari'ah legitimacy. Almost all products desired by the management are approved, without giving any rationale, based on the majority principle, and if warranted, the SB Chairman's extra / casting vote. Even the dissenting notes of SB members with the difference of opinions that become part of the Minutes of SB meetings are not taken into notice by the regulator.

b) Conflict of interests in Shari'ah advisory, and managerial functions arising from the employer-employee relationship between banks and the SB members; and the business targets to the operational staff versus Shari'ah legitimacy. Some members of SAC and SECP's SSC not only serve in multiple Islamic banks in the country and abroad but are managing their own Shari'ah advisory firms. The increased demand for scholars to have a flexible approach towards replicating conventional banking products has increased the intensity of conflict of interest. Therefore, SBs may not push Islamic banks to go for a just and equitable treatment to their clients and employees, and social services to the society.

c) Capacity and commitment issues at almost all levels - senior management, Shari'ah advisory, Shari'ah review and audit teams. Banks' CEOs and senior management focus on the business and the profits only. Therefore, capacity building for commitment and excellence in Islamic finance of the managerial, review and audit staff is not taken seriously.

d) Weak regulatory stance: Ninety-three% of study respondents considered that the implementation of the SGF by SBP was not satisfactory. There have been compromises on the independent functioning of the regulator. According to some participants, compromises led to the 'Regulatory Capture' by some groups of Shari'ah scholars and banks that are being governed on self-regulation choices. Although Islamic banks' profits (Profits, earning per share and the Spread) increased, the profit passed on to the depositors had been much lower, particularly to Savings A/cs and common depositors, than that paid by the conventional banks in Pakistan.

"This clearly shows that Islamic banks are keeping a larger share of profit with them for equity holders and sharing less portion to its depositors. This is perhaps

against the very essence of Islamic banking goals where Islamic banks are supposed to make a fair and just distribution of profits being earned".

The study also found that Sharī'ah legitimacy in terms of Sharī'ah compliance in letter and spirit depends on the strength of the Sharī'ah boards, which in turn would depend on the independence and capacity/expertise of the SB members. It must be supplemented by the regulatory vigilance and provision of any one basis for Sharī'ah related decisions.

The statements of some participants of the study that the "regulator *has failed in achieving the objective of better Sharī'ah compliance*" and that "the industry is rather moving away from the objectives with the support of SBs" or similar observations by some participants are serious. One Sharī'ah advisor's response, "*IBIs' profit is increasing, but depositors' return decreasing, so the problem of regulation is there*" needs serious consideration. Therefore, the overall perceptions about the legitimacy of Islamic banking services in the country did not improve. The above findings conform to the view of Nienhaus (2020) who contended that in the global perspective of Islamic finance, Islamic banks failed to "*re-brand Islamic finance as ethical finance*". The study recommends that Sharī'ah scholars must play a role to enhance the credibility of their function and that of Islamic banking. While adopting '*No-compromise on Sharī'ah*' policy, they may emphasize on the banks' management that Sharī'ah compliance is the pre-requisite of Islamic banking; otherwise, it may have to face the problem of inappropriate perception among the public. The regulator needs to ensure in this context that the banks putting undue pressure due to employer-employee relationship with the SB members, or otherwise, are penalized by heavy fines.

Islamic Banks' CSR related Activities

The CSR related research for the financial sector in Pakistan is a neglected area so far. financial market regulators, the corporate sector and academicians need to promote research in CSR to increase understanding and highlight its need and importance for sustainability and shared growth.

In line with the global move and growing emphasis on CSR, commercial banks in Pakistan also undertake some CSR related activities (Szegedi et al., 2020), but their related activities and disclosures need to be properly regulated. No specific instructions have been given to the banks for VBI and CSR with the target of financing ESG related projects, small farms in agriculture, low-income groups and SMEs in commodity sectors. Therefore, the objectives of promoting CSR and introducing Islamic banking namely enhancing Sharī'ah controls, sustainability, and doing justice with all stakeholders is not likely to be achieved with the current paradigm.

For a vibrant CSR system in a country like Pakistan confronting problems like political and economic instabilities, and a lack of health and educational facilities, CSR activities must be made mandatory for the banking companies, also including Islamic banks, with proper disclosures. In terms of the SECP's Companies (Corporate Social Responsibility) General Order, 2009 all listed companies are required to disclose information about their CSR activities during a year. In 2013, guidelines were issued to promote ethics in business voluntarily and make corporations more accountable to stakeholders. Companies are encouraged to

establish a CSR Consultative Committee, a 'CSR Management System' and a comprehensive framework. The SECP made it mandatory for firms to provide a clearly defined CSR policy and vision while integrating it into their overall corporate vision, code of ethics, and business plan. The SBP may not only ensure implementation of these guidelines but also introduce some mandatory targets for CSR activities, profit payable to small depositors and welfare of their employees.

SBP over the last few years issued some instructions to the banks for environment-friendly green finance [IH&SMEFD Circular No. 03 of 2016]. In order to make green financing facility available through Islamic banks and Islamic DFIs, SBP introduced in 2019 a *mudārabah* based "Islamic Financing Facility for Renewable Energy (IFRE)" for IBIs and Islamic DFIs; collectively referred to as Participating Islamic Financial Institutions (PIFIs). SBP shall make *mudārabah* investment in the general pool of PIFIs under IFRE (IH&SMEFD Circular No. 01 of 2019). The banks, however, are not taking these guidelines seriously.

Expanding the IBFIs' Governance Scope

The above situation requires urgent attention by the regulator and a shift in the regulatory paradigm to:

- a) encompass VBI, social finance and CSR,
- b) mandating AAOIFI's SS for approval of banking products and financial instruments,
- c) frequent orientation of the Sharī'ah advisory teams on developments in global finance,
- d) capacity building and trainings/orientation to enhance the commitment of the management and the staff for implementing the value-based system,
- e) removing the conflicts of interests in Sharī'ah advisory and the business targets assigned to operational staff, and
- f) vibrant role of the regulator for effective implementation of the SGF and proper amendment as and when the market may require.

The pillars of the new governance paradigm would be:

- a) The approach for freedom to maximize returns, particularly by the banking companies that are earning huge profits despite serious problems facing disciplining the banking system and providing a social compass to the capitalistic paradigm. The ultimate target would be promoting entrepreneurship at the micro level, enhancing financial and social inclusion, and reverse the process of widening the gap between the rich and the poor (Ayub, 2015).
- b) Specific framework and regulations may be introduced for VBI and social finance with mandatory targets for providing finance to renewable energy projects, green and other environment friendly projects, start-ups in software and similar emerging areas, SMEs, agriculture, and other commodity producing sectors.
- c) Ensuring the independence of the Sharī'ah boards and Sharī'ah scholars (SS) associated with banks is indispensable. Their scope and role also need urgent

consideration. They cannot be independent physiologically unless their livelihood is not dependent on their engagement with banks. Ideally, the SS may be appointed as independent directors on the Board of Directors with special F&PC and then the BOD may form a Sharī'ah Sub-committee of the Board. The SS member of the BOD may also be made a member of other committees of the board. It will resolve three main issues:

- (i) SS will participate and vote for setting the right business direction of the bank having Islamic economic coherence and will become an active player in the game knowing all they should know, rather than knowing what the management wants them to know;
- (ii) their stature will get strengthened, uplifting their self-esteem and they will be answerable to a larger public rather than the selective group sitting on the BOD; and
- (iii) their mandate must include (a) representation of Investment Account Holders on BOD, and (b) directing for value creation and monitoring social and environmental impact of banking.

Another option is that the SS could be on the payroll of a joint pool of funds created through contributions of all IBIs and managed by SBP. SBP should have the powers to (i) add and remove the SS in and from the panel (ii) attach SS with IBIs for 3-5 years on a rotation basis. Their performance must be professionally evaluated by SBP under the guidance of SAC of SBP.

The conflict of interest of SAC-SBP members is rather more serious. One should not expect any bold steps and out-of-box decisions to bring material change in the state of affairs unless the SAC consisted of totally independent SS members. For that, the central bank may pay reasonable salaries and perks of 3-5 Sharī'ah scholars sitting at its SAC. Alternatively, they could be paid from the joint pool of funds, as suggested above. With any of the two arrangements, the SAC members could be asked to resign from their other banking engagements.

The current role of Sharī'ah scholars is passive as they have no concern in what the IFI must do besides what they must not do. Hence, the governance system must break this invisible subordination of their role.

- d) Creation of cash *waqf* may be mandatory for all IBIs for advancing *qard hasan* for potential entrepreneurs in lower income groups. Commodity/assets backed financing at lower profit margins through sale and *ijārah* based modes may also be part of the targets. Banks may also be obliged to launch *al-khair* deposits and *waqf shukūk*, or depositors donating a part of their receivable profits. Banks' performance in this context may be made a part of measuring the overall performance of banks.
- e) Changing the deposits management and profits distribution system, assigning weightages to deposits while ensuring that i) smaller deposits of different tenors are not assigned lower weightages than the weights assigned to the bigger deposit of the same tenor, ii) business targets for the staff do not specifically involve current and savings accounts (CASA) and related targets; iii) IBIs may be subjected to special investigation in case profits they give to common depositors are less than

the conventional market benchmark while the shareholders are getting relatively high profits, and the BOD members and executive management are getting hefty packages/bonuses and perks (Ayub, 2019).

f) Financial institutions and markets, particularly, the IBFIs, have an important societal role in encouraging investments that are beneficial to natural and human ecosystems. The SGF may also include some instructions on financial ecology, the newly inducted concept of ESG for enhancing the role of finance in achieving sustainability.

g) Ensuring compliance with value based Islamic finance principles in form as also substance. This, in turn, would require a focus on ESG, e.g., by financing the poor and lower middle class for moving to solar energy system as *qard ḥasan*, and green finance; CSR and the VBI.

Conclusion

Islamic finance which provides for the proper and well-defined linkage between finance and the real business and economy has a built-in procedure for realizing shared prosperity. The growing momentum of sustainability at the global level provides a great opportunity for the IBFIs to demonstrate value proposition of Islamic finance. As a few initial steps have been taken in countries like Malaysia, Indonesia, Saudi Arabia, Turkey, and others to develop and implement Sharī'ah-compliant and VBI, ESG and SDG-linked instruments, the regulators all over the world may come forward to oblige the IBFIs to grasp the opportunity of developing Islamic finance according to its value proposition.

IBFIs may facilitate the development and application of fintech and digital banking based Islamic financial instruments particularly to expedite the social sector financing based on *waqf* and charities. It would also help in realizing the VBI and sustainability related goals. It requires the regulators and policymakers to firm up their commitment to ensuring Sharī'ah compliance for positive value creation in financial intermediation.

The financial ecosystem builds financial security for the working poor and accelerates sector-specific missions and outcomes. It is to ensure that financial exclusion or insecurity does not distort the achievement of socio-economic goals that are also a part of the UN's SDGs. It may involve different strategies for capacity building, financial coaching, legal support, sustainability factors like ESG, solutions of problems for financial security with other sectors' strategies for ending poverty, improving the health of the community, and welfare of human society at large.

Pakistan, once a pioneer in research on Islamic economics and finance, and leader in evolving Islamic finance in the modern age, is lagging in the move to social and value-based finance. The regulators need to adopt a new paradigm for building value oriented financial ecosystem based on the divine injunctions and nature's requirements. The IBIs may be required to ensure that their financing portfolios contain any minimum financing for CSR, cottage industry, nano finance, small farmers, and MSMEs.

Finally, the Islamic infrastructure institutions like IRTI / IsDB, AAOIFI and IFSB may like to involve the international financial institutions and the global leaders in monetary and financial supervision to agree on and launch an agenda for shared and sustainable growth of

national and global economies by eliminating the basic tools of exploitation from the world of finance.

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