PROMOTING PEACE AND EQUALITY THROUGH THE PRACTICE OF GOOD ISLAMIC GOVERNANCE: THE CASE OF ISLAMIC FINANCE

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ABSTRACT

The aim of this article is to examine the idea of good governance in Islamic finance (IF) practice and how it may contribute to the development of peace and equality within a community. Many have perceived that as a financial system, Islamic finance only focuses on commercial aspects or profit maximisation. This may not be the case, however, with Islamic financing. Islamic finance lays a premium on enhancing human well-being, social justice, and fair commercial relations. It recognizes the critical nature of environmental protection and prohibits reckless profiting at the cost of others or investing in enterprises that may cause harm to our society. The element of ibqa' (promoting good) and hifz (preventing harm) are the fundamental principles of Shariah in Islamic finance. This research is a qualitative studythat uses documentary analysis method. The data is gathered from primary and secondary data.According to the study's results, Islamic finance hassufficiently upheld the concept of Islamic good governance through Shariah governance framework. The application of Islamic good governance is observable in the practice of Shariah Governance Framework 2010. However, in the aspect of promoting peace and equality within a society as part of achieving a comprehensive human development and Maqasid Shariah,the contribution of Islamic financial institutions (IFIs) is still lacking. Even though several initiatives have been taken by some IFIs to expand their role in the society particularly in the sustainability agenda, the result is still insignificant due to several challenges in its implementation.

Keywords: *Waqf, Shariah governance and Islamic finance*

Introduction

After a decade since the incident of financial crisis, therehas been a mounting concern about the stability and sustainability of the conventional financial system and why it has failed so badly. The debate about the prospective impacts on global social welfare and environment became a core agenda for equallythe private and public sectors. Therefore, the world is seeking for alternative systems that could serve the long-term interests of people while adding value to the real economy. People are looking beyond financial gain but search for values and purpose. The financial system that is highly imbued with ethical, environmental, social and governance aspects is highly preferred.

These value-based financial deals are nothing new for Muslims. Islamic Finance products and instruments have been developed throughout the centuries. Around 650AD, Damascus witnessed the first trade of an Islamic bond known as a Sukuk. Muhammad (S.A.W.) was a trader himself. He recognized the market's ability to propel not only economic progress, but also communal success.

Islamic good governance in Islamic Finance Institutions (IFIs) is distinct from conventional corporate governance in that the former entails a broader set of responsibilities and obligations toward stakeholders, taking into account both the spiritual and worldly requirements of the Islamic community. Islamic good governance establishes a complete set of norms and obligations designed to protect Muslims' moral conduct against deception, exploitation, betrayal, and profiteering at the expense of moral and commercial value.It is a comprehensive framework that is based on *Tawhid*. This paper explores the concept of Islamic good governance and critically analyse such practices in Islamic Finance. Has Islamic Finance sufficiently upheld the concept of Islamic good governance? What Islamic Finance have done so far as regards to the promotion of peace and equality in the community? Whether Islamic Finance have done enough and what are the areas of improvement that Islamic Finance have to do?

Understanding the concept of Governance

According to Hyndman and McDonnell (2009), the phrase 'governance' derives from the Latin verb 'gubernare,' which meaning 'to direct, control, or steer'. Additionally, the word is thought to originate from the Greek verb 'kybernan,' which translates as 'to steer or pilot a ship.' This definition of governance implies that an organization is like to a ship, and governance is the process of directing the ship toward a destination or objective.In realizing the ship reaches its destination, governance must be put in place to ensure that the crew and passengers will arrive at the destination safely. It seems like the board who determine the objective and regulation of organisations, but all parties must be involved and participated in the process, and finally forms what is meant by governance.

Initially, international economic institutions such as the OECD and the World Bank made good governance a priority in their programs, particularly those focused on socioeconomic development.In this regard, the World Bank (1992) hasdefined governance as "the manner in which power is exercised in the management of a country's economic and social resources for development". At this point, Good governance has become a part of governmental and political reform to be executed on third world countries to develop the global market economy. Ever since, the concept of good governance has become an extensive debate between international organisations such as UNDPand OECD when dealing with the issue of development and redefining the concept in line with their aspiration, agenda and policies. These organisations view that the realm of good governance is not only limited to revive the government that governs the country but also includes the other institutions bet it profit organisation or non-profit organisation, government or non-governmental organisation (Malik, 2017).

Governance, according to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), is "the process of decision-making and the mechanism through which choices are implemented (or not executed)." This means that good governance is a technique of assessing how institutions conduct their operations and manage resources in a desired manner, while also taking into account the requirements of society or citizens. UNESCAP highlights the necessity of society's engagement or non-state actors in the decision-making process to maintain efficiency and democracy in their concept of good governance (Malik, 2017, p.29).

Governance is a term that can be applied to a variety of situations, including corporate governance, international governance, national government, and municipal governance.In the context of financial institutions, corporate governance is considered as an effective mechanism for ensuring the progress and development of the corporation and as a medium for the manifestation of good governance financial institutions (Nu NuHtay& Salman, 2015). Cadbury Code (1992) described corporate governance "as the system by which a corporation is directed and control." The OECD described it as "a set of relationships between a company's management, its board, shareholders and other stakeholders". Effective corporate governance is viewed as a means of ensuring the preservation of these long-term values of shareholders and other stakeholders and to prevent the issues of corruption such as corporate scandals, fraud and many others. It also represents a sound business operation.

Attributes of Good Governance

United Nation Development Programme (UNDP) gives a further illustration on the nature of citizen functions in the decision-making process in their characterization of good governance by asserting that: "The exercise of economic, political and administrative authority to manage a country's affairs at all levels. Governance is a neutral concept comprising the mechanisms, processes, relationships and institutions through which the citizens and group articulate their interests, exercise their rights and obligation and mediate their differences" (UNDP,n.d).However, OECD illustrates more specific characteristics of good governance by referring governance as "the management of government in a manner that is essentially free of abuse and corruption, and with due regard for the rule of law." Moreover, it must be based on participation, transparency, accountability, the rule of law, effectiveness, and equity (OECD DAC, 2006, p.147). Meanwhile, UNDP identifies nine core characteristics of good governance, (1) Participation; (2) Rule of law; (3) Transparency; (4) Responsiveness; (5) Consensus orientation; (6) Equity; (7)

Effectiveness and efficiency; (8) Accountability (9) Strategic vision.

In sum, the term governance or good governance connotes a wider perception than governmental and political perspectives and is subject to different interpretation and conceptualization according to the aims and aspirations of any particular entity, institution or organisation regardless of government or non-governmental, profit or non-profit institution. In the context of financial institutions, corporate governance is a part of the realm of good governance in any corporation. Despite the variety of interpretations of the idea of good governance, many agree on some components. Smith (2007), as mentioned in Malik (2017), further summarized it by dividing it into four key themes: constitutional reform, political reform, administrative reform, and public policy reform. Usually, the concept of good governance has been developed based on these four major themes with different attributes and interpretation according to the countries and institutions. Moreover, despite contrasting interpretation and conceptualisation of the term good governance, most concepts shared the same principles and philosophy which is to achieve certain goodness and development within society.

Good Governance & Islamic Governance

3.1 The framework of Good Governance in Islam

As discussed in the preceding section on the Western's view on governance and good governance concept, all the conceptions and attributes of good governance are not contradicted to the Islamic principles. Given that every Muslim is obligated to live according to Islamic teachings in all aspects of life, there is a need for greater examination of the notion of good governance from an Islamic viewpoint informed by the Quran and Sunnah. The notion of Islamic Good Governance has been shaped conceptually by Islam's worldview, which is founded on the principle of Tawhid. The term Islamic Governance and Islamic Good governance is always be used interchangeably and it is often be discussed within the framework political science, governmental and public administration.Islamic good governance, on the other hand, may be applied to many sectors, including social and economic growth.Therefore, this part mainly discussesthe main principles of good governance in Islam that underpinned the IFIsas a value-laden system. The concepts are: (a) the oneness of God (*tawhid*), (b) justice (*'adalah*), (c) accountability (*mas'uliyyah*), (d) trust (*amanah*), (e) mutual consultation (*shura*), (f) God consciousness (*taqwa*) and (g) enjoining good and forbidding evil (*hisbah*).

Tawhid (Oneness of God)

As a fundamental concept of Islamic Good Governance, Tawhid provides as the greatest Islamic vision for Islamic-based organizations.Al-Faruqi (1992, p.10) opines that *Tawhid* is the "conviction and witnessing that there is no God but God and a general view of reality, of truth, of the world, of spaces and time, human history and destiny."Chapra (1993, p.5)further elaborate that "the universe has been consciously designed and created by the Supreme Being,Who is One and Unique and does not come into existence by chance or accident." That is to say, everything in this world and cosmos exists for a reason. As stated in the Quran, a human being's primary purpose in this earthly existence is to serve as God's vicegerents on earth (Khalifah), with the riches provided to them as Amanah (trust). Additionally, the Khalifah's primary function on this planet is to create and enforce justice. According to Al-Ahsan and Young (2008), a Muslim is answerable not just to himself and other human beings, but to all humanity. Tawhid is recognized as the guiding idea of good governance in Islam, which is coherent with Choudhary and Hoque's suggested framework for Islamic corporate governance (2004). As vicegerents, the principles of Tawhid constantly require them to live up to their accountability and to uphold sound Islamic moral standards while carrying out their assigned duties (Choudhary &Hoque, 2004; Alam Choudhury &NurulAlam, 2013; Choudhury, 2018).

'Adalah (Justice)

Justice is considered as the primary foundation for creating peace, equilibrium, and harmony in our world (Iqbal & Lewis, 2009). Justice is viewed as a collection of individual liberties and constraints, rights and obligations, as well as social advantages and damages, as taught by God via His Prophet in order for human beings to respect the rights of others. Justice involves the development of an institutional framework founded on equality, liberty, respect for private life, restraints on arbitrary governmental action, and mutual dialogue (Lewis, 2009).

Masu'liyyah (Accountability)

Human beings have a significant role in Islam as vicegerents of Allah, accountable not just to God but also to one another. In the Qur'an, Allah SWT mentions: "To Allah, SWT belongs whatever is in the heavens and whatever is in the earth. Whether you show what is within yourselves or conceal it, Allah SWT will bring you to account for it. Then He will forgive whom He wills and punish whom He wills, and Allah SWT is over all things competent." (Qur'an 2: 284).Allah SWT entrusts a man as the Khalifah (vicegerent) with the responsibility of safeguarding the well-being of everything on the planet. Additionally, in the hadith of Prophet PBUH, it is said that when executing obligations and tasks, one must have an awareness of accountability.Allah's Messenger said: "Surely, every one of you is a guardian and is responsible for his charges: The imam (ruler) of the people is a guardian and is responsible for his subjects; a man is the guardian of his family (household) and is responsible for his subjects; a woman is the guardian of her husband's home and his children and is responsible for them, and the slave of a man is a guardian of his master's property and is responsible for it. Surely, every one of you is a guardian and responsible for his charges" (Al-(Hadith Bukhari's Collection, Vol. 9, Book 89, Hadith 252). Islamic governance accountability is more about the decision-making process, which entails addressing these three questions: who makes decisions, for whom, and with what resources. This indicates that in order to build a strong Islamic governance system, one must be able to articulate responses to those three decision-making aspects (Iqbal and Lewis, 2009).

Amanah(Trust)

*Amanah*refers to the trust, reliability, trustworthiness, loyalty, faithfulness, integrity and honesty. In Islam, human beings are believed to be the steward of Allah and are responsible for the efficient utilisation of the wealth entrusted to them. As a trustee, stewards are responsible for maximising the value of the wealth toward benefiting the whole community. IbnTaymiyah was the first scholar to add trustworthiness to the existing list of *Maqasid* in relationship to faith.While corporate organizations are accountable to Allah for upholding and realizing Maqasid Shariah, they are also liable to stakeholder groups for meeting their expectations and ambitions in accordance with the conditions of Maqasid Shariah. Additionally, Shariah maintains that Allah SWT owns all money. This concept implies that, because Allah SWT is the ultimate owner of money, all human beings have the obligation to use the riches Allah has provided them appropriately. Thus, trust requires that a person assigned to a particular public office refrain from using it for self-aggrandizement or the profit of his kin (Hassan & Siraj, 2017). The misappropriation of public monies for personal gain is a felony, and the Qur'an describes the punishment for such crimes as follows: "Moreover, anyone who misappropriates must return with what he misappropriated on the Day of Judgement" (Qur'an 3:161).

Shura (Mutual Consultation)

As stated by Lewis (2006) the concept of *shura*can be referred to a living in mutual consultation along with tolerance and faithful dependence on Allah. As Muslims, they must seek to that ensure that their every action and life conduct must be based on open mutual consultation. Also, in the Qur'an it has been encouraged that any decision that involves more than one party, a consultation is needed in light of the principle of *Shura*, Allah SWT says: "And those who have responded to their lord and established prayer and whose affair is (determined by) consultation among themselves, and from what We have provided them, they spend." Since Qur'an has given serious attention about that decision making involves more than one part, the leaders must play their role to encourage others to participate in the process of decision making (Iqbal and Lewis, 2009). Additionally, *Shura* is the key to Islamic moral value in the process of decision making (Abdul Rahim, 1998).

Taqwa (God-consciousness)

Taqwa has been defined as a state of being aware of God. This implies that Allah is aware of every action taken by humans. As Muslims, we believe that Allah SWT is always monitoring our acts, whether they are positive or negative. As a result of this concept of taqwa, people would exercise appropriate caution and adhere to Shariah when carrying out their responsibilities. In the Qur'an, Allah says: “But as for he who feared the position of his Lord and prevented the soul from (unlawful) inclination.” (Qur’an 79: 40).

Hisbah

Hisbah is a term that relates to the act of promoting good acts and abstaining from evil deeds. It is taken from a hadith of the Prophet SWT who stated: "Whoever among you sees a wrong, let him alter it with his hand; and if he is unable to do so, then with his mouth; and if he is unable to do so, then with his heart, which is the weakest of faith." (Hadith No. 34, as reported by Muslim). The institution of hisbah had a vital role in regulating commerce and economic practices throughout the prophet's lifetime.

Transparency is a critical component of how hisbah manifests. According to Abu Dauda and Yusha'u (2017), transparency and accountability are inextricably linked ideas that play a critical role in achieving good governance. That is, accountability is impossible without openness, and transparency is a necessary condition for accountability to be implemented. Transparency is a term that refers to the transparency with which government does its business.

Islamic Finance and Good Governance

Islamic Corporate Governance

It is critical to understand that Shariah Corporate Governance (ICG) is a complete framework that embodies an Shariah governance paradigm founded on Tawhid. 2004 (Choudhary & Hoque). Lewis (2005) emphasizes that Islamic Corporate Governance is distinct from conventional Corporate Governance in that it entails a broader set of accountabilities and obligations toward suppliers, customers, competitors, and employees, taking into account both the spiritual and temporal needs of the Islamic society. The Tawhid worldview has implications for the whole framework of Islamic administration, notably in the decision-making process necessary to accomplish the organization's mission. This procedure must be carried out in accordance with Shariah's goal (Choudhary & Hoque, 2004; Choudhury, 2018).

Additionally, the ICG presents a complete guideline that includes practices and obligations designed to protect Muslims' moral conduct against deception, exploitation, betrayal, and profiteering at the expense of moral and business value (Azni et al., 2018).Choudhury further defines an Islamic corporation is “a legal entity where the principle and proportionate of the firm’s shares owned by the shareholders based on equity participation and profit-sharing ratios and deals with legal and organizational structures that control the internal governance of a firm intending to define and attain an objective criterion by way of understanding the relations between variables supported by policies, programs and strategic coalition” (Choudhary & Hoque, 2004, p.58). While Hassan (2009) expounds Islamic corporate governance as “a system by which companies are directed and controlled with a purpose to meet the corporation’s objective by protecting all the stakeholders’ interest and right” (pp 277-293). This type of control over the business can only be accomplished by the company's practices, processes, and policies, all of which must take the business's objectives into account.Furthermore, Choudhary and Hoque (2004) contend that there are at least four principles and instruments of governing in Shariah governance, the principles as follows:

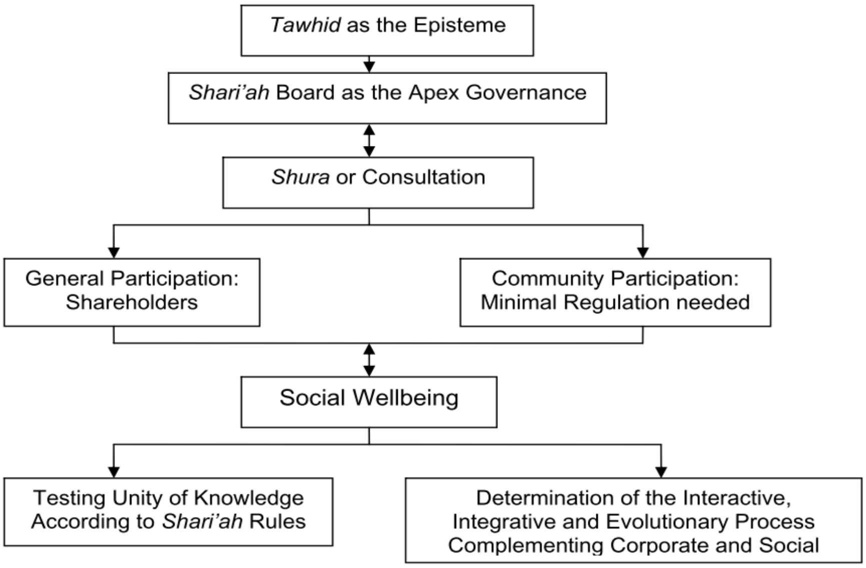
1. Extending the Tawhid unity of knowledge to the interacting environmental variables through

an interactive, integrative, and evolutionary process;
2. The fairness principle;
3. The idea of productive resource involvement in society;
4. The economic principle and recursive purpose between the preceding phases.

Hassan (2009) emphasizes further that all of these concepts are the cornerstones of Shariah corporate governance, which adheres to Shariah-based laws. It establishes an Islamic corporation that is market-driven while adhering to the social justice concept.

Besides, an ideal Islamic governance system and procedures are required as part of its manifestation. It can be manifested through the mechanisms of *shura, hisbah*, Shariah supervisory process, and Shariah audit (Iqbal & Lewis, 2009). The Figure below indicates the model of Shariah Corporate Governance.

Model of Shariah Corporate Governance



Source: Choudhary&Hoque (2004)

Good Governance through Application of Shariah Governance Framework

The Shariah Governance framework provides as a guide for Islamic Finance in terms of implementing the necessary governance in order to conduct Shariah-compliant activities. Shariah governance frameworks must be carefully adhered to in order to guarantee that Islamic Finance is always Shariah-compliant. Effective Shariah governance also assures the Islamic financial system's viability. A complete Shariah governance structure, it is thought, is founded on four pillars: management and supervision; second, the Shariah Advisory Board; third, Shariah compliance and review; and fourth, openness and disclosure (Ahmad & Mohamad 2019). As a result, several international and national organizations, including the International Financial Services Board (IFSB), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and the Central Banks of the respective countries, have taken additional steps to establish Shariah-compliant governance frameworks for Islamic Financial Institutions.For example, the International Financial Services Board (IFSB) defines Islamic governance (SG) as "the set of institutional and organizational arrangements through which an IIFS ensures that there is effective independent oversight of Shariah compliance over each of the following structures and processes: Issuance of relevant Shariah pronouncement resolutions; Dissemination of information on such Shariah pronouncements/resolutions to the operative personnel of the IIFS who monitor the day-to-day compliance with the Shariah pronouncements/resolutions vis-à-vis every level of operations and each transaction; An internal Shariah compliance review/audit for verifying that Shariah compliance has been satisfied, during which any incident of non-compliance has been satisfied, during which any incident of non-compliance will be recorded and reported, and as far as possible, addressed and rectified, and an annual Shariah compliance review/audit for verifying that the internal Shariah compliance review/audit has been appropriately carried out and its findings have been duly noted by the Shariah board" (IFSB-10, 2009p.2).

The supervisory instrument's independence is a critical component. Each participant of the Shariah board, whether it is the Shariah Committee or the Shariah Advisory Council, should always maintain a high standard of morality and intelligence, as well as professional independence, when carrying out their separate tasks. Professional independence refers to the capacity to make informed judgments following a thorough examination of all relevant facts and viewpoints and without undue influence from management or unrelated outside interests (Islamic Financial Services Board, 2009). The concept of independence must be followed at all times in order to avoid control or manipulation. This element of independence in the regulatory tool for Islamic financial organizations is consistent with Islam's trust concept. Inadequate independence would impede and complicate the supervisory process (Izzat&Mohd, 2018).

Regarding the formationand the process of Isalmic governance, IFSB highlight three main features of Shariah governance system and key functions that play an important role in ensuring the Shariah governance in IFIs (Hilmy& Hassan 2019). The table below portrays some of the main features and key functions of the Shariah governance system of IFIs.

Main features	Key Functions in Typical Financial Institutions	Key Functions Exclusive to IFIs
Governance	Director's Council	Supervisory Board for Shariah (SSB)
Control	Auditor, internal / external	Review of Shariah on an internal/external basis
Compliance	Officers in charge of regulatory and financial compliance, unit or department	Shariah compliance section within the company

Source: IFSB-10 (2009)

According to the preceding table, Shariah governance is structured in two ways: externally and internally. Internally, the organization is structured around a Shariah-compliant control system, an internal Shariah audit function, and boards of directors and all associated committees. While the external structure of Shariah Governance consists of a Shariah supervisory board, external audit companies, and Shariah audit and consultancy firms, all of which strive to guarantee Shariah compliance from the outside (Hilmy& Hassan, 2019).

The use of Shura in the Shariah Governance framework is evident in these two components of the Shariah Governance structure: the Shariah Advisory Council (SAC) or Shariah Supervisory Board (SSB) and the Shariah Committee. The Shariah Advisory Council's primary functions are to regulate Shariah law pertaining to Islamic financial matters, to issue rulings in cases referred to the Central Bank of Malaysia, to advise the Central Bank of Malaysia on Shariah issues pertaining to Islamic financial business, and to advise Islamic financial institutions and individuals on Islamic financial matters. These responsibilities of the Shariah Advisory Council fully embody the shura concept, particularly when the Central Bank of Malaysia or any Islamic financial institution seeks the Shariah Advisory Council's opinion on Islamic banking and finance problems requiring mutual consultation. Shariah Advisory Council opinions are formed by competent and eminent experts in Islamic banking and finance. This, too, is consistent with the Shura characteristic. Due to their knowledge and certification, members of the Shariah Advisory Council are qualified to provide such advise or rulings on Shariah matters (Zain, Zulkarnain, & Hassan, 2015). The characteristics of Shura can also be traced to the shariah committee, for instance, in matters of Shariah compliance or Shariah issues, not only the board of directors or Islamic financial institution may consult the Shariah committee for advice or opinion, but other related parties are also eligible to consult the Shariah committee for advice, specifically on Shariah matters (Zain et al., 2015).

Along with a strong Shariah Governance framework, it requires the unwavering commitment of the Shariah Committee (SC) as the primary player, the government as the regulatory body, Islamic financial institutions as the implementer, and other business-related individuals such as auditors, accountants, and lawyers. SC are thus accountable for the Shariah-compliant governance of Islamic financial firms. The SC's responsibilities include instructing the board members on Shariah matters and ensuring that operations adhere to Shariah principles at all times, endorsing and validating pertinent documentation regarding the products and services, as well as internal policies and manuals and marketing advertisements, helping related parties, and advising on any Shariah problems that arise prior to referring them(Zulkifli Hasan, 2007).

Additionally, a fair, open, and equitable governance mechanism will address all of Islamic finance's ethical and moral concerns. In this context, the Shariah governance framework, notably in the Islamic banking system, has recognized the different roles of Islamic banking institutions in delivering a fair service to all stakeholders, including minority owners and investment account holders. In accordance with the concept of justice, each body responsible for ensuring Shariah compliance at Malaysia's Islamic banking system, including Shariah Committees in banks and the Shariah Advisory Council at Bank Negara, is entitled to be placed in their proper position to optimize their duties. Failure to act fairly in carrying out their responsibilities would have a detrimental effect on the functioning of financial institutions (Izzat&Mohd, 2018). Meanwhile, the Shariah Governance framework's practice of openness is evident in the board and Shariah committee's disclosure practices. On this basis, IF is required to include information on its Shariah governance policies and procedures in its annual report (Bank Negara Malaysia, 2010). Such disclosures must contain the following:

(a) openness regarding the board's oversight duty for Shariah governance implementation and the IFI's overall Shariah compliance.

(b) transparency regarding the Shariah committee's Shariah governance responsibilities; and an evaluation of the IFI's Shariah compliance.

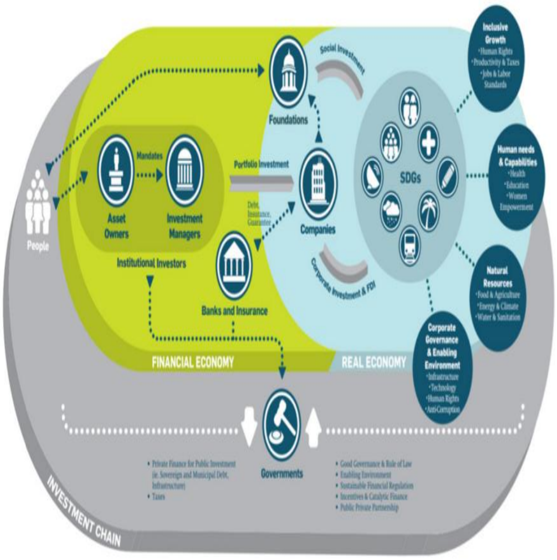
Islamic Finance and Sustainability Agenda

Islamic Finance and Sustainable Development Goals

United Nation Development Program (UNDP) defines Sustainable Development “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (UNDP, n.d.).Meanwhile, the Sustainable Development Goals (SDGs), also known as the Global Goals, were approved by all United Nations Member States in 2015 as a global call to action to eradicate poverty, safeguard the planet, and secure peace and prosperity for all people by 2030. The seventeen Sustainable Development Goals are interrelated, recognizing that actions made in one area have an effect on results in others and that development must find the right balance among social, economic, and environmental sustainability.The Sustainable Development Goals are comprised of 17 objectives. The primary objective of the Sustainable Development Goals is to solve the issues confronting 193 nations in terms of global economic, social, and environmental challenges by 2030. (UNDP, n.d.).

Numerous UN efforts directed at financial organizations might serve as a suitable jumping-off point for Islamic finance institutions interested in the SDGs. However, Islamic financial organizations have made a negligible contribution. Islamic finance is therefore advised to adhere to the current Principles for Responsible Investment (PRI), Principles for Responsible Banking (PRB), and Principles for Sustainable Insurance (PSI), which guide financial institutions worldwide in their efforts to align with the SDGs. PRI's mission is to get a better understanding of the investing implications of ESG issues and to assist its international network of investor signatories in incorporating them into their investment and ownership decisions. Meanwhile, PRB are intended to establish the basis for a sustainable banking system and to assist the sector in demonstrating how it contributes positively to society. Additionally, the Principles for Sustainable Insurance serve as a worldwide framework for the insurance sector to address environmental, social, and governance risks and possibilities. Regrettably, as of February 2020, no takaful insurance firms are members of the PSI (UKIFC, 2020).

Inanother study also indicates theinactive participation of the Islamic finance industry in a society that is stem in the objective of Shariah the Islamic Finance industry. For example, the study conducted by Asutay(2015) as cited in Hassan and Mohamad Nor (2019) showsthe lack of achievement in *Maqasid Shariah* performance of Islamic bank and finance as the industry focuses mainly on self, faith and rights and stakeholding rather than wealth orientation. The study further indicates that there is a lack of contribution of Islamic Banking and Finance (IBF) in the social entity, intellect, posterity and ecology. Thus, IF must find the ways out to overcome this weakness by strengthening the very basic foundation of Islamic finance and explore the new potential of Islamic finance in achieving comprehensive development or sustainability, socio-economic justice that is rooted from objectives of Shariah. The recent creation of Value-based Intermediation (VBI) by Central Bank Malaysia is one of proactive measure to evaluate the contribution and participation of Islamic Finance in Malaysia as part of enhancing IF social responsibility and their achievement towards overall objectives of Shariah(Hassan & Mohamad Nor, 2019).Despite Islamic Finance's lack of participation in the SDGs, it has a potential role in promoting this sustainability agenda because it operates in the real economy through the provision of products and services that have a direct impact on sustainability areas such as climate, gender equality, jobs, infrastructure, and social services. Institutional investors are involved in sustainability concerns through the projects and businesses in which they invest cash and participate as active owners. Institutional investors also make direct real-economy investments in real estate, infrastructure, forestry, and agriculture. Banks and insurers are linked since they provide firms with debt, insurance, and guarantees. Funding is provided by foundations and philanthropic efforts to social businesses and civil society organizations that are directly involved in providing societal benefits. While the shown investment chain suggests a bright prognosis for finance flowing into the actual economy, this is not always the case in fact, which is one of the impetuses for the need for action (UKIFC, 2020). The figure below demonstrates how businesses, particularly financial institutions, are contributing to the SDGs' promotion.



Source: Adapted from UKIFC, (2020)

Additionally, Islamic finance may be characterized as ethical, inclusive, and socially responsible finance since it ties the financial sector to the real economy and encourages risk sharing, partnership financing, and social responsibility. As a result, Islamic finance has established itself as a viable method of funding global growth. This helps to explain why it is gaining popularity as a novel means of funding infrastructure. Operations in an Islamic financial system should be asset-backed, which helps to the stability of the financial sector, and governed by a framework of Islamic legal contracts that encourage profit and loss sharing.Additionally, social justice, solidarity, and reciprocity are emphasized, whereas investments in immoral activities are forbidden. Islamic finance has the ability to fill the financial disparity created by the Sustainable Development Goals and the transition to a green economy (Aassouli, 2020).

Islamic Financial Institutions Commitments in Sustainable Development Goals (SDGs) The initiatives ofthe Islamic Development Bank (IsDB)

The Islamic Development Bank (IsDB) is a global development institution dedicated to Islamic financing. It now has 57 members from four continents. It is a prominent and active player in the worldwide Islamic finance sector, with an excellent credit rating, operational assets in excess of USD 16 billion, and subscribed capital in excess of USD 70 billion. It engages in a variety of activities, including public and private project financing, development assistance, technical assistance, trade financing, small and medium-sized enterprise financing, direct equity participation in Islamic financial institutions, and research and education in Islamic economics and finance.According to the 2018 Development Effectiveness Report, the IsDB spent about US$6.5 billion in 2018 across 34 Member Countries in 71 projects and 272 grant-based activities, achieving a range of SDG targets (UKIFC, 2020).

The creation of Sustainable Finance Framework

The Sustainable Finance Framework, which was issued in 2019 and is complemented by the Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines, details the IsDB's requirements for issuing Green or Sustainability Sukuk. Each category in the table below is dedicated to a certain SDG.

GREEN ELIGIBLE CATEGORIES	SOCIAL ELIGIBLE CATEGORIES
• Energy source that is renewable • Efficient energy usage • Environmentally sustainable pollution prevention and control • Environmental stewardship and land use management • Water and wastewater management that is both environmentally and economically sustainable	• Job creation • Affordability of housing • Affordability of fundamental infrastructure • Availability of key services • Socioeconomic progress • as well as empowerment

Source: Adapted from Islamic Development Bank (2019)

Additionally, IsDB developed this framework in accordance with the four components outlined in the Green Bond Principles, the Social Bond Principles, and the Sustainability Bond Guidelines as part of their best practice (Islamic Development Bank, 2019). Among these four components are the following:

1. The application of proceed
2. Evaluation and selection of projects
3. Procedural management
4. Reporting

Challenges and Opportunities

World Bank (2020) in their latest report highlights that the four challenges that could hampering the financial institution in relation to their commitment to SDGs, the challenges are as follows:

1. Islamic finance is mostly concerned with specific SDG projects, such as environmental renewable energy and green real estate. For example, in Malaysia, the issuances of project-based green sukuk have an excessive emphasis on renewable energy, with some exposure to green real estate. While this is commendable, it risks over-associating green sukuk with renewable energy and green real estate to the disadvantage of other industries. In this instance, the World Bank advocates expanding the use of green sukuk to fund a broader variety of projects, rather than just renewable energy and green real estate.
2. The next issue is determining whether assets and initiatives are green. The majority of financial institutions, particularly in emerging markets, do not differentiate their portfolios between green and non-green assets. As a result, they have been unable to establish a sustainable pool of green assets for green sukuk issuance. In this situation, it is anticipated that developing green taxonomies might aid in overcoming these obstacles by considerably improving the classification of green assets. Thus, the World Bank issued a guide on how to develop a national green taxonomy, titled Developing a National Green Taxonomy: A World Bank Guide.
3. A third difficulty is determining how earnings are to be used. By use of revenues

is a major criteria for green sukuk issuances; these issuances impose restrictions and prohibitions on the use of earnings for combined green and non-green projects. Generally, issuers of both types of sukuk would be required to finance the two distinct sorts of projects. For issuers in the public sector, effective policy coordination is essential. This is because the sovereign green sukuk issue will include a broad range of government agencies, including those responsible for finance, the environment, natural resources, and energy. This may provide a challenge for some public sector issuers, while others, such as Indonesia, do not appear to be concerned, since they continue to issue both types of sukuk concurrently.

4. New entrants to the market of green instruments will face a learning curve. When the green sukuk was formed, financial intermediaries operating on behalf of their corporate customers expressed early opposition due to their unfamiliarity with the notion of green financing.For potential issuers, the preparatory processes for the issuing of green instruments would take longer. Additionally, a green issue has a little premium in terms of cost. This is due to a variety of factors, including the expense of developing the green framework, the cost of an external reviewer's second opinion, and the cost of post-issuance impact reporting. In certain countries, the government will offer financial incentives to partially or completely pay some or all of these costs.

Opportunities for IF

Regardless of these impediments, Islamic financing offers the following opportunities: Green sukuk issuers with traditional production sukuk issuance facilities may consider using the same facility to issue green sukuk if they have created a green framework for the green tranche to be released.Where such measures are feasible, they may result in significant time and cost savings associated with the issuing of a green sukuk. Numerous prospective issuers may be unaware that the Green Bond Principles allow for the refinancing of revenues already used for green projects. This means that the issuer might begin their green project first and then issue the green sukuk. This is another possibility for a prospective issuer to consider (World Bank, 2020).

The recent issuance of Blue Sukuk to finance ocean-related projects, such as the Republic of Seychelles' blue bond, illustrates how sustainable financing continues to evolve. Given that several big consumers of Islamic finance have considerable exposure to marine ecosystems via their coastlines, a reasonable next step for marine projects would be to consider funding them via a blue sukuk. Similarly, to how a green bond might be converted to a green sukuk by superimposing a green framework on top of a sukuk, a sukuk could similarly be converted to a blue sukuk by superimposing a blue framework on top of a sukuk (World Bank, 2020).

The Way Forward for Islamic Finance

The global pandemic crisis of COVID-19 has posed challenges to the Islamic Finance. S&P Global Ratings also believes the global Islamic finance industry return to slow growth in 2020-2021 after strong performance in 2019 reinforced by a dynamic sukuk market. The measure to contain the COVID-19 pandemic has caused the significant slowdown to the Islamic Finance economis in 2020. However, Islamic Finance industry is expected to gain mild recovery in 2021 (Damak & Samira Mensah, 2020). In search for this recovery and growth, there are two main areas of Islamic Finance that must be given full attention to be the potential growth accelerator for this economic downturn. They are Islamic Social Finance and Financial Technologies.

Islamic Social Finance

Islamic Social Finance is seen as apotential socialinstrument that can help the core Islamic Finance economic across the countries, banks, and corporations (Damak & Samira Mensah, 2020: OECD 2020). The following Islamic Social Finance instruments are believed to navigate the current situation:

1. Qard Hassan: This device has the capacity to provide unrestricted breathing space till the atmosphere reaches a state of equilibrium. One example is when many GCC central banks offered financial

institutions with free liquidity lines in return for offering reduced credit to their corporate and small and medium-sized business clients.

2. Social sukuk: These instruments have the potential to boost education and health care systems during the current slump, as well as to draw environmental, social, and governance (ESG) investors (those investing for social purposes) and/or Islamic investors (those looking for Sharia-compliant investments).
3. Waqf: This might be utilized to aid people who have lost a portion of their income in getting affordable housing, health care, or education.
4. Zakat: Zakat is expected to aid households in compensating for revenue lost as a result of COVID-19.

According to the Islamic Development Bank Group (2020), each of these Islamic social finance instruments should be coordinated and incorporated into governments' fiscal strategies via safety nets and pro-poor expenditure. Governments may explore issuing Sukuk secured by a temporary cash waqf to generate social and philanthropic funds at below-market rates for the aim of funding various safety net projects. Cash and corporate waqf funds may be advantageous if the state starts restructuring its corporate asset holdings throughout the recovery phase.

Financial technology (Fintech)

Increased digitization and collaboration amongst fintech firms might help the Islamic finance industry maintain its adaptability in a more unpredictable climate and provide new development opportunities. This is because the lockdown methods used to resist COVID-19 have demonstrated that a company's or bank's ability to carry its business online is critical to its survival. For example, in certain countries, due to a lack of financial inclusion and specialized digital solutions, employees' remittances were delayed due to the closure of exchange and money transfer outlets. Additionally, Sukuk structure and issuance have been delayed due to a lack of technology, despite the establishment of a new platform with a simplified issuance procedure (Damak& Samira Mensah, 2020).

Conclusion

To date,Islamic Financial system has become an alternative system that could preserve the long-term benefit of people and at the same time add the values to real economic system. People are no longer looking for financial gain but also the real purpose and value in the business operation. The concept of Islamic good governance, which is founded on the principle of Tawhid, has practical implications for the IF system and operation, as it provides a comprehensive guideline consisting of practices and obligations to protect Muslims' moral conduct from deception, exploitation, betrayal, and profiteering at the expense of moral and business value. Islamic Good Governance, on the other hand, is a collection of Islamic principles derived from the Quran and Sunnah that serves as an ethical and moral value foundation for IF. By analyzing good governance in the context of Shariah governance implementation in IF, it is demonstrated that all Islamic principles of good governance are applicable to this SGF implementation.

Though, recently, the IF has received a lot of criticisms about their lack of contribution and participation in achieving comprehensive human development as part of *Maqasid Shariah* through the agenda of Sustainable Development Goals (SDGs) introduced by UNDP. Despite all these criticisms, there have been a lot of initiatives taken by IF around the world to overcome this flaw. The IsDB for example has taken a proactive action to be fully committed with SDGs by establishing a Sustainable Framework for the issuance of Green Sukuk by following the existing conventional framework. Lastly, since the pandemic of COVID-19 hit the world, it has posed challenges to IF to overcome the economic downturn and the market is expected to gain mild recovery in 2021. In response to this crisis, Islamic Social Finance and Fintech is seen as a growth accelerator for the IF in order to ensure its continuity and relevancy in any circumstances either good or bad.

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