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Integration of ESG (Environmental, Social, Governance) Criteria in Islamic Finance: A Systematic Review

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Abstrak

The integration of Environmental, Social, and Governance (ESG) factors in Islamic finance is methodically examined in this paper, with a focus on how Sharia rules connect with sustainability objectives. Examining the benefits and difficulties of implementing ESG principles in Islamic financial institutions is the primary goal. This study identifies important findings from recent research and examines their implications for Islamic finance using a systematic literature review (SLR) based on the PRISMA approach. According to the analysis, there are still a lot of obstacles to overcome, especially when it comes to standardized reporting and regulatory guidelines, even though ESG closely resembles Maqasid al-sharia in that it promotes social welfare and ethical governance. The findings demonstrate how increasing ESG practice transparency can boost market competitiveness, draw in socially conscious investors, and advance the Sustainable Development Goals (SDGs). The results of this study provide a conceptual framework for Islamic financial institutions looking to implement Sharia-compliant ESG practices, laying the groundwork for future empirical studies and policy creation.

Kata kunci: *ESG; Islamic Finance; Maqasid al-sharia; Sustainable Development; Transparency.*

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INTRODUCTION

Global awareness of sustainability challenges has significantly intensified in recent years, particularly from an environmental, social, and governance (ESG) perspective. This shift reflects a growing understanding that addressing sustainability issues requires not only regulatory measures but also active involvement from financial institutions. These institutions are increasingly recognizing that a holistic approach to their operations is essential to effectively confront the pressing issues of climate change, social inequality, and corporate responsibility. The ESG framework provides a widely accepted model for evaluating and managing the environmental and social impacts, as well as the governance structures, of financial activities. By integrating ESG practices, financial institutions can better align their goals with the broader objectives of sustainable development, such as reducing greenhouse gas emissions, promoting social equity, and ensuring transparent corporate governance. This comprehensive approach to sustainability can help mitigate risks, enhance long-term value, and foster a more resilient global economy. Often referred to as the triple bottom line in sustainable development, ESG encompasses environmental, social, and governance aspects and offers guidelines that enable businesses and financial institutions to operate with the economic, social, and environmental balance in mind (Mohd Zain et al., 2024; Sugianto et al., 2024).

Islamic finance, rooted in Sharia principles, provides a distinctive alternative within the global financial sector. Unlike conventional finance, it emphasizes ethical standards, fostering social justice and equity. Islamic finance prioritizes holistic human well-being by prohibiting exploitative practices, promoting risk-sharing, and emphasizing the welfare of communities. Its values aim to balance economic growth with moral responsibility and social impact (Harahap et al., 2023; Tariqullah Khan, 2019). This principle encompasses the protection of essential aspects of human life, including health, intellectual integrity, faith, property, and future generations. It aligns closely with global sustainability goals, particularly those outlined in the United Nations Sustainable Development Goals (SDGs), which advocate for an equitable and sustainable world. Consequently, the Environmental, Social, and Governance (ESG) framework offers a significant opportunity to advance Sharia objectives in a manner that promotes sustainability. This synergy supports both the ethical aims of Islamic finance and its commitment to responsible investment.

The adoption of Environmental, Social, and Governance (ESG) practices has become increasingly prevalent worldwide, particularly within the Islamic finance industry, driven by the rising demand from investors for investment products that prioritize sustainability factors. Studies indicate that organizations integrating ESG principles into their operations benefit significantly in the long run, gaining advantages in reputation, financial resilience, and enhanced relationships with both stakeholders and the broader community For Islamic finance, incorporating ESG principles not only aligns with the core values of Sharia law, which emphasizes ethical and socially responsible practices, but also serves as a strategic initiative to increase the competitiveness of Islamic financial institutions within a global market that is rapidly intensifying in competition. This dual focus on ethical compliance and global competitiveness highlights the forward-thinking nature of Islamic finance and positions it to better address the evolving expectations of modern investors who prioritize both ethical standards and financial returns (Lobre-Lebraty & Heimann, 2024).

Despite the promising potential of integrating Environmental, Social, and Governance (ESG) considerations into Islamic banking, this integration faces several substantial challenges that must be carefully addressed. A major hurdle lies in the absence of standardized reporting frameworks for ESG within the Islamic banking sector. Unlike conventional finance, where established ESG guidelines are more widely followed, Islamic financial institutions often adhere to varying interpretations of Shariah principles. These differences lead to inconsistencies in how ESG policies are implemented, monitored, and reported across institutions and regions. This variation is further compounded by the influence of local and regional authorities, who may have different approaches to Shariah compliance and ESG objectives. Consequently, a lack of cohesion persists, hindering transparency and comparability, which are crucial for attracting ESG-conscious investors and promoting sustainable growth in Islamic finance (Nik Abdullah & Haron, 2022; Yunus & Nanda, 2024). Additionally, in several Muslim-majority nations, market players' lack of understanding of the ESG concept has contributed to the poor acceptance of ESG in Islamic banking.

Islamic finance has started to address Environmental, Social, and Governance (ESG) integration, yet issues surrounding transparency and accountability remain. In traditional finance, regulatory frameworks such as the European Union's Sustainable Finance Disclosure Regulation (SFDR) and the Global Reporting Initiative (GRI) have driven the adoption of ESG practices. These frameworks mandate disclosures on the social and environmental impacts of financial products, ensuring that institutions are accountable for sustainability claims. However, applying similar frameworks to Islamic finance is complex, as it must align with sharia principles. Sharia law prohibits certain financial practices, including maysir (speculation), riba (interest), and gharar (excessive uncertainty), which means that any ESG framework for Islamic finance must be carefully tailored. Current efforts are underway to create ESG disclosure standards in Islamic finance that respect these prohibitions while upholding the values of transparency and accountability. This approach aims to foster ESG practices that not only meet international sustainability standards but also remain true to Islamic ethical and legal principles, thereby supporting a more sustainable global economy within the realm of sharia-compliant finance (Shahid et al., 2024).

Despite facing various challenges, Islamic finance holds substantial potential to advance global sustainability initiatives significantly. At its core lies the concept of Maqasid al-sharia, which underpins Islamic finance with principles that focus on enhancing human welfare and environmental stewardship. This framework emphasizes ethical practices, such as the prohibition of excessive exploitation, which aligns with the global sustainability agenda. Islamic finance further advocates for fairness in corporate dealings and equitable income distribution, fostering social justice and economic inclusivity. Through these principles, it aims to prevent resource depletion and environmental degradation, supporting the overarching goal of sustainable development.

In addition to its focus on ethical finance, Islamic finance strongly encourages long-term investments that contribute positively to social and environmental well-being. This commitment is rooted in the core principles of risk-sharing and the intrinsic connection of Islamic finance to the real economy, which ensures that investments are directly linked to tangible assets and productive activities. By prioritizing projects with a sustainable impact, such as investments in infrastructure, renewable energy, and sustainable agriculture, Islamic finance aligns with its ethical mandate to promote social justice, environmental stewardship, and economic equity. These types of investments not only foster resilience in communities but also support the long-term development of industries that address pressing global challenges. Moreover, they contribute to creating a more inclusive and sustainable economic system, reinforcing the role of Islamic finance as a force for good in addressing the needs of both present and future generations. This unique approach offers a promising path for Islamic finance to serve as a key contributor to sustainability, supporting a just economic model that balances profitability with societal and ecological well-being (Ab. Aziz & Yusof, 2019; Choudhury et al., 2019).

With the rise in global awareness surrounding sustainability, investors increasingly prioritize Environmental, Social, and Governance (ESG) criteria in their investment choices. This shift creates unique opportunities for Islamic financial institutions to align their offerings with both Sharia principles and ESG standards, leading to the development of innovative financial products such as sustainability-focused Islamic funds and green sukuk. These instruments not only promote environmental and social responsibility but also present an ethical alternative to conventional investments, appealing to a growing base of investors dedicated to sustainable and socially responsible finance. By integrating ESG criteria, Islamic financial institutions enhance their market reputation, positioning themselves favorably within the international investment community. This approach also strengthens their competitive advantage, expanding their reach among investors seeking to balance financial returns with ethical commitments. Such initiatives ultimately boost the global attractiveness of Islamic financial products, reinforcing their relevance in the context of sustainable economic development and responsible investment practices (Elamin, 2023).

This study's goal is to perform a thorough analysis of the body of research on the incorporation of ESG standards in Islamic financing. Understanding the issues brought up, the difficulties encountered, and the opportunities presented in the process of incorporating ESG into the Islamic banking sector is the primary objective of this study. It is intended that this research will improve knowledge of how ESG principles can be integrated into Islamic finance and inspire financial institutions to embrace more internationally inclusive practices by offering a thorough perspective through this systematization.

Both intellectually and practically, this study adds a great deal. This research will simply evaluate the literature on ESG in the context of Islamic finance, with a focus on theoretical and empirical studies on ESG integration grounded in syariah principles. Practically speaking, Islamic financial institutions can use the study's findings as a guide to adopt ESG practices that comply with syariah. This is significant because it draws attention to the need for financial solutions that help society and the environment in addition to the economy. This study can help Islamic finance organizations become more active in fulfilling their goal as change agents for inclusive, equitable, and sustainable building by analyzing and comprehending how ESG is integrated into Islamic finance.

METHODOLOGY

Utilizing the Systematic Literature Review (SLR) methodology, this study adheres to the 2020 edition of PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses). This method is intended to provide systematic and transparent work practices in identifying, assessing, and analyzing relevant literature about the integration of ESG criteria in Islamic finance. With the use of PRISMA, we can ensure that the research process includes structured data from identification to results presentation (Hasan et al., 2024).

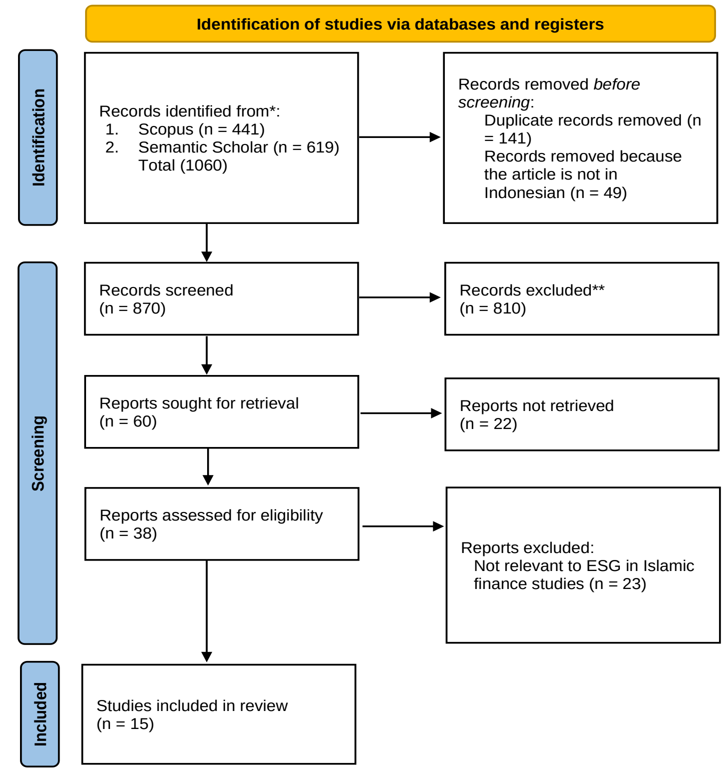
A thorough literature search utilizing Harzing publish or perish, with specific searches conducted in Scopus and Semantic Scholar, was the first step in the research process. Relevant keywords including "ESG," "Islamic finance," "sustainable development," and "Maqasid al-sharia" were used in the search. The following table provides a description of the inclusion and exclusion criteria:

Table 1. Article Inclusion and Exclusion Criteria

Inclusion Criteria	Exclusion Criteria
Published between 2020 – 2024	Published before 2020
Articles in English	Articles other than English
Scopus indexed journals	Non-Scopus indexed journals
Relevant studies on “ESG” and “Islamic finance”	Irrelevant articles
Types of journal articles	Other than journal articles
Open access articles	Close access articles

To make sure the articles met the inclusion criteria, the search results were filtered based on the abstract and title

Table 2. Article Selection Process with PRISMA Model



*Note:
1. 540 were excluded automatically with tools because were not peer review journal
2. 370 were excluded manually because the journal were not indexed scopus.

The complete texts of the qualifying articles were then read in order to assess their caliber and applicability. Key topics, obstacles, and opportunities in the integration of ESG criteria in Islamic finance were then identified by an analysis of the data gathered from these papers. This procedure adhered to the PRISMA flow, which includes producing a flowchart to show the stages involved in choosing studies (Sá et al., 2023).

RESULT AND DISCUSSION

The study's highlight essential insights drawn from an extensive body of research on the incorporation of Environmental, Social, and Governance (ESG) standards within Islamic banking. By systematically analyse the existing literature, we aim to identify how Islamic financial institutions are integrating ESG principles into their operations and governance structures. This analysis provides a deeper understanding of the mechanisms and processes that underpin the alignment of ESG standards with the ethical and religious obligations of Islamic finance. Furthermore, a comprehensive table is included, synthesizing the primary sources, key findings, and potential future implications of this integration. The table serves as a consolidated reference for evaluating both the current impact and the prospective role of ESG principles in shaping the sustainable growth of Islamic finance

Table 3. Result

No	Source	Key Findings	Implication For ESG in Islamic Finance
1	Paltrinieri et al (2020)	Positive link between Islamic finance development and ESG, especially social.	Islamic banks can leverage CSR to boost sustainability.
2	Buallay et al (2020)	ESG disclosure enhances bank performance; CSR needs alignment with stakeholder expectations	Increased transparency in ESG reporting recommended.
3	Muhamad et al (2022)	ESG aligns with Maqasid al-sharia; standardization issues persist	Standardized ESG reporting for Islamic banks is necessary
4	Akhtar et al (2023)	Islamic assets provide diversification benefits and align with ESG	Promote Islamic assets in ESG-focused portfolios.
5	Ryandono et al (2024)	Specific ESG index developed for Islamic social finance.	Enhances transparency and trust in Islamic finance.
6	(Boudawara et al., 2023)	Shariah governance quality impacts ESG performance.	Islamic banks should strengthen Shariah governance for better ESG.
7	Yesuf & Aassouli (2020)	Islamic funds perform well in alignment with social responsibility.	Islamic funds can bridge ESG and ethical investment gaps.
8	Harahap et al (2022)	Islamic finance and ESG are aligned with SDGs.	Supports growth in sustainable and responsible investments
9	Lee & Isa (2024)	Local laws affect ESG risk management in emerging markets.	Adapt ESG to local regulations in Islamic finance markets
10	Kabir Hassan et al (2021)	ESG screening combined with Sharia compliance reduces market risks	Encourages ethical, lower-risk investments

11	Fithria & Darma (2024)	ESG does not directly reduce credit risk but supports stability	Further ESG integration may enhance credit risk management
12	Dai (2024)	Sustainable investments with Islamic finance outperform conventional indices	ESG integration boosts Islamic market appeal.
13	Yi (2023)	Religious values impact sustainability in faith-based investments	Islamic ESG could model responsible investment
14	Abu Bakar et al (2023)	Ethical screening in Islamic finance aligns with ESG principles	Promotes stable returns and ethical investment choices
15	Rahman et al (2024)	Macro factors influence Islamic deposit sustainability post-pandemic.	ESG practices could enhance deposit resilience in uncertain times

Integration of Environmental Criteria in Islamic Finance

In Islamic finance, the environmental aspect of Environmental, Social, and Governance (ESG) criteria aims to balance the goals of environmental sustainability with financial profitability. This approach aligns with the ethical principles of Islamic finance, which emphasize stewardship of the Earth as a divine responsibility. Numerous studies indicate that environmental disclosure practices positively influence both the operational performance and public image of Islamic banks. Such disclosures demonstrate a commitment to sustainability, which enhances trust and attracts ethically conscious investors. Furthermore, integrating environmental considerations can lead to more efficient resource utilization and risk mitigation, thereby strengthening the long-term financial stability of Islamic financial institutions while upholding the moral and ecological values central to Islamic teachings. According to Buallay (2020), environmental disclosure increases Islamic banks' market competitiveness and draws in investors who are concerned about sustainability. In the meantime, Akhtar et al (2023) discovered that Islamic assets, which adhere to stringent sharia regulations such prohibitions on usury and speculation, enhance the stability and appeal of portfolios that promote ecologically conscious investing. These two findings suggest that the environmental component within Environmental, Social, and Governance (ESG) standards is more than an optional add-on for Islamic finance; it is a vital strategic element that reinforces its competitive position within the sustainable investment landscape. Rather than merely meeting regulatory or social expectations, emphasizing the environmental aspect aligns Islamic finance with broader global sustainability goals. This approach enables Islamic financial institutions to distinguish themselves, enhancing their appeal to investors who prioritize ethical, responsible, and environmentally focused investments, ultimately positioning Islamic finance as a robust player in the future of sustainable finance.

The absence of precise guidelines for environmental reporting in Islamic finance, however, is a significant barrier to this integration. Despite the fact that several Islamic banks have started using ESG principles, (Paltrinieri et al., 2020) observed that the quality of environmental reporting is still improving slowly. It will be simpler for Islamic banks to keep an eye on and report on the environmental effects of their assets with improved standards. To enhance their credibility among international investors, Islamic financial institutions must proactively develop specific environmental indicators that align with both Shariah principles and global standards. Establishing such indicators would enable these institutions to demonstrate a commitment to sustainable practices while maintaining adherence to Islamic ethical guidelines. Additionally, this approach would bridge the gap between Shariah-compliant financial activities and internationally recognized environmental benchmarks, fostering greater transparency and accountability. As these institutions strengthen their environmental metrics, they are likely to gain broader acceptance in the global market, attract responsible investments, and support sustainable economic growth aligned with Islamic values.

Integration of Social Aspects: The Role of Maqasid al-sharia

Maqasid al-sharia, a foundational principle in Islamic finance, emphasizes the importance of social welfare and the protection of collective interests, thus offering robust support for the social component of Environmental, Social, and Governance (ESG) standards in Islamic banking. This principle underscores the alignment between Islamic financial practices and socially responsible investment, encouraging actions that promote community well-being, ethical governance, and social justice. As such, Maqasid al-sharia provides a strong ethical basis for Islamic banking institutions to prioritize social impact alongside financial goals. ESG principles and Maqasid al-sharia are fundamentally aligned, according to research by Muhamad et al (2022). The primary obstacle, nevertheless, is the variation in field implementation. A study by Buallay et al (2020), for instance, demonstrates that social disclosure does not always enhance Islamic banks' performance and may possibly have the opposite effect if improperly handled. According to this research, the social component must be managed with care to ensure that it represents genuine social responsibility and is not only a formality.

Another challenge identified within the Islamic finance industry is the need for standardized social reporting, which would ensure consistent, transparent, and comparable data across institutions. Ryandono et al (2024), for instance, emphasized the significance of stakeholder participation in thorough and open social reporting. Islamic banks have the potential to enhance their social responsibility and attract a broader range of investors seeking value-driven, socially conscious investments by improving their reporting frameworks. From this perspective, Islamic banks are encouraged to view social factors as integral to a sustainable, forward-looking strategy that aligns both ESG principles and Maqasid al-sharia. This alignment not only fulfills the ethical and societal obligations central to Islamic finance but also fosters broader societal benefits by prioritizing objectives such as social welfare, environmental stewardship, and ethical governance. Through such an approach, Islamic banks can build stronger, more resilient connections with stakeholders, meeting investor demands for transparency while advancing the greater good.

Strong Governance as an ESG Pillar in Islamic Finance

The governance component within the Islamic finance industry holds significant importance due to the strong emphasis that Sharia governance places on accountability, transparency, and adherence to ethical standards. These principles ensure that Islamic financial institutions operate in alignment with moral and social responsibilities, fostering trust and credibility. Effective governance in this context supports ethical decision-making and strengthens stakeholder confidence in compliance with Islamic legal and moral guidelines. Effective sharia governance can support ESG implementation, particularly in lowering operational risks and enhancing business performance in emerging countries, according to studies by Lee & Isa (2024) dan Boudawara et al (2023). This finding indicates that Islamic banks, which operate under sharia governance principles, demonstrate a higher potential for achieving long-term stability compared to traditional financial institutions. Sharia governance emphasizes ethical financial practices, risk-sharing, and socially responsible investing, which collectively contribute to a more resilient and sustainable business model. By aligning with these principles, Islamic banks are better equipped to manage financial and operational risks, promoting stability and enhancing stakeholder confidence over the long term.

Additionally, studies by Hassan et al (2021) demonstrate that businesses can drastically lower market risk by combining ESG standards with sharia governance. This finding underscores the importance of sharia-based governance in reducing market volatility while simultaneously enhancing stakeholder trust. Both factors are crucial for improving the competitiveness of the Islamic financial industry in an increasingly globalized market. By adhering to sharia principles, Islamic banks can foster a more stable and ethical financial environment, which, in turn, strengthens investor confidence and promotes sustainable growth. Consequently, Islamic banks must recognize governance as a core element of their long-term sustainability strategy. In this context, the integration of Environmental, Social, and Governance (ESG) criteria alongside sharia principles can create synergies that not only ensure compliance with Islamic values but also generate substantial, enduring value for all stakeholders involved.

Challenges and Opportunities in ESG Implementation

Significant challenges in the integration of Environmental, Social, and Governance (ESG) principles within Islamic finance stem from unclear legislative restrictions and the lack of standardized reporting frameworks. These regulatory ambiguities create confusion among Islamic financial institutions regarding the precise requirements for ESG compliance, hindering effective implementation. Additionally, the absence of consistent reporting standards complicates the evaluation and comparison of ESG practices across different institutions, leading to a lack of transparency and accountability. Overcoming these obstacles requires the establishment of clear legislative guidelines and universally accepted reporting standards to facilitate the seamless integration of ESG criteria into Islamic finance practices. According to studies by Ryandono et al (2024) and Paltrinieri et al (2020), Islamic banks are unable to fully implement ESG because of a lack of standardized rules. This suggests that for the development of ESG frameworks that are fully aligned with Shariah principles and meet the evolving demands of the global economy, it is essential for regulators and Islamic banks to collaborate more effectively. The integration of ESG standards with Islamic finance requires a nuanced approach that respects both ethical considerations and market dynamics. Regulatory bodies must provide clear guidelines that facilitate the adoption of these frameworks, while Islamic banks must actively engage in the process to ensure compliance with Shariah while also addressing the growing global emphasis on sustainability. Such collaboration can foster a more robust, transparent, and competitive Islamic financial sector that is both socially responsible and economically viable.

However, these challenges also present valuable opportunities for the Islamic banking sector to take a pioneering role in the development of more inclusive ESG standards. By leveraging its unique ethical and religious framework, Islamic banks have the potential to shape ESG practices that align with both global sustainability goals and Islamic values. This proactive approach could set a benchmark for the financial industry, driving greater inclusivity and ensuring that ESG principles are integrated in ways that reflect diverse cultural and social contexts. According to studies by Dai (2024) and Yesuf & Aassouli (2020), Islamic banks may be encouraged to improve their ESG reporting requirements by growing investor demand for sustainability and transparency. Enhanced standards of governance and risk management will significantly increase the competitiveness of Islamic banks, positioning them to better navigate the complexities of global markets. In an era where sustainability is becoming an essential differentiator, the ability to integrate robust Environmental, Social, and Governance (ESG) frameworks alongside traditional Islamic principles will enable these institutions to offer more sustainable financial products and services. This not only aligns with global sustainability trends but also meets the growing demand for ethical investments. By strengthening their standards, Islamic banks can mitigate financial risks, attract a wider range of stakeholders, and ensure long-term profitability, all while adhering to their core values. Such improvements will better equip them to thrive in an increasingly competitive global financial landscape.

Synergy between Islamic Finance and ESG in Achieving SDGs

The Sustainable Development Goals (SDGs) might be greatly aided by the merger of Islamic finance with ESG. According to Harahap et al (2022), Islamic finance and ESG share basic ideals that enable the industry to make a substantial contribution to the SDGs. Furthermore, ESG integration can lower market risks, improve a company's standing in international competition, and promote more ethical investment, as demonstrated by Hassan et al (2021). Islamic banks possess a significant opportunity to enhance their role in sustainable investment, which holds the potential to deliver benefits not only for their financial performance but also for society and the environment. By aligning their investment strategies with both sharia principles and sustainability objectives, these institutions can contribute to the broader goals of social responsibility and environmental preservation. The integration of Environmental, Social, and Governance (ESG) factors into their financial decision-making can lead to more responsible and ethical investments, fostering long-term value creation. Furthermore, this approach strengthens the Islamic banking sector's ability to meet the growing demand for socially conscious and environmentally sustainable financial products and services.

The integration of Environmental, Social, and Governance (ESG) principles within Islamic banking not only promotes operational sustainability but also fosters more inclusive and equitable economic growth. By aligning shariah principles with ESG criteria, Islamic financial institutions can create a robust framework that emphasizes both financial performance and social responsibility. This integrated approach strengthens the socially beneficial impacts of Islamic finance, enhancing its accountability and transparency in ways that traditional banking systems may not. ESG integration ensures that Islamic banks prioritize ethical practices, environmental stewardship, and social equity while maintaining profitability. Furthermore, by embracing these principles, Islamic finance has the potential to become a global leader in ethical and sustainable investing. As the demand for socially responsible investments continues to rise worldwide, the synergy between shariah principles and ESG provides Islamic finance with a unique position to influence global financial markets. This collaboration not only helps build trust and confidence among stakeholders but also sets a precedent for the broader financial industry to adopt more sustainable and responsible practices. In this way, Islamic banking can contribute significantly to achieving the United Nations' Sustainable Development Goals, promoting long-term social and environmental welfare while ensuring financial stability and growth

CONCLUSION

This study employs a systematic literature review method to explore the integration of Environmental, Social, and Governance (ESG) factors into Islamic financing practices. The findings highlight the significant potential of Islamic finance, grounded in sharia principles, to advance sustainability initiatives through the application of ESG criteria. Islamic finance inherently aligns with key ESG goals, particularly in terms of promoting social welfare, environmental stewardship, and ethical governance. These foundational principles of Islamic finance resonate with the broader objectives of the United Nations' Sustainable Development Goals (SDGs), offering a unique pathway for achieving sustainable economic and social outcomes. Specifically, the study emphasizes how Islamic financial institutions, by adhering to both ESG standards and sharia guidelines, can contribute meaningfully to the realization of the SDGs, particularly in areas related to poverty alleviation, climate action, and equitable economic growth. As such, the integration of ESG in Islamic finance represents a strategic approach to fostering global sustainability.

Although challenges persist due to inconsistent reporting practices, evidence suggests that integrating environmental considerations into Islamic finance enables Islamic banks to stay competitive by attracting investors who prioritize sustainability. This integration not only aligns with global trends but also positions Islamic finance as a viable alternative for those seeking ethical and environmentally conscious investments. In the social dimension, Maqasid al-sharia plays a pivotal role in guiding Islamic finance towards the broader goal of promoting societal welfare. By emphasizing values such as justice, equity, and public benefit, Maqasid al-Sharia directs Islamic financial institutions to contribute positively to social well-being. However, to ensure that social initiatives within Islamic finance align with international Environmental, Social, and Governance (ESG) standards, there is a pressing need for the development and standardization of social reporting frameworks. Furthermore, effective governance within Islamic finance serves as a critical foundation for fulfilling ESG principles. By enhancing transparency, accountability, and ethical conduct, strong governance structures reduce market risks, fostering trust among stakeholders. As a result, robust governance not only supports compliance with ESG standards but also strengthens the long-term stability and sustainability of Islamic financial institutions, making them more attractive to socially responsible investors.

The study indicates that the successful integration of Environmental, Social, and Governance (ESG) principles in Islamic banking can be achieved by developing a framework specifically adapted to the unique characteristics and requirements of the industry. This integration is crucial for aligning Islamic banking with the growing demand for sustainable investment options. However, obstacles persist, including the absence of standardized ESG benchmarks and uniform reporting regulations, which can complicate the implementation process. Addressing these challenges may involve creating regulatory frameworks that are not only consistent with Shariah principles but also aligned with broader, internationally recognized ESG standards. Collaborative efforts with global partners could further support these goals, enabling Islamic financial institutions to engage meaningfully in socially and environmentally responsible investments. This approach is expected to enhance the sector's global economic stability and foster competitiveness within the rapidly evolving market for sustainable finance. By adopting ESG frameworks that respect Islamic ethical guidelines, Islamic banks could lead in responsible finance, providing investors with sustainable alternatives that promote social equity, environmental stewardship, and economic resilience. This proactive alignment of Shariah-compliant finance with ESG principles could position the Islamic finance sector as a key player in the global sustainable investment landscape.

This paper makes a significant contribution by offering a thorough mapping of the state and difficulties of ESG integration in Islamic banking today, along with suggestions for the creation of more standardized procedures. In order to create an ESG reporting system that incorporates sharia principles and investigate the empirical effects of ESG adoption on the performance of Islamic banks across different markets, more research is advised. Therefore, policymakers, scholars, and Islamic finance practitioners can use this study as a foundation to improve sustainability practices that align with the industry's long-term objectives

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