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The Importance of Implementing Environment, Social and Government (ESG) and Maqasid Sharia-Based Islamic Finance in Islamic Bank

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Abstract. Environment, Social & Governance (ESG) is a trending topic worldwide that is gaining a lot of traction because of its focus on social and environmental impact, and its relationship to improving financial performance. Likewise, Islamic Finance, being Shariah-compliant, is also another concept that is growing globally. These two concepts share many common values and similarities as they address challenges of social development. However, there are several obstacles and challenges in terms of integrating ESG in financial institutions, because this is a new concept. Financial institutions implement sharia principles with the aim of achieving *Maqasid Sharia* (i.e., protecting life, religion, mind, lineage and property). Even in the concept of ESG investment, screening of certain business sectors is required. The aim of this research is to optimize the potential to attract more interest from public companies as ESG and *Maqasid Syaria* strive to fulfill their social goals without compromising their side business operations. The research method uses a type of Systematic Review with a mixed method of literature search which is carried out both in qualitative and quantitative research. It aims to improve the integrity of research findings from 20 journal articles. This research found that Many Islamic banks have started promoting sustainability through their financing and initiatives many years ago which put them ahead in terms of ESG. There are still many obstacles that need to be overcome to get the best results from the integration of ESG and Islamic Finance as well as offering insights into Islamic finance models such as ESG investment from an Islamic perspective, especially with regard to the concepts of *Maqasid Sharia* and *maslaha mursala*, so that ESG and *Maqasid Sharia* can be applied in all institutions, especially Islamic banking.

Keywords: *ESG, Islamic Finance, Maqasid Sharia*

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INTRODUCTION

Responsible Investment, with a focus on Environmental, Social & Governance (ESG) elements and integration of ESG in the investment process, is an emerging trend for financial institutions. ESG factors cover a wide spectrum of issues that have not traditionally been part of financial analysis but may have financial relevance. This might include how companies respond to climate change, how they manage the halal value chain, how they treat their workers and whether they have a corporate culture that builds trust and encourages innovation. ESG is important because there are several financial benefits that are correlated with companies pursuing high ESG performance. For example, green investment funds and socially responsible investors are more likely to fund companies with good ESG scores.

Islamic finance has the same basic principles as sustainable finance, namely financial stability and economic growth, poverty alleviation and distribution of wealth, financial and social inclusion and environmental preservation. Therefore, it allows Islamic finance to leverage this commonality to become a natural vehicle for spreading elements of green finance which has not yet been analyzed through the perspective of religious ideology (Bukhari, et.al., 2019). If this is not considered, it will have an impact on global environmental degradation and resource depletion. The solution is to adopt moral, spiritual and religious beliefs. Religion can influence and shape individual behavior towards the natural environment, both consciously and unconsciously.

Islamic finance industry aims to advance companies that are included in sectors or industries that provide added value to the real economy. Investments in fixed-income financial instruments, such as preferred stock, bonds and some derivatives (such as options) are unacceptable, as they promise a fixed rate of return and do not provide voting rights. In addition, Islamic investors are not allowed to buy shares of companies whose main business activities are alcohol, gambling, conventional financial services, entertainment, products related to pork, tobacco and weapons.

Along with this growth, ESG and Islamic funds are also growing very fast, having around $60 trillion in assets managed by signatories to the PRI (Principles for Responsible Investment). Islamic Funds is also a fast-growing sector representing $1033 billion of Islamic assets under management. Many investors are attracted to ESG funds and Islamic funds primarily because of the recent scandals in the ethics literature, and with much focus, because of the financial crisis and subsequent negative impact on conventional funds. In light of this trend, Muslim investors are left with the choice of investing in Islamic mutual funds, Islamic investment is showing considerable strength and resilience in the face of the global financial crisis, thus adding to the popularity of this type of Islamic fund (Asim & Ullas, 2022).

As the fourth most populous country in the world, with around 270 million people Indonesia is rich in both renewable and non-renewable resources. Moreover, Indonesia as one of the largest Muslim countries in the world still lags behind Malaysia in terms of sharia financial fundamentals. In addition to the need for an increasing trend of sharia returns, in line with the increasing number of needs and potential for investment as the largest Muslim population in the world, the opportunity to develop sharia investment is getting bigger. Islam attaches great importance to the moral, environmental and social dimensions, there are several verses of the Qur'an that define and praise the environment, and encourage people to protect it.

Both the concept of ESG Investment and Islamic finance, both have almost the same value. Sharia investment is carried out based on sharia principles with the aim of achieving *Maqasid Sharia* (i.e., protecting the soul, religion, mind, lineage and property). Even in the ESG investment concept, screening of certain business fields is required. However, sharia investment will continue to prioritize religious aspects in all of its activities and prohibit investing in businesses that are not in accordance with sharia principles, whereas in the ESG investment concept, derivatives are permitted. The investment will be made in the company with the highest ESG score. However, such selection does not exist in Islamic investing.

As a matter of fact, the growth of Islamic bank customers in Indonesia is still low. The low growth of Islamic bank customers is due to weak Islamic bank customer loyalty, only 33.75% of Islamic bank customers are loyal in the form of customer interest in making repeat purchases and recommending Islamic banks to other parties. One of the important factors of customer loyalty is satisfaction. if the customer is satisfied, the customer will not hesitate to recommend inviting other people to become a customer of the bank.

Sustainable development focuses on the overlapping factors between Islamic finance and ESG investments, namely economic, environmental and social impacts. Therefore, this paper offers insight into the ESG investment model from an Islamic perspective, particularly with regard to the concepts of *Maqasid Sharia* and *maslaha mursala*. Thus, it can be explained the similarities between the principles of ESG Investment and the values carried by Islam through the *Maqasid Sharia* principles. As such, it has the potential to attract more interest from publicly traded companies as they seek to fulfill their social goals without compromising their sideline operations (Rahmaningsih, 2021).

Rifka & Najim (2021) study reports that almost all companies show Good Corporate Governance, but only a few companies have sustainability reports. Therefore, new parameters for screening the screening process for Islamic stocks are urgently needed. In another result, research of Syed (2017) entitled Environment, Social, And Governance (ESG) Criteria and Preference of Managers explain that managers of both countries support doing social work simultaneously while earning profits. As per our results, British managers have the belief that CG is the fiduciary duty of the company while French managers believe in supporting ESR as the fiduciary duty of the company. Managers of both countries have the confidence the same that ESR is demanded by the Government, ESR will manage investment risk better and etc.

So that the purpose of this Systematic Literature Review (LSR) is to identify and analyze the empirical literature in recent years regarding ESG and *Maqasid Sharia* implemented in Islamic Banks. Through this system, the findings of previous researchers can be clarified so that they can find new strategies needed by Islamic banking in Indonesia. Another contribution is the importance of the relationship marketing dimension in Islamic banking, which will help the development of Islamic banking in Indonesia.

LITERATURE REVIEW

Environment, social, and governance (ESG)

The term ESG was first coined in 2005 in a landmark study entitled Who cares Wins by the UN Global Compact. ESG investments are a type of sustainable investment which is an umbrella term for investment portfolios that, in addition to seeking positive returns, also consider and evaluate the long-term impact of business practices on society, the environment and business performance alone. The Schroders Environmental, Social and Governance Policy defines ESG investment to cover a wide range of investment activities that recognize the relationship between companies, the communities and the environment in which they operate, and between companies and the shareholders who have control over them (Miskam & Abdullah, 2021).

Kumar's research in 2022 reveals that there are seven main themes of sustainable finance research, namely socially responsible investment, climate finance, impact investment, carbon finance, energy financing, and governance of sustainable financing and investment. The greenwashing of corporate events in sustainable finance is still under-researched. Greenwashing is intentional action in corporate events. This action will cause a decrease in investor confidence in companies that carry out ESG principles (Kumajas, et.al., 2022).

Looking at emerging markets, it is found that the inclusion of ESG adds value to Malaysian listed companies. They concluded that the impact of ESG ratings on company value was clear, as market performance improved by more than 30 percent, and a company's cost of capital fell by 1.2 percent. They added that the ESG or SRI agenda has benefits for stakeholders, because it has a positive effect on the company's profitability. This finding also holds true in the European market, according to Eliwa et al., 2019, which also determines that companies with strong ESG practices tend to have lower costs of capital. They assert that ESG practices are properly assessed by stakeholders seeking changes in business decisions. These studies show that strong ESG practices can serve as a guide for the overall management quality of a company, which translates into better financial results (Abdul Qoyum, 2020).

Maqasid Sharia

Maqasid Sharia means the highest purpose of Allah and His Messenger in formulating Islamic laws. In the research of Ramadhan Ellias in 2020 entitled "The Significance of ʿUrf and its Influence in the Development of Sharīʿah Standards of Islamic Finance in Malaysia", *Maqasid Sharia* is defined as the values and objectives of sharia implied in all or most of its laws. Values and goals are seen as objective and confidential sharia, set by al-Syari 'in any legal provisions. According Syathibi the final goal of the law is one that is *maslaha* or good and welfare of mankind. According to al-Ghazali, the highest purposes of Islamic law are two types: religious or spiritual purposes related to the Hereafter; worldly goals related to worldly affairs of this world.

Rifqi Muhammad & Rima Lanaula research in 2019 entitled Challenges of Islamic Supervisory in The Islamic Financial Technology Industry, states that there are five things that are the goal of sharia: to protect life as a fundamental right for all human beings; protecting the mind as a gift from God and also the distinction between man and other God's creations; protecting offspring so that the lives of all humans remain sustainable; protect and guarantee the freedom of religion and worship practice not only for Muslims but all religious followers; protecting the property and livelihood of every human so that there is no oppression and tyranny in terms of obtaining wealth. For al-Ghazali, five main things are universal and are the core values of human life in all times and climates. Furthermore, *Maqashid Sharia* also ensures that Islamic financial institutions will not provide bring-damage services (*madarrah*) commonly found in non-Islamic mode of financing.

This opinion is not only supported but also corroborated by some economic and Islamic financial researchers by stating that the *maqasid sharia* could be a philosophy and performance measurements which are adequate for Islamic financial institutions because of the spirits and the same spirit and the same direction in them.

However, the above ideas have not been properly translated into a performance measurement system for Islamic financial institutions. Many Islamic economic thinkers use the *Maqasid Sharia* to guide and measure the performance of sharia financial institutions but are still very focused on financial aspects and do not pay attention to the stakeholders as a whole. For this reason, this research is conducted with the aim to formulate performance measurement that is able to bring the Islamic financial institutions to achieve the goals of sharia which become its ideals, be it financial and non-financial, material and non-material, soul and body, physical and spiritual, mind and mentally, world and the hereafter, the relationship between a human with the humans, the relationship between a human with other humans, and the relationship between a human and the nature for all stakeholders as manifestations of blessing for the whole world and its content, a mercy to all creation and a steward on earth, vicegerent of God on earth.

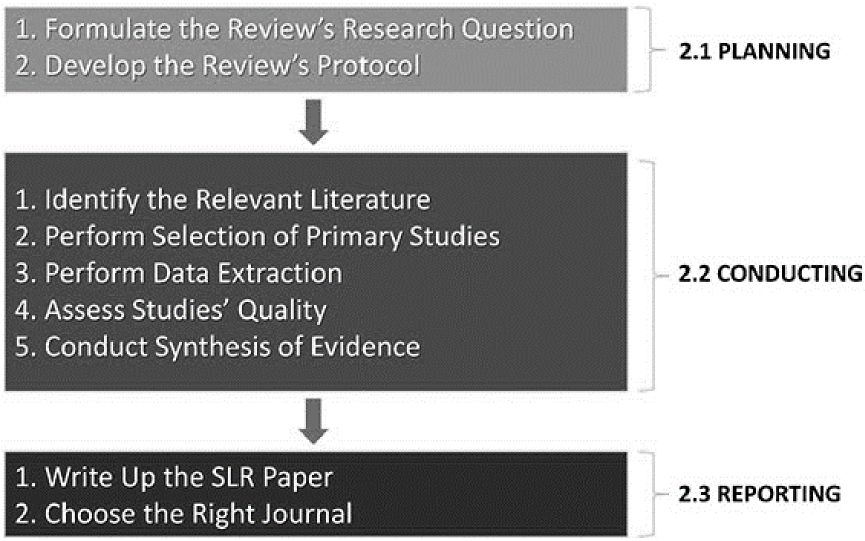
METHOD

This type of research is descriptive research using the Systematic Literature Review/Structured Article Review method. Systematic Literature Review is defined as the process of identifying, appraising, and interpreting all available research evidence with the aim of providing answers to specific research questions.

This review method was carried out through a literature search originating from the Google Scholar database and Google. The research data population is journals with a focus on Environment, Social and Governance (ESG) and Islam with 853 titles/articles and 20 titles/articles that are appropriate to the research topic and 20 titles/articles that are suitable as samples.

Systematic Literature Review in this study was carried out through three stages, namely planning, implementing and reporting the literature review. The following are the steps taken in conducting research based on Systematic Literature Review:

Figure 1. Steps of Systematic Literature Review



In the scheme above, SLR is carried out in three stages: planning, implementation and reporting of literature. In the first step the requirements to be identified. Then, systematically identify and review the problems of Islamic banking in Indonesia. The protocol is designed to guide implementation and reduce researcher bias. In the second step, it defines the questions, the search strategy, the process of selecting studies with inclusion and exclusion criteria, the assessment of quality, and finally the process of data extraction and synthesis. The third step is a report by concluding the research results based on the literature that has gone through the first and second processes, then discussing them in the research results and conclusions (Latifah & Iskandar, 2020).

SLR approach research is guided by research questions. The Research Question (RQ) was created so that the systematic review carried out in the study remains focused. Research questions were prepared with the help of PICOC criteria, namely Population, Intervention, Comparison, Outcomes and Context. The following is a PICOC:

Table 1. PICOC Criteria

Population	The role of environmental and governance aspects in sharia-based companies to improve company quality is not only concerned with social aspects
Intervention	Low personal or institutional awareness in paying attention to Environment and Governance. Normally only Corporate Social Responsibility is implemented. Yet both are also very important.
Comparison	n/a
Outcomes	The creation of sharia-based environmental, social and governance aspects in the company.
Context	There is a development program that involves ESG aspects with the benefits the company gets.

The Research Questions built in this study attempt to identify the methods and analysis techniques, the difference between Green Banking institutions and Islamic banking institutions, the role of Islamic Banks in promoting ESG through their financing, the challenges and obstacles of ESG and the countries that apply it, the shared values of Islamic Finance and ESG. They also strive to find answer question about how does ESG investment look like from the perspective of *Maqasid Sharia*.

A literature search strategy is used to obtain relevant sources to answer the research question (RQ). The search process was carried out using the Google Chrome search engine: Google Scholar, Garuda Portal and Google to find primary sources. Subsequently, inclusion and exclusion criteria were used to select the primary studies. These criteria are shown in the following table:

Table 2. Screening Criteria

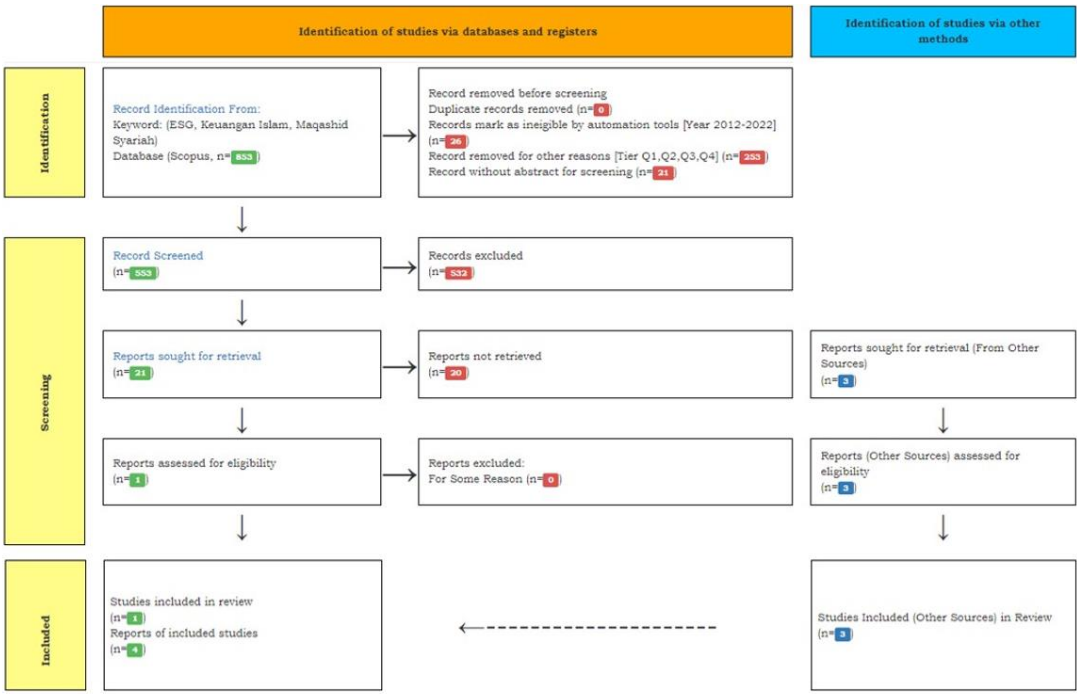
Criteria	Inclusion	Exclusion
Literature Database	Google Scholar, Crossref and Google	Non-Google Cendekia, Crossref and Google
Literature Type	1. Journal (article research results in Indonesia) 2. Full text articles	1. Journal (Conceptual), book series, books, chapters in books, proceedings. 2. Non-Full text

Language	English or Indonesian	Non-English or Indonesian
Publication Period	<2022	<2022
Subject	ESG and Islam	Non-ESG and Islam
Object	General	Non-General

The selected primary studies were extracted then collected data that contributed to answering this research question. It then performs a quality assessment to guide in the interpretation of the synthesis findings and to determine the strength of the conclusions outlined. The purpose of data synthesis is to collect evidence from selected studies to answer research questions. Data synthesis was carried out by grouping similar extracted data according to the results measured to answer the research objectives. Research journals that match the inclusion criteria and exclusion criteria are then collected and a summary of the journal is made including the name of the researcher, year of publication of the journal, research title, method and summary or findings (Fatmariyah, et.al. 2021).

Thus, the type of Systematic Review that the researcher uses is a Mixed Method, namely a mixed method of searching and evaluating literature. Literature search criteria are carried out in both qualitative and quantitative research. It aims to enhance the integrity of research findings. There are several articles used as references in this paper with mixed results. The following is the result of data abstraction and analysis.

Figure 2: The result of data abstraction and analysis



RESULTS

The results section summarizes the data collected for the study in descriptive statistics and reports the results of relevant inferential statistical analysis (e.g., hypothesis tests) conducted on the data. You need to report the results in sufficient detail so that the reader can see which statistical analyses were conducted and why and to justify your conclusions. Mention all relevant results, including those at odds with the stated hypotheses (American Psychology Association 2001: 20). There is no fixed recipe for presenting the findings of a study. Therefore, we will consider general guidelines and then focus on options for reporting descriptive statistics and hypothesis test results.

Reporting Research Results

Green banking and Islamic banking

Globally, the Islamic banking industry is estimated to reach US$2.5 trillion in terms of assets in 2019. The demand for Islamic banking is expected to continue to increase, especially in Muslim countries such as Malaysia, Indonesia, Pakistan and Bangladesh due to its high rates. from religious attachments. The data shows that Islamic banking is not only limited to Muslim countries but is also developing in non-Muslim countries. Currently, more than 100 countries have adopted Islamic banking including the United States, United Kingdom, Japan, Russia, Germany and South Africa have more than 3,000 Islamic banking and financial institutions.

This study analyzes the suitability between Green Banking and Islam. The proposed framework demonstrates a basic fit between the basic dimensions and principles of the two schools of thought. Based on the proven suitability, it can be proposed that Islamic banks should be inherently green. According to researchers, the majority of Islamic bank financing portfolios must be green or socially beneficial. However, this is not the actual situation in the case of most Islamic banks. In Bangladesh, currently, the majority of Islamic banks only have 3 to 5 percent green portfolio of their total financing portfolio. According to Islamic finance principles, banks may not invest in unethical industries such as alcohol, tobacco or pornography. Islamic banks are encouraged to invest in projects that benefit the natural environment and society.

According to a survey conducted by the Responsible Finance and Investment (RFI) Foundation on Islamic banks, three-quarters of the respondents stated that they wanted to adopt Green

Banking practices. However, less than a third report having a policy on environmental sustainability and only a quarter of banks have developed tools to measure the impact of this policy. In another survey conducted on Islamic banks in the United Arab Emirates (UAE), 43 percent of bank respondents stated that they were ignorant and unsure about the prospects of introducing green in Islamic finance. Various factors identified by Islamic banks as barriers to implementing Green Banking include lack of knowledge and information, low stakeholder engagement, low level of internal green capability, low client trust, high perceived risk, absence of regulatory standards and lack of leadership interest.

Several Islamic countries are entering the Green Islamic Banking industry. Malaysia was one of the first countries to introduce Green Islamic products. Malaysia launched its first green "sukuk" on 27 June 2017. It is defined as a "green Islamic bond where the proceeds are used to fund sustainable infrastructure projects that are environmentally friendly, such as the construction of renewable energy generation facilities". The Government of Malaysia is supporting the development of the Green Islamic Banking industry through initiatives such as reducing the tax until the 2020 assessment year on SRI sukuk issuance costs; tax incentives for green technology activities in green buildings; renewable energy; transport; waste management; and other supporting service activities.

The discussion above reveals that many opportunities exist in the Green Sharia Banking industry. This market is not yet saturated but can offer many advantages for all relevant stakeholders. In the case of Islamic banks, the adoption of Green Banking is an obligation, because the ideology of this banking is Sharia complaints. Green Banking can help Islamic banks fulfill the main objectives of *Maqasid Sharia*. Green Bank can target the Muslim consumer market with a greater chance of success based on religious appeal. Growing Muslim consumer markets are emerging in many countries such as the Gulf countries, Malaysia, Indonesia and Turkey. Consumer behavior in this market is heavily influenced by Islamic principles and religious values while keeping abreast of global consumer trends. Given the similarity between the two concepts, the Islamic banking industry has the potential to face smaller obstacles to the implementation of Green Banking compared to conventional banking. Islamic banks can quickly adopt the ideology of Green Banking in its true spirit. Currently, limited literature exists in this area. Based on the analysis in this study, it can be hypothesized that the principles attached to Islamic banks must be in line with the principles of Green Banking (Bukhari, et.all. 2019).

The role of Islamic banks in promoting ESG through their financing

As ESG becomes more important, many Islamic banks are promoting sustainability through their financing and initiatives. Examples of financing include Al Baraka Banking Group, which became the first bank in the West Asia region to formally sign up to the new Principles for Responsible Banking, which were developed through an innovative global partnership between the bank and the United Nations Environment Program Finance Initiative (UNEP FI). By committing to these principles, Al Baraka is also the first in the Islamic banking sector to do so. Al Baraka pledged $197 million for 2019-2020 to support renewable energy and energy efficiency projects in the bank's operating countries. Furthermore, Bank Islam Malaysia aims to expand its green financing book by another RM800 million in 2020, as the country's largest Islamic bank will increase its segment revenue contribution to 20% in 2021 from 14% currently.

In terms of green sukuk, in November 2019, the Islamic Development Bank (IsDB) successfully completed the Sustainable Finance Framework and became the first AAA-rated institution to issue Green Sukuk. Together with the European Investment Bank (EIB), IsDB signed a Memorandum of Understanding (MOU) to strengthen cooperation and committed €1 billion each in co-financing by 2024. Not only banks issue green sukuk, Majid Al Futtaim, shopping center developer and operator based in the UAE, has hired a bank to arrange the potential issuance of US dollar-denominated "green" sukuk. This marks the recording of the first corporate Green Sukuk in the world and the first Green Sukuk issued by a corporation in the MENA region.

Focusing on ESG as a whole, Malaysia launched its first Environmental, Social and Governance (“ESG”) Islamic Structured Product in the Malaysian market in line with Bank Negara Malaysia’s Value-Based Intermediation (VBI) initiative. Basically, the ESG related Islamic Structured Products offered by HSBC Amanah give customers the opportunity to invest in products that match their values in terms of environmental and social goals (Ansari & Alanzarouti, 2020).

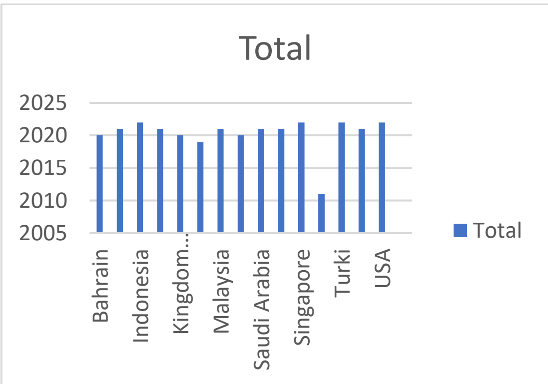
Challenges and obstacles

ESG is still a relatively new topic with no right or wrong way to integrate it, as it differs from company to company, and there is no concrete framework for it. The lack of strong data is currently the biggest obstacle to ESG integration, but there are other challenges and obstacles companies face in terms of ESG integration which are as follows:

a) Evidence of investment benefits: Even though a large library of academic research and practitioner research proves otherwise, many people still think that ESG integration means sacrificing performance because they believe that ESG integration amounts to screening companies and sectors from their investment world.
b) Low understanding of different ESG issues: ESG criteria are used to judge publishers, and what is considered good versus poor ESG performance. For example, an investor would agree that the electrification of cars might be good for society; while other investors may disagree for needing more platinum, indicating more mining and greater ESG risk.
c) Materiality: Portfolio managers, ESG professionals, companies and other stakeholders may have different definitions of materiality. Materiality can vary depending on perspective; it is literally in the eye of the beholder. So, what can be material to the employee, can be very insignificant to the client; what is truly material to shareholders can be quite immaterial to NGOs.

Seeing some of the challenges and obstacles above, there are several countries that have implemented ESG in their companies, the ESG is also seen from several topics of discussion. The following diagram is a list of countries conducting ESG research along with the year the research was conducted, namely as follows:

Figure 3: Countries that have implemented ESG



Source: Data is processed (2022)

Shared values between Islamic finance and ESG

Islamic finance has the same basic principles as sustainable finance, namely financial stability and economic growth, poverty alleviation and distribution of wealth, financial and social inclusion and environmental preservation. Therefore, it allows Islamic finance to leverage this commonality to become a natural vehicle for spreading elements of green finance. Although the two approaches developed under different cultural circumstances and separate historical periods, Islamic finance and ESG investing are complementary approaches to capital raising and investment with many shared principles, such as being a good steward of society and the environment. With more similarities than differences, both offer products that cater to both Muslim and non-Muslim investors and both have strong practices and policies that can be learned from one another.

An important pillar of Islamic finance is the prohibition of investing in certain industries, such as tobacco, alcohol, pork, pornography, weapons, gambling, human trafficking, and other products and activities deemed unlawful. Sharia-compliant products are screened to avoid these industries, a practice very similar to ESG investing. Like investors in sharia-compliant products, investors using ESG investment strategies avoid certain activities and products, so that their portfolio is aligned with beneficiary/client values, aligned with the goals of developing a sustainable and just society, and not harming people. or environmental damage. ESG investment strategies often assess the financial value of environmental, social and governance factors and integrate these values into investment analysis, decisions and processes. Active ownership activities (i.e., corporate engagement and voting) can also be part of an ESG strategy, to reduce risk, increase returns, and enhance ESG performance and company/issuer disclosures.

Reporting Research Results

Based on the methodology that has been determined, there are at least several steps in the literature search. The search begins based on inclusion and exclusion criteria and the determination of certain keywords. Literature sources used include Google Scholar, Connected Paper and so on. Then we collect each article title, author, abstract and year of publication.

After that we did a full reading of the paper based on the same problem formulation. At this stage, we found 20 suitable articles. The last stage of our course discusses, analyzes and synthesizes our draft articles. From the results of this analysis, we found several findings that are in line with our research questions.

Table 3. Findings

No	Writer	Tittle	Years	Method	Result
1	Ali Murad Syed	Environment, social, and governance (ESG) criteria and preference of managers	2017	Statistical methods for the purpose of developing ESG indicators	Our results show that managers of both countries support doing social work simultaneously while earning profits. As per our results, British managers have the belief that CG is the fiduciary duty of the company while French managers believe in supporting ESR as the fiduciary duty of the company. Managers of both countries have the confidence the same that ESR is demanded by the Government, ESR will manage investment risk better.
2	Rashidah Abdul Rahman, Maha Faisal Alsayegh	Determinants of corporate environment, social and governance (ESG) reporting among Asian firms	2021	Quantitative	This paper examines the conditions driving the ESG disclosure agenda among public companies in Asia. The findings reveal that highly socially visible organizations (that is, in terms of economic performance, firm profitability, leverage and size) are usually vulnerable to various pressures from the media, regulators and society at large.
3	Sachini Supunsala Senadheera, Piumi Amasha Withana, Pavani Dulanja Dissanayake, Binoy	Scoring environment pillar in environmental, social, and governance (ESG) assessment	2021	Quantitative	The three critical areas identified by analysts, can greatly affect the financial aspects of a company. As a result, 100% Renewable Energy, the carbon neutrality approach, and circular economy concepts are currently widely used environmental management tools.

	Sarkar, Shauhrat S. Chopra, Jay Hyuk Rhee & Yong Sik Ok				
4	Dita Ramadhani	Understanding environment, social and governance (ESG) factors as path toward ASEAN sustainable finance	2019	Narrative review using secondary data research	ESG isn't quite ready to take over traditional investing yet. However, there is no easy way to achieve sustainability. Despite the strengths and weaknesses of the ESG, the only way for ASEAN to deliver on its promises in international sustainability commitments is to be truly transparent and manage their risks on the ground rather than identifying and reporting them.
5	Tauhidul Islam Tanin	Does environment, social and governance (ESG) drive the financial performance of microfinance institutions? A cross-country panel analysis	2017	Quantitative	Econometric evidence from panel data analysis reveals that ESG performance positively influences financial performance for the period reviewed but the sub-models (of ESGs) document mixed results.
6	Rawinder Kaur	Impact of Financial Distress, CEO power and compensation on Environment, Social and Governance (ESG) Performance: Evidence-based on UK firms	2021	Research adopts quantitative research methods between qualitative and mixed methods	The results of this research will be significant for regulators, policy makers, investors, and other stakeholders, in understanding the unexplored determinants of CSR. This research further expands the literature on CSR, financial distress and corporate governance (CEO powers and compensation structure) and makes a unique contribution.
7	Brindha Prakash	Environment, Social and Governance	2020	Qualitative	To increase the relevance of pillar E, E in ESG should consist of a set of metrics to

		(ESG) reporting: shift from compliance to commitment			address different environmental aspects, thereby avoiding unforeseen environmental disasters in the future. The inconsistency in the scope of the metrics and their evaluation criteria is a major drawback, which must be addressed for pillar E to be an effective tool to enable sustainable finance and growth.
8	Muhammad Imran Goraya, Sardar Muhammad Usman	How do Venture Capital Firms Incorporate ESG (Environment Social and Governance) Criteria into Investment Decision Making	2011	Quantitative	The results from this study interpret that US firms are more focused on return on investment, and pay less attention to ESG compared to UK firms, where UK venture capital and private equity firm results indicate that, they are more focused on ESG and feel free to do so. ESG criteria into their investment strategy without incurring any risk and return.
9	Syaryanti Hussin.	Environment, social and governance (ESG) disclosure, governance mechanisms and Shariah committee (SC) characteristics at Islamic financial institutions (IFIs)	2019	Quantitative	This study examines SC characteristics from SC size, SC meetings and international members regarding the linkages between governance mechanisms and ESG disclosure.
10	Asim Abdullah, Ullas Rao	Making a Compelling Case for ESG & Islamic Funds: An Empirical Investigation in Comparisation With	2022	Quantitative	The results show that most of the excess returns in most funds (across all categories) are largely explained by the market premium, while the fund manager's skill, SMB and HML factors do not provide much weight in explaining the excess returns caused by the funds.

		Conventional Funds			Furthermore, an important finding of this study is that ESG and Islamic funds are not underperforming, but show resilience, and have the potential to grow and become a top choice for investment.
11	Redha Al Ansari, Farah Alanzarouti	ESG and Islamic Finance: An Ethical Bridge Built on Shared Values	2020	Qualitative	Sharia compliance screening can do a lot to improve ESG performance because they have a lot in common. However, combining the two can improve overall risk-adjusted returns. ESG integration and active ownership activities are less common in Islamic finance. Although a focus on social issues characterizes Islamic and ESG investment approaches, environmental considerations currently appear to be lacking in focus within the Islamic finance industry.
12	Amina Mohammed Buallay, Rami Mohammad Abu Wadi, Gagan Kukreja, Ahlam Ali Hassan	Evaluating ESG Disclosures of Islamic Banks: Evidence from the Organization of Islamic Cooperation Members	2020	Quantitative	The results of the regression model found a significant positive impact of ESG on operational, financial and market performance. However, the relationship between performance and these disclosures varies when measured individually; environmental disclosure was found to have a positive effect on ROA and TQ. While the disclosure of corporate social responsibility has a negative effect on the three models (ROA, ROE and TQ). Last but not the least, corporate governance disclosures were found to have a negative effect on financial and operational performance. However, it has a positive effect on TQ.
13	Syed Asim Ali Bukhari,	Green Banking and Islam: Two	2019	Qualitative	The results show a close fit between the dimensions of

	Fathyah Hashim, Azlan Bin Amran, Kalim Hyder	Sides of The Same Coin			Green Banking practices formulated by international organizations, various countries and individual banks and Islamic Sharia. Islamic teachings provide holistic guidelines for win-win scenarios, both for business and the natural environment. Green and Islamic Banking are, in fact, two sides of the same coin. Green Banking is very important for the sustainability of our Earth's ecosystem. Islam provides universal principles for the success of mankind in any business domain.
14	M. Kabir Hassan, Laura Chiaramonte, Alberto Dreassi, Andrea Paltrinieri, Stefano Piserà	The crossroads of ESG and religious screening on firm risk	2021	Quantitative	We find that when ESG scores are not considered, Sharia certification increases risks. We also prove that engagement in sustainable activities mitigates risks for both Sharia-compliant and conventional firms. More interestingly, we show that Sharia-compliant firms obtain a larger risk mitigating effect for greater levels of ESG scores. These results are robust to endogeneity and to extensive additional checks. Our findings validate the hypothesized complementarity between ESG and Sharia screenings.
15	Klemens Katterbaue	A Robo-Advisory Framework for Islamic And ESG Compliance – A Benchmark Study On The S&P 500 Stock Index	2022	Qualitative	We have presented a new innovative unsupervised learning framework for determining Shariah and ESG compliance stocks. This framework integrates a rule-based screening approach followed by an unsupervised clustering algorithm to classify conforming and non-conforming stocks. The framework was evaluated on S&P 500 stock index data with reasonable results. This

					provides a valuable, data-driven approach to classifying stocks robustly in terms of their ESG and Shariah compliance, as well as increasing consistency in selection through avoiding the potential bias posed by manual human interpretation and judgment.
16	Surianom Miskam, Marliana Abdullah	Integrating Environmental, Social and Governance (ESG) Into Shariah Compliant Fund Investment Portfolios: Legal and Regulatory Initiatives In Malaysia	2021	Qualitative	Encouraging legal and regulatory initiatives and growing recognition of Islamic-ESG values by asset managers in the Islamic funds industry provides a boost for overall responsible finance. The sharia-compliant SRI funds sector is also expected to expand due to increased demand from value-based investors. This is illustrated by the increasing evidence that investment portfolios integrated with ESG tend to outperform the market. In line with the government's continuous efforts to increase the number of green companies, public awareness about the similarities between Islamic finance and ESG/green finance should be emphasized. This will encourage companies to be registered as Shariah and ESG compliant entities. To achieve this goal.
17	Rifka Mustafida, Najim Nur Fauziah	Implementing ESG Concept in Sharia Stock Screening Process	2021	Qualitative	This study found that almost all companies show Good Corporate Governance, but only a few companies have sustainability reports. Therefore, new parameters for screening the screening process for Islamic stocks are urgently needed.
18	Lee Siew Peng, Mansor Isa	Environmental, Social and Governance	2020	Quantitative	The results reveal that ESG aggregates and their individual dimensions are positively

		(ESG) Practices and Performance In Shariah Firms: Agency Or Stakeholder Theory?			related to firm performance, which is consistent with stakeholder theory. We found no evidence that ESG is associated with agency problems. Findings show that combined ESG and Sharia screening can increase firm value, etc.
19	Abdul Qoyum, Muhammad Rizky Prima Sakti, Hassanudin Mohd Thas Thaker, Rizqi Umar AlHashfi	Does the Islamic Label Indicate Good Environmental, Social, And Governance (ESG) Performance? Evidence from Sharia-Compliant Firms in Indonesia And Malaysia	2022	Quantitative	There are significant differences in overall environmental and social performance, but not in the quality of governance. Also, this study documents the significant effect on performance using Islamic criteria for leverage, receivables, and cash. Overall, after controlling for several variables and dividing the sample into different time horizons and company sizes, studies consistently reveal that companies labeled as Islamic have better environmental and social performance, but not governance performance. Related policies must be adjusted.
20	Dinary Rahmaningsih	ESG Investment (Environmental, Social, and Governance): A Solution in Achieving Maqasid Sharia	2022	Qualitative	There is an offer of insight into the ESG investment model from an Islamic perspective, especially with regard to the concepts of Maqashid Sharia and Maslaha Mursala. Further cooperation and education between regulators and professionals in the capital market industry is expected, leading to policies and initiatives such as promoting transparency and disclosure of investors, fund managers and companies in integrating ESG issues.

DISCUSSION

Based on the discussion, the following framework is proposed which describes Green Banking harmony between Islam and Green Banking through the ESG dimension. Islamic teachings are fully aligned with the various dimensions of Green Banking, making the adoption of Green Banking a must for Islamic banks. By adopting Green Banking through the dimensions and sub-dimensions discussed above, Islamic banks can implement a holistic Islamic business ideology and capture the vast and lucrative Muslim consumer market. Green Muslim consumers are an untapped market that can be captured through the adoption of Green Banking by Islamic banks (Bukhari, et.al., 2019).

This research also supports the views of Hayat and Kabir Hassan in 2017, who argue that focusing on ESG criteria in sharia screening will improve the quality of Islamic companies. The "Islamic" label is not only a marketing label but also a quality certification. Therefore, as a result of this study, investors should invest in Islamic companies that have good performance in terms of ESG. For policy makers, this research can also be used as a reference for developing Islamic finance that is more focused on sustainability issues including socio-economic and human development by improving the screening quality of Islamic companies (Abdul Qoyum et.all., 2022).

In encouraging legal and regulatory initiatives and the growing recognition of Islamic values-ESG by asset managers in the Islamic funds industry provides a boost for overall responsible finance. The sharia-compliant SRI funds sector is also expected to expand due to increased demand from value-based investors. This is illustrated by the increasing evidence that investment portfolios integrated with ESG tend to outperform the market. In line with the government's continuous efforts to increase the number of green companies, public awareness about the similarities between Islamic finance and ESG/green finance should be emphasized. This will encourage companies to be registered as Shariah and ESG compliant entities (Miskam & Abdullah, 2021).

Islamic companies and investors who adopt ESG scores as part of their strategy, demonstrate the attractiveness of Shariah-compliant entities that are highly engaged in CSR, in terms of market risk implications. From an asset management perspective, our results unbox the benefits of integrating ESG and Sharia screening processes to build proficient risk-adjusted portfolio returns, especially during exogenous shocks, such as the Global Financial Crisis. Finally, we suggest that future research consider testing the response to profitability, productivity, efficiency, or other risks in similar settings, or simply verifying our assumptions during the COVID-19 crisis. In addition, further methods based on measures of Shariah-compliance time variance may add useful information to better understand its interactions with ESG examinations (M. Kabir Hassan et all., 2021).

Evidently, Shariah compliance screening can do a lot to improve ESG performance because they have a lot in common. However, combining the two can improve overall risk-adjusted returns. ESG integration and active ownership activities are less common in Islamic finance. Although a focus on social issues characterizes Islamic and ESG investment approaches, environmental considerations currently appear to be lacking in focus within the Islamic finance industry. Seen from topic above, the role of Islamic Banks in promoting ESG through their financing, the challenges and obstacles of ESG and the countries that apply it, the shared values of Islamic Finance and ESG, does ESG investment look like from the perspective of Maqasid Sharia become solution to implementation in others company.

CONCLUSION

Addressing the barriers and challenges related to ESG integration is one of the first steps towards achieving a better ESG score. Some of the solutions include knowledge sharing and training for all staff, which increases awareness and understanding of the topic. The investment team needs to be thoroughly educated on this topic as they are responsible for ensuring that ESG is properly integrated, which includes understanding the company's transparency regarding environmental and social practices. In addition, a flexible ESG materiality framework can be developed, reviewed, and updated from time to time to address changing social and corporate governance norms, as well as environmental concerns.

Evidently, Shariah compliance screening can do a lot to improve ESG performance because they have a lot in common. However, combining the two can improve overall risk-adjusted returns. ESG integration and active ownership activities are less common in Islamic finance. Although a focus on social issues characterizes Islamic and ESG investment approaches, environmental considerations currently appear to be lacking in focus within the Islamic finance industry.

However, the integration of ESG and active ownership practices complement Islamic finance practices, and environmental concerns are consistent with the basic principles of sharia. As Islamic investors pursue sustainable risk-adjusted returns on their investments, there are more possibilities to integrate ESG factors into decision-making and engage in active ownership activities to improve investment performance while aligning financial goals with social and environmental goals. Ultimately, integrating ESG and Sharia compliant practices will lead to a better society and higher employee commitment and better financial performance and serve as a guideline to attract Islamic institutions in fulfilling *Maqasid Sharia* and *Maslaha*. For future researchers, it is hoped that they will look more at strategies, the potential for using SWOT analysis, and other solutions so that ESG and *Maqasid Sharia* can be applied in all institutions, especially Islamic banking. considering that this paper is still not complete with some analysis.

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