

COMMITMENT OF THE ISLAMIC BANKING INDUSTRY TO ESG IN SELECTED COUNTRIES: EVALUATION FROM THE *MAQĀSĪD AL-SHARĪ'AH* PYRAMID PERSPECTIVE

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Received
3 July 2024

Revised
17 January 2025
15 March 2025
15 May 2025
13 June 2025
24 June 2025

Accepted
24 June 2025

ABSTRACT

Purpose — This study examines the Islamic banking industry's commitment to ESG (environmental, social and governance principles) in selected countries by assessing it from the *maqāṣid al-Sharī'ah* (objectives of Islamic law) pyramid perspective.

Design/Methodology/Approach — A rigorous quantitative study was conducted using the REFINITIV database, which covered 12 countries from 2020 to 2024, resulting in 497 observations.

Findings — The study finds statistically significant evidence that the Islamic banking industry sets a high standard of ESG for Islamic banks to comply with at the country level. In the long run, the rate of commitment of the Islamic banking industry to each component of the ESG score is explained by the industrial environmental index score (7.21%), the social index score (25.43%), and the governance index (17.98%), respectively. This parameter provides information about the proportion of the ESG score to which there is a greater commitment than for the others. This suggests that the Islamic banking industry pays more attention to the social index score, followed by governance and the environment. It can therefore be deduced that the Islamic banking industry pays substantial attention to the social aspects as *darūriyyāt* (essentials), followed by strengthening governance factors as *hājīyyāt* (needs) and the environmental factor as *taḥsīniyyāt* (embellishments). On average, the commitment of Islamic banks to ESG at the country level is statistically significant (49.73%). However, there is still scope for Islamic banks at the country level to increase their commitment. Since ESG commitment varies among Islamic banks, the number of Islamic banks with low ESG commitment contributes to the average being driven down. Therefore, the Islamic banking industry is expected to have a standardised industry benchmark for each ESG component and the combined ESG.

International
Journal of Islamic
Finance and
Sustainable
Development
(IJIFSD)
Vol. 17 • No. 2 • 2025
pp. 65–83

eISSN:
3030-6442

DOI:
doi.org/10.55188/
ijifsd.v17i2.1015

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Originality/Value — This study adds value to the body of knowledge by exploring the Islamic banking industry's commitment to ESG through the three levels of *maqāṣid al-Sharī'ah*—a first in this area that is not found in previous studies on ESG.

Research Limitations/Implications — The availability of data imposed certain constraints on including more countries beyond the selected Muslim nations. Nonetheless, the findings offer valuable insights for Islamic banks in countries not covered in this study.

Practical Implications — This study provides Islamic banks with a clear understanding of the extent of their contributions to ESG within the framework of *maqāṣid al-Sharī'ah*. Therefore, each Islamic bank could re-strategise its approach as necessary.

Social Implications — These findings present Islamic banks with the opportunity to examine the environment in which they operate and adhere to the most essential aspects of *maqāṣid al-Sharī'ah* that are pertinent to that location, thus making their contribution significant to the local community.

Keywords — Environmental index, ESG, Governance index, Islamic banking industry, *Maqāṣid al-Sharī'ah*, Social index

Article Classification — Research paper

INTRODUCTION

Islamic banking has emerged as a viable alternative to conventional banking over the past five decades. In addition, over the past few years, environmental, social, and governance (ESG) principles, as integral dynamics of investment decision-making processes, have attracted growing interest from scholars. Integrating ESG into Islamic financial decisions requires a deeper understanding of Islamic jurisprudence to explain its connection with *maqāṣid al-Sharī'ah* (the objectives of Islamic law), which include five key objectives: protecting faith (or religion), life, intellect, progeny, and wealth. *Maqāṣid al-Sharī'ah* is a pyramid that classifies needs into three levels in accordance with Sharī'ah (Islamic law), from basic to more advanced. It emphasises that the needs at the base of the pyramid must be fulfilled, followed by those at the next level up. Similarly, ESG outlines principles such as societal well-being, fairness, and justice, which align with Sharī'ah principles endorsed by Islamic finance. Thus, understanding and implementing these objectives is essential for aligning Islamic finance with ESG ethical principles (Abdullah, 2018; Boudawara *et al.*, 2023).

The Sharī'ah, often interpreted as 'the way' or 'a clear path to be followed' (Qur'ān, 45:18), aims to secure benefits for mankind and protect them from harm (Kamali, 1999). *Maqāṣid al-Sharī'ah* emphasises a holistic view of Islam and highlights the rationales, purposes, and concern for the common good found in Islamic rulings. *Maqāṣid al-Sharī'ah* serves as the cornerstone of Islamic finance, emphasising the preservation and promotion of human welfare, the establishment of justice, the elimination of unfairness, and the fulfilment of the necessities of life (Dusuki & Abozaid, 2007; Dusuki, 2009; Dusuki & Bouheraoua, 2011; Mohd Zain *et al.*, 2024; Haque *et al.*, 2024). It underscores the importance of fostering relationships and mutual support within families and communities. By applying the principles of *maqāṣid al-Sharī'ah*, Islamic financial institutions (IFIs) can promote social and economic welfare while upholding ethical and moral standards.

Similarly, it has been demonstrated that there is a connection between *maqāṣid al-Sharī'ah* and ESG. According to Securities Commission Malaysia (2023), *maqāṣid al-Sharī'ah* encompasses the overarching principles ordained by Allah to guide human life comprehensively. These objectives serve as the foundation for adopting an ideal, meaningful, and purposeful way of life centred on promoting human welfare (*maṣāliḥ al-ibād*) as the ultimate goal. The concept of human welfare, according to Ibn al-Qayyim, encompasses worldly and spiritual well-being. Within the framework of *maqāṣid al-Sharī'ah*, public interest (*maṣlahah*) plays a central role. Scholars derive and develop Sharī'ah objectives from this concept, emphasising the pursuit of benefits (*jalb al-maṣāliḥ*) and prevention of harm (*dar' al-mafāsīd*). Serving benefits entails promoting initiatives that contribute to the well-being of individuals and society while preventing harm and focusing on activities that avoid undesirable outcomes. This concept clearly illustrates that the ESG concept is embedded in *maqāṣid al-Sharī'ah*.

The application of *maqāṣid al-Sharī'ah* in Islamic finance is evident in various ways. These objectives guide financial transactions, investments, and economic activities, ensuring adherence to Sharī'ah principles and promoting societal well-being. Ibn 'Āshūr further expanded the concept of *maqāṣid al-Sharī'ah* by introducing specific objectives based on various aspects of human life, including financial transactions, marriage law, criminal sanctions, justice, employment, and donations. This comprehensive approach addresses the complexity of contemporary societal challenges and provides a framework for the holistic integration of classical and modern insights in Islamic jurisprudence. As such, *maqāṣid al-Sharī'ah* serves as a guiding framework for Islamic finance, ensuring ethical conduct, societal welfare, and spiritual growth in accordance with Islamic

principles. This means that aligning the *maqāṣid al-Sharī'ah* pyramid and ESG commitments will create a unique framework for framing the ESG agenda in IFIs, ensuring that their operations benefit society and adhere to these integrated principles, which meet both spiritual and modern ethical standards.

Islamic finance, which encompasses Islamic banking, and the ESG conceptual index share fundamental social responsibility and sustainability principles, making them complementary approaches to capital raising and investment. While Islamic finance focuses on adhering to Sharī'ah principles, ESG investing integrates ESG factors into investment decisions (CFA Institute & Principles for Responsible Investment, 2019). According to the CFA Institute and Principles for Responsible Investment (2019), one commonality between Islamic finance and ESG investing is their emphasis on being good stewards of society and the environment. Both offer products that cater to the needs of both Muslim and non-Muslim investors, reflecting strong practices and policies. For example, Islamic finance prohibits security lending and shorting to ensure shareholder voting rights, while ESG integration emphasises stewardship practices consistent with Sharī'ah principles. Furthermore, CFA Institute and Principles for Responsible Investment (2019) provided two case studies to illustrate how ESG factors are integrated into Islamic finance: SEDCO Capital demonstrates how it applies Sharī'ah screening and incorporates ESG factors into its active portfolio management, and Hawkamah's case study showcases the incorporation of ESG factors into a Pan-Arab Index, indicating practical strategies for integrating sustainability considerations into investment decision-making within Islamic finance frameworks. In November 2023, the Securities Commission Malaysia published the *Maqasid al-Shariah* guidance, providing overarching principles that could be adopted in the Islamic capital market to align its operations with sustainable practices and ESG goals.

Scholars such as Chapra (1979), Ahmad (1980), Siddiqi (1980), and Khan (1984) argued that contemporary Islamic banking and finance practices have yet to adequately address moral concerns (Asutay, 2007, 2012; Hassan & Muneeza, 2024). This emphasises that the concept of Islamic moral economy, championed by scholars like Mohd Nor (2012) and Asutay (2012), seeks to reintegrate moral and social dimensions into Islamic banking and finance. This approach aims to complement the original ideals of the Islamic economy while emphasising neglected moral and social aspects that could be linked to modern-day ESG components. Asutay (2007) proposed the establishment of Islamic social banking, inspired by Western social banking models, to meet Muslim societies' developmental needs and fulfil IFIs' social responsibilities.

Furthermore, IFIs have demonstrated that environmental responsibility aligns with the principles of *maqāṣid al-Sharī'ah* and that the need for Islamic banks to demonstrate a commitment to sustainability is fundamentally grounded in these principles (Kashi *et al.*, 2024). This recognition arises from scholars acknowledging the conceptual relationship between *maqāṣid al-Sharī'ah* and climate change. It is suggested that the Islamic finance industry implement robust governance mechanisms and reporting practices for climate change to institutionalise policies that mandate sustainable finance. Similarly, these drastic climate change conditions warrant an immediate response and necessitate urgent actions to address global issues through the implementation of ESG criteria.

As a result, ESG represents a significant concern, with various stakeholders undertaking distinct roles within this framework. Within the banking sector, investors are becoming increasingly aware of the principles of ethical banking and the need to reduce investments with adverse environmental impacts. After examining Islamic banks, Kashi *et al.* (2024) found that

environmental changes can increase the insolvency risks faced by banks and reduce asset quality as a consequence of customer defaults. The authors subsequently recommended that policymakers enhance the regulatory framework to ensure the achievement of sustainability performance among Islamic banks, acknowledging that economic instability may ensue from alterations in environmental factors. In addition, this assertion is supported by the Global Reporting Initiative (GRI), which establishes international standards for evaluating social and business ethics, labour practices, and human rights. It underscores the imperative for corporations to incorporate societal interests into their core strategies, thereby maintaining their social contract while promoting a balance between sustainability and financial stability, which is crucial across diverse sectors (Kashi *et al.*, 2024).

This research examines the Islamic banking industry's commitment to ESG in selected countries by assessing it from the *maqāṣid al-Sharī'ah* pyramid perspective. Therefore, the research seeks to answer the following questions:

1. How does the Islamic banking industry's commitment to ESG align with the *maqāṣid al-Sharī'ah* pyramid?
2. How does the commitment to ESG impact Islamic banks' operations and societal role, specifically in fulfilling the foundational, complementary, and embellishment needs outlined in *maqāṣid al-Sharī'ah*?

Despite the multitude of recent studies on ESG issues and the Islamic finance industry, the majority of these studies primarily analyse ESG from the perspectives of performance, credit risk, sustainability, and various other concerns (Qoyum *et al.*, 2022; Kashi *et al.*, 2024; Tumewang *et al.*, 2024). However, none of the previous studies reference the three categories of *maqāṣid al-Sharī'ah*. Evaluating the commitment of the Islamic banking industry to ESG criteria from the *maqāṣid al-Sharī'ah* pyramid would yield findings that are distinctly different from the approach adopted by most studies in the conventional finance sector. This approach is anticipated to effectively address the expectations of investors who are motivated by ESG principles and ethical finance. This study identifies this discrepancy as a critical gap that requires attention. Furthermore, assessing the Islamic banking industry's commitment to ESG through the *maqāṣid al-Sharī'ah* framework would provide more comprehensive insights for enhancing the Islamicity of activities within the Islamic finance industry. Consequently, the objective of this study is to investigate the extent to which the Islamic banking industry's commitment to ESG is reflected in the *maqāṣid al-Sharī'ah* pyramid. It is anticipated that the findings of this research will encourage Islamic banks to contribute to societal well-being, balancing essential needs with development within the parameters of *Sharī'ah*.

This paper is divided into six sections. Following this introduction, the second section presents a literature review, while the third section discusses the methodology employed in the paper. The next section describes the findings, followed by the analysis and recommendations section. The final section offers conclusions.

LITERATURE REVIEW

Recently, studies have increasingly explored the relationship between ESG practices and the activities of financial institutions (Lee & Isa, 2023; Jan *et al.*, 2023). Overall, the relationship between the ESG framework and Islamic finance is multifaceted, and its implications have been

extensively examined (Qoyum *et al.*, 2022; Ramadhan *et al.*, 2023). Nevertheless, there are still inconsistent conclusions regarding this relationship, which highlights gaps in the literature.

Given Islamic finance's significance as a fast-growing sector within the financial industry, it is drawing attention to its social and ethical approach to finance (Boudawara *et al.*, 2023; Lee & Isa, 2023; Jan *et al.*, 2023; Mohamad Ariff *et al.*, 2024). Similarly, the performance of Islamic banks has been extensively studied (Ousama *et al.*, 2020; Akbar & Siti-Nabiha, 2021; Abdul Zalim, 2022; Nasri, 2022), which might have contributed to the need for Islamic banks to enhance their performance through a commitment to ESG. Highly performing Islamic banks will be more eager to contribute more to society through ESG than Islamic banks struggling to meet the basic performance requirement. Ousama *et al.* (2020) revealed that Islamic banks in the Gulf Cooperation Council (GCC) countries established a significant positive relationship between intellectual capital and financial performance. Intellectual capital is crucial for Islamic banks to keep their path in line with Sharī'ah while preventing them from deviating from their core Islamic objectives. Similarly, Abdul Zalim (2022) found that Islamic microfinance institutions in Malaysia adhere to Islamic values as the basis for their social value pillars and that this adherence significantly contributes to their financial performance. Akbar and Siti-Nabiha (2021) argued that the performance criteria for Islamic banks are more holistic than mere profit and growth. This highlights the importance of examining the Islamic banking industry's commitment to ESG, with a focus on the principles of *maqāṣid al-Sharī'ah* (Goud *et al.*, 2021).

Evidence of Research Gap

Qoyum *et al.* (2022) investigated how an Islamic label influences ESG performance in firms from Indonesia and Malaysia. It found that Islamic firms generally exhibit better environmental and social performance compared to non-Islamic firms, but governance performance does not show significant differences. Porenta and Rant (2025) revealed that ESG risks, especially social and governance factors, significantly influence credit risk, particularly in multilateral development banks. This is increasingly relevant for financial institutions, especially in terms of their financial performance. The authors concluded that environmental risks have minimal impact across all bank types, whereas social and governance risks are more influential. This finding is examined in the context of development banks, which creates research gaps regarding Islamic banks, especially from the perspective of *maqāṣid al-Sharī'ah*. Furthermore, Chen *et al.* (2025) revealed that environmental factors positively influence credit ratings across Moody's, Standard & Poor's (S&P), and Fitch on 106 European listed banks using the ESG Combined Score, the Social Pillar Score, the Corporate Governance Pillar Score, and the ESG Controversies Score variables. Those studies show a research gap, as none of them linked ESG to *maqāṣid al-Sharī'ah*.

***Maqāṣid al-Sharī'ah* from the View of ESG**

IFIs, guided by *maqāṣid al-Sharī'ah* and *maṣlaḥah* principles, uphold social welfare responsibilities and religious commitments to achieve Islamic economic objectives (Warde, 2010). They contribute to socio-economic development by focusing on broad benefits, job creation, entrepreneurship stimulation, social justice, poverty alleviation, and regional distribution of investments.

The *maqāṣid al-Sharī'ah* pyramid is a conceptual framework in Islamic jurisprudence that emphasises Sharī'ah's higher objectives or goals (*maqāṣid*). This pyramid, rooted in Islamic ethics and jurisprudence principles, delineates three objectives, each building upon the other to preserve

essential values and promote social and economic welfare.

At the pyramid's base are the essential elements (*darūriyyāt*), which encompass preserving and protecting fundamental human needs and interests. These elements are foundational to society's functioning and should be safeguarded to ensure the well-being of individuals and communities (Dusuki, 2009). Examples of essential elements include the protection of religion, life, intellect, progeny, and property.

Moving up the pyramid, the second level comprises complementary elements (*hājiyyāt*) necessary to address difficulties and fulfil additional needs beyond the essential requirements. While not as critical as the crucial elements, these complementary objectives significantly enhance the quality of life and address societal challenges. Complementary elements include pursuing knowledge, economic development, environmental conservation, and social justice (Dusuki & Bouheraoua, 2011).

At the pinnacle of the pyramid are the embellishments (*taḥsīniyyāt*), which represent aspirations for excellence and the enhancement of societal well-being. These objectives aim to elevate the quality of life and promote the flourishing of individuals and communities. While not essential for survival, the pursuit of embellishments contributes to the fulfilment of human potential and the realisation of higher ideals. Examples of embellishments include aesthetic pursuits, cultural enrichment, and moral refinement (Dusuki & Bouheraoua, 2011).

The *maqāṣid al-Sharī'ah* pyramid serves as a guiding framework for Islamic finance, governance, and ethical conduct, ensuring that actions and decisions align with the overarching objectives of Sharī'ah. By prioritising the preservation of essential values, the fulfilment of complementary needs, and the pursuit of excellence, the pyramid facilitates the realisation of individual and collective welfare through the endorsement of Islamic principles.

Similarly, the pyramid of *maṣlahah* serves as an ethical filter mechanism, exemplifying three levels of judgement that prioritise preserving and protecting essential needs, removing difficulties, and improving life conditions (Dusuki & Bouheraoua, 2011). IFIs are responsible for avoiding engagement in activities detrimental to society and for extending their efforts beyond fulfilling essential needs to enhance public life conditions.

This emphasises that Islamic banks at the country level play a vital role in socio-economic growth by financing productive activities, promoting technological innovation, and contributing to job creation and entrepreneurship (Lewis & Algaoud, 2001). They are expected to balance profit-oriented objectives with societal needs, contributing to poverty relief, improved health, better education, and overall societal development, particularly in impoverished communities.

Despite the fact that several scholars have studied ESG from the perspective of Islamic finance (Erragragui & Revelli, 2016; Hassan *et al.*, 2023; Boudawara *et al.*, 2023; Lee & Isa, 2023; Jan *et al.*, 2023; Gati *et al.*, 2024; Mohamad Ariff *et al.*, 2024), there is limited research that examines the interaction between ESG practices and *maqāṣid al-Sharī'ah*. Thus, this study quantitatively examines ESG and establishes the link with *maqāṣid al-Sharī'ah*.

Despite the challenges posed by operating in mixed economic and conventional banking system environments, Islamic banks at the country level are expected to increase their focus on socio-economic objectives as they become more established (Haron & Hisham, 2003). Their activities should align with the principles of Sharī'ah and contribute to the broader goals of social welfare and economic development, as emphasised in the ESG concept.

As a result, Gati *et al.* (2024) concluded that developing robust frameworks to integrate ESG considerations in Sharī'ah-compliant investment products and activities is also essential.

Therefore, emphasis is placed on the task that is required, which involves the close collaboration of practitioners, regulatory bodies, and scholars to set up a clear set of rules and standards (Mohamad Ariff *et al.*, 2023; Gati *et al.*, 2024) for achieving ESG in compliance with *maqāṣid al-Sharī'ah* without jeopardising Islamic banking integrity that has made them attractive to global investors.

***Maqāṣid al-Sharī'ah* Pyramid**

The *maqāṣid al-Sharī'ah* pyramid organises needs in a hierarchical structure. The most critical level of the hierarchy is positioned at the base. Consequently, the method of addressing these needs adopts a bottom-to-top approach. This enables the Islamic finance industry to discern which aspects of *maqāṣid al-Sharī'ah* are paramount for fortifying their commitment and which components of the pyramid receive minimal consideration. Furthermore, this may enhance the effective redistribution of humanitarian assistance within the Islamic finance sector. Tarique *et al.* (2021) referred to the three broad areas of *maqāṣid al-Sharī'ah*, in explaining the performance evaluation of Islamic banks. Similarly, Okumuş (2024) employed *maqāṣid al-Sharī'ah* to explain the performance of Islamic finance beyond the traditional yardstick. Amin (2022) used *maqāṣid al-Sharī'ah* to reveal that Islamic banks exhibit the moderate value of the customer preference. Therefore, connecting ESG and *maqāṣid al-Sharī'ah* would provide a comprehensive insight to different stakeholders.

Current ESG Practices of Islamic Financial Institutions

It has been observed that the primary focus of IFIs has been to ensure that their products and services comply with Shari'ah rather than achieving ESG (Sairally, 2015). Additionally, IFIs have been criticised for not being signatories to ESG principles such as the Equator Principles, the UN Principles for Responsible Investment (UNPRI), and the Global Reporting Initiative (Sairally, 2015). It has also been noted that, from a risk perspective, credit and market risks are the primary concerns of IFIs, with social and environmental risks often being overlooked (Haneef, 2015; Sairally, 2015). There are also some sectors in the real economy in which IFIs have been falling short in catering to their needs, including the financing of small and medium-sized enterprises (SMEs), Islamic microfinance, providing adequate products and services to the low-banked population, and handling underutilised waqf assets (Haneef, 2015).

However, the situation regarding IFIs and the adoption of ESG practices has changed over the years, especially in countries like Malaysia. In Malaysia, for instance, in 2019, Bank Islam Malaysia Berhad (BIMB) became a signatory of UNPRI, incorporating ESG considerations into its investments (Abdullah & Haron, 2022). The year 2017 marked a significant milestone when Bank Negara Malaysia (BNM) introduced Value-based Intermediation (VBI), aiming to encourage the Islamic banking industry to adopt universal values in its banking practices by publishing a strategic paper (Abdullah & Haron, 2022). This strategic paper on VBI outlines the strategies for enhancing the roles and impact of Islamic banks in fostering a sustainable financial ecosystem. IFIs such as BIMB, Bank Muamalat Malaysia, Agrobank, CIMB Islamic Bank Berhad, and HSBC Amanah Malaysia Berhad, the founding members of the VBI Community of Practitioners (CoP), collaborated on the VBI programme.

In jurisdictions such as Saudi Arabia, the United Arab Emirates (UAE), Qatar, and Kuwait, ESG reporting by IFIs indicates their active engagement in ESG practices. However, research conducted in 2020 revealed that the aggregate ESG scores of the IFIs selected from these

jurisdictions were below expectations, with performance ranging from poor to merely satisfactory. It was recommended by Abdullah and Haron (2022) that for IFIs to remain competitive and relevant alongside conventional banks, IFIs should enhance their understanding of the benefits of ESG practices and prioritise improving their overall ESG performance. In the Middle East, it has also been said that IFIs are focusing more on sustainable lending, including transition financing to support high-carbon businesses in decarbonising, green financing for environmentally sustainable projects such as renewable energy and green infrastructure, and sustainability-linked financing that ties terms of funding to the achievement of sustainability-related performance indicators like reducing carbon emissions (Eido & Karim, 2023). Only a limited amount of literature focuses on current practices in the form of case studies of IFIs adopting ESG practices, and the history discussed in this regard also includes capital market initiatives, as shown in **Table 1**.

Table 1: History of ESG Adoption by Governments and IFIs

Date	Event
May 2019	Dubai-based Majid Al Futtaim issued the first benchmark corporate green <i>sukūk</i> and the first green <i>sukūk</i> from the GCC.
Nov 2019	Securities Commission Malaysia released the Sustainable Responsible Investment Roadmap for the Malaysian Capital Market ('SRI Roadmap') and revised the SRI <i>Sukūk</i> Guidelines. The Indonesian government issued the first retail green savings <i>sukūk</i> .
Jun 2020	The Islamic Development Bank (IsDB) issued its debut sustainability <i>sukūk</i> , raising USD 15 billion to support member countries during the aftermath of the COVID-19 pandemic.
Oct 2020	Etihad Airways issued the first-of-its-kind <i>sukūk</i> raising USD 600 million to finance its shift to a greener future. This is also the first sustainability-linked bond from the airline industry.
Jun 2021	The Securities and Exchange Commission of Pakistan (SECP) approved national green bonds and <i>sukūk</i> guidelines. Bank Negara Malaysia released the Value-based Intermediation for Takaful (VBIT) Framework.
Jul 2021	Oman's Capital Market Authority issued a Draft Bond and <i>Sukūk</i> regulation covering SRI, waqf, sustainability, green and blue <i>sukūk</i> .
Sep 2021	Kuveyt Türk issued the world's first sustainable Tier 2 <i>sukūk</i> , raising USD 350 million for green and social project financing, particularly in renewable energy.
Nov 2021	The High-Level Working Group on Green and Sustainability <i>Sukūk</i> was launched during COP26 by founding partners UKIFC, GEFI and IsDB.
Jan 2022	Indonesia's Financial Services Authority (OJK) launched a green finance taxonomy. Infracorp issued Bahrain's first green <i>sukūk</i> worth USD 900 million to support infrastructure development in the GCC, North Africa, and South Asia.
Feb 2022	Kuwait's Capital Markets Authority amended its executive bylaws to regulate green, sustainability and social-impact bonds and <i>sukūk</i> . Riyad Bank issued the first sustainable Additional Tier 1 (AT1) <i>sukūk</i> worth USD 750 million.
Mar 2022	Qatar Financial Centre (QFC) launched the GCC's first dedicated sustainable <i>sukūk</i> and bonds framework.
Apr 2022	Malaysia issued the world's first sovereign USD sustainability <i>sukūk</i> raising USD 800 million for green projects. Gatehouse Bank launched the UK's first Sharī'ah-compliant green home financing product. Mohammed bin Rashid Global Centre for Endowment Consultancy (MBRGCEC) launched <i>Sukūk Al Waqf</i> , a Sharī'ah-compliant charitable endowment initiative.
Jun 2022	The Securities Commission Malaysia has launched the SRI-linked <i>Sukūk</i> Framework, allowing proceeds to be used for general purposes.
Jul 2022	Ahli United Bank concluded the first sustainability <i>murābahah</i> financing facility, raising USD11 billion.

Table 1: History of ESG Adoption by Governments and IFIs (Cont.)

Sep 2022	Bangladesh Bank issued a Policy on Green Bond Financing for Banks and Financial Institutions.
	The Malaysian government issued its first ringgit-denominated sustainability <i>sukūk</i> raising USD968.5 million.
	Al-Rajhi Bank concluded the first syndicated sustainability commodity <i>murābahah</i> facility, raising USD1 billion.
Oct 2022	The Malaysian Takaful Association (MTA) launched the Value-based Intermediation for Takaful (VBIT) Roadmap.
	Dubai Islamic Bank established a Green Financing Framework.
	Saudi Arabia's Public Investment Fund established the Regional Voluntary Carbon Market Company.
	Agrarius Sustainability Engineered issued the first sustainability <i>sukūk</i> listed on the Johannesburg Stock Exchange, raising USD540 million.
Dec 2022	Securities Commission Malaysia unveiled the Principles-based Sustainable and Responsible Investment Taxonomy (SRI Taxonomy).
	Bursa Malaysia launched Malaysia's first voluntary carbon market with the Bursa Carbon Exchange (BCX).

Source: London Stock Exchange Group (2023) through the authors' compilation

DATA AND METHODOLOGY

Sample Selection

This study uses yearly Islamic banking data rated as Sharī'ah-compliant on ESG-related components, as obtained from the REFINTIV database, ranging from 2020 to 2024 from 12 countries, namely the UAE (16), Bahrain (7), Egypt (7), Indonesia (17), Jordan (7), Kuwait (7), Malaysia (10), Oman (6), Pakistan (8), Qatar (8), Saudi Arabia (11), and Turkey (10). The values in the parentheses represent the number of Islamic banks included in the analysis of the specified countries. The most recent data at the time of this study were from 2024. Financial and ESG-related data for Islamic banks often require delays due to the time needed for proper verification, reporting, and Sharī'ah compliance assurance. The REFINTIV database became publicised in 2018, and the 2019 data were scant. As of 2019, a few Islamic bank datasets are included in the database. Therefore, substantial bank data from 2020 are available, providing a basis for choosing 2020 as the reference year for this study. Including incomplete or preliminary 2025 data could compromise the study's rigour and comparability. The selection of this sample was based on the following:

- Representation of diverse regions: The selected Muslim-majority countries encompass a diverse range of regions, including the Middle East, Europe, Asia and Africa, ensuring the findings capture a global perspective on Sharī'ah-compliant banking.
- Availability of ESG and Sharī'ah compliance data: Only countries having Islamic banking institutions with comprehensive, verified ESG-related data in the REFINTIV database were included. This ensures consistency and reliability in the dataset.
- Significance of the Islamic banking sector: The countries were selected based on the presence and activity of Islamic banking institutions that are influential in promoting Sharī'ah-compliant financial practices, even in regions with a non-Muslim majority. The number of Islamic banks in each country was considered to ensure statistical robustness. For instance, Malaysia (10), Indonesia (17), Saudi Arabia (11), the UAE (16), and Turkey (10) had substantial representation, which supports the generalisability of findings across regions with varying levels of Islamic banking activity.
- The chosen time frame (2020–2024): The studied period in this study aligns with the availability of comprehensive ESG ratings when global attention to ESG and sustainable

finance increased. This allows for analysis of recent trends and developments within the Islamic banking sector.

The variables under investigation in this study include the aggregate ESG index score of the Islamic banking industry, the environmental index score, the social index score, the governance index score, the combined ESG index score for Islamic banks at the country level, and the ESG controversies index score. The aggregate ESG score of the Islamic banking industry serves as the dependent variable. In contrast, the remaining variables are classified as independent variables, with the exception of the ESG controversies index score, which is categorised as a control variable. The combined ESG index score quantifies the commitment of various Islamic banks at the national level to ESG principles.

Methodology

This model employed the static panel model (fixed-effect and random-effect) due to its appropriateness in examining the degree of relationship between dependent and independent variables. In contrast, the best model selection is based on the Hausman Test, especially when investigating series stationarity. The series stationarity prediction made the model more appropriate for using the fixed-effect and random-effect models. The Panel Static model for the study is expressed below:

$$\ln(ESG)_{it} = \alpha_0 + \beta_1 ESG_Environmental_Score_{it} + \beta_2 ESG_Social_Score_{it} + \beta_3 ESG_Governance_Score_{it} + \beta_4 ESG_Controversis_Score_{it} + \beta_5 ESG_Combined_{it} + \varepsilon_{it} \quad (1)$$

where:

ESG Score = Environmental, social and governance index score

Environmental Score = Islamic banking industry environmental index score

Social Score = Islamic banking industry social index score

Governance Score = Islamic banking industry governance index score

ESG Combined Score = ESG index score of commercial Islamic banks at the country level

ESG Controversies Score = Islamic banking industry ESG controversies index score

Additionally, it is noted that other studies have employed different variables. Chen *et al.* (2025), for instance, they used the ESG Combined Score, the Social Pillar Score, the Corporate Governance Pillar Score, and the ESG Controversies Score as the main variables. Similarly, several other studies have adopted a static model of the pooled OLS, fixed-effect and random-effect in their banking studies (Khan *et al.*, 2020; Moudud-Ul-Huq *et al.*, 2020; Derbali, 2021).

EMPIRICAL FINDINGS

Table 2 presents a descriptive summary of the commitment of the Islamic banking industry to ESG. The mean of the aggregate ESG index for the Islamic banking industry across the 12 examined countries is 49.1096. From the perspective of the individual ESG indicators, the ESG-Controversies score has the highest mean of 98.5851, followed by the governance score of 58.9341, and the lowest is the social score of 41.8263. Based on the minimum and maximum coefficients, Islamic banks' commitment to ESG is widespread in several countries. This indicates

that the degree of commitment of Islamic banks to ESG varies drastically. The ESG indicators are positively skewed. With positive skewness, there is an indication that the approach adopted by the Islamic banking industry is viable. In addition, all ESG index scores are mesokurtic. Similarly, all ESG index scores reflect a general awareness of the need to be committed to ESG, which has been widely adopted globally. Collectively, the coefficients of skewness, kurtosis and Jarque-Bera reveal that the series of ESG and their indicators are normally distributed. This implies that, on average, Islamic banks at the country level are committed to fulfilling the ESG requirement.

Table 2: Descriptive Statistics of the Islamic Banking Industry's ESG

	ESG Score	Environmental Score	Social Score	Governance Score	ESG Combined Score	ESG Controversies Score
Mean	49.1096	41.8263	46.2245	58.9341	48.9023	98.5851
Maximum	90.3000	98.5500	98.0000	95.9700	90.2100	100.0000
Minimum	5.9200	0.0000	1.0000	1.0000	5.9200	28.0000
Std. Dev.	21.0655	29.0269	26.3976	21.1758	20.9106	7.6279
Skewness	0.8258	0.0655	0.0297	0.0000	0.8025	0.0000
Kurtosis	0.0000	0.0000	0.0000	0.0093	0.0000	0.0000
Jarque-Bera	0.9774	0.9556	0.9598	0.9629	0.9785	0.6630
Probability	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Observations	497	497	497	497	497	497

Source: Authors' compilation

Table 3 presents the relationship between the Islamic banking Industry and its ESG indicators. Column 1 displays descriptive information regarding the study's variables; Column 2 presents the results of the Pooled Ordinary Least Squares (OLS) estimation; Column 3 details the results of the random effects estimation; Column 4 illustrates the results of the fixed effects estimator; and Column 5 presents the results of the fixed effects robust estimator.

The findings reveal that the ESG Combined score index significantly predicts 49.73 per cent of the change in the ESG score index. This implies that a 1 per cent increase in the ESG Combined score index of Islamic banks contributes 0.4973 points to the rise in the ESG score of Islamic banks. Similarly, a 1 per cent increase in the environmental score contributes 0.0721 points to the enhancement of the aggregate ESG score index within the Islamic banking industry. Furthermore, addressing environmental challenges is expected to promote resource sustainability, which would subsequently reduce exploitation and mitigate the adverse human impacts of climate change. It deliberately focuses on the necessary preservation of the natural system by ensuring the well-being of all future generations (Mohamad Ariff *et al.*, 2023; Boudawara *et al.*, 2023).

Likewise, the social index score accounts for 25.43 per cent of the variation in the aggregate ESG score. This suggests that a 1 per cent increase in the social index score leads to a 0.2543-point rise in the aggregate ESG scores. Furthermore, the governance index accounts for 17.98 per cent of the variation in the aggregate ESG score at the 1 per cent significance level. This indicates that a 1 per cent increase in the governance index score results in a 0.1798-point change in the aggregate ESG score.

In establishing the connection between ESG and *maqāṣid al-Sharī'ah*, some Islamic banks at the country level have successfully incorporated societal commitment in their package, enabling them to fulfil the *ḍarūriyyāt* aspect of *maqāṣid al-Sharī'ah*. The governance score reflects the Islamic banking industry's commitment to achieving the *ḥājjiyyāt* aspect of *maqāṣid al-Sharī'ah*.

This aspect complements the basic provision made through *darūriyāt*, which applies to educational scholarships for less privileged populations. Additionally, the environmental score coefficient reflects the Islamic banking industry's commitment to the *taḥsīniyyāt* aspect of *maqāṣid al-Sharī'ah*, as few of the banks' clients fall into this category.

Besides the aggregate ESG findings, the commitment of Islamic banks at the country level studied could be higher. This is because a one per cent change in the ESG Combined score explains about 0.4973 per cent change in the aggregate ESG at a one per cent significance level. This suggests that the commitment of Islamic banks at the country level to ESG may be widespread. This finding is in support of the argument of several scholars, such as n (1979), Ahmad (1980), Siddiqi (1980) and Khan (1984), that contemporary Islamic banking and finance practices have yet to adequately address moral concerns (Asutay, 2007, 2012; Hassan & Muneeza, 2024).

Having conducted the Hausman test, the fixed-effect model is consistent, and a robust fixed-effect test was performed. The model diagnostic test predicted that the findings were valid. In addition, the findings are free from serial correlation and heteroskedasticity effects, and the predictions are valid.

Table 3: Relationship between Aggregate ESG Commitment and its ESG Components

Variables	Pool OLS	Random-Effect	Fixed-Effect	Fixed-Effect Robust
	β	β	β	β
Constant	12.9006***	12.9006***	7.7960***	7.7960***
<i>ESG_Combined_Score</i>	0.7449***	0.7449***	0.4973***	0.4973***
<i>Environmental_Score</i>	0.0273***	0.0273***	0.0721***	0.0721***
<i>Social_Score</i>	0.1378***	0.1378***	0.2543***	0.2543***
<i>Governance_Score</i>	0.0898***	0.0898***	0.1798***	0.1798***
<i>ESG_Controversies_Score</i>	-0.1321***	-0.1321***	-0.0849***	-0.0849***
Corr(u _i , X _b)		0	-0.0565	
R ²		0.9766	0.9994	
Heteroskedasticity (X ²)			28.04***	
F-Stat		511839.38***	153568.89***	
F-test (4, 487)			62.87***	
Hausman Test			358.98***	

Note: Superscript *** indicates a one per cent significance level.

Source: Authors' compilation

DISCUSSION

It can be derived from the study that the social index, which accounts for 25.43 per cent of changes in the ESG aggregate score, directly correlates with fulfilling *darūriyāt*, the foundational level of *maqāṣid al-Sharī'ah*. This is related to fulfilling basic or essential societal needs, and it is evident that Islamic banks are committed to providing basic financial services, whether for education or housing. Similarly, the skewness and kurtosis tests support the efficiency of the social index distribution, indicating that a better mechanism has been adopted, which may be capable of addressing any disparities. The social index distribution suggests that Islamic banks should continue to target the population that requires social benefits from their products and services, thereby continuously reaching the underserved segment of the population. For instance, if an Islamic bank offers an education financing facility, its benefits should reach low-income or marginalised communities such as indigenous societies.

Furthermore, it is found that the governance index, which explains 17.98 per cent of the changes in the ESG score, aligns with *hājiyyāt*, which focuses on complementary needs. Adherence to good governance practices promotes ethical management in financial practices, boosting the confidence of stakeholders. This paves the way for Islamic banks to complement the foundational provisions of *darūriyyāt*, as strong governance can ensure the equitable allocation of resources. Therefore, it is recommended that Islamic banks implement a mechanism to adopt good governance practices while ensuring internal controls, such as audit practices, to achieve accountability and transparency.

The result also indicated that the environmental index, contributing 7.21 per cent to ESG changes, corresponds to *taḥsīniyyāt*, the embellishment or enhancement level of the *maqāṣid al-Sharī'ah* pyramid. This means that by adopting environmental protection measures, Islamic banks contribute to preserving natural resources for future generations and play the role of vicegerent (*khalīfah*). Additionally, their practices in this regard align with the concept of *ṭayyib*, which means wholesome, ensuring the quality of the environment is preserved without any form of pollution or impurity. Therefore, it is recommended that Islamic banks measure the environmental impact of their financing facilities and adopt measures to encourage such practices among customers, such as introducing green financing programmes that provide incentives, such as lower financing rates for customers choosing renewable energy projects or environmentally friendly initiatives. The ESG Controversies index score established a significant negative relationship with the ESG index score. This emphasises that Islamic banks should strive to eliminate all factors that may lead to controversies in their ESG commitment, which could increase their ESG score index.

From the above analysis, it is understood that the *maqāṣid al-Sharī'ah* framework aligns with assessing ESG commitments. The environmental aspect of ESG supports the *taḥsīniyyāt* level, the social dimension corresponds to *darūriyyāt*, and governance aligns with *hājiyyāt*. This alignment underscores the importance of Islamic banks in fostering societal well-being and striking a balance between essential needs and development within the framework of the Sharī'ah.

CONCLUSION

This study examines the commitment of the Islamic banking industry at the country level to ESG in 12 countries. The study uses a panel data analysis approach to establish the degree of commitment of the Islamic banking industry to ESG. The findings reveal that the Islamic banking industry sets a high standard for country-level Islamic banks to emulate. The finding makes it clear that the commitment of the Islamic banking industry incorporates the *maqāṣid al-Sharī'ah* pyramid in the rate of their commitment to ESG. The magnitude of individual ESG indicators ascertains this. The social aspect, which encompasses components closer to *darūriyyāt*, constitutes a substantial component of the Islamic banking industry's ESG commitment, followed by the governance index score as *hājiyyāt* and the environmental factor as *taḥsīniyyāt*. The magnitude of *taḥsīniyyāt* equivalence of ESG constitutes about 7.21 per cent, the lowest magnitude among the individual components of ESG. The justification here is that it is well-established that the guiding principle of Islamic banks at the country level prevents them from directly engaging in the production of goods and services. Still, they provide financing for those companies, provided that they are creditworthy. As a result, the responsibility of attaining a sustainable environment is also on the shoulders of Islamic banks. Therefore, it may be part of the Islamic banking industry's responsibility to ensure that funding is channelled towards green financing or other related projects for the betterment of society, and that Islamic banks contribute towards eradicating global warming

at the national level.

This study has demonstrated that its findings are unique, as it is the first quantitative study to empirically link ESG and *maqāṣid al-Sharī'ah* from the perspective of *darūriyyāt*, *hājiyyāt*, and *taḥsīniyyāt*. Since the magnitude of commitment of Islamic banks at the country level is low, it is essential to increase awareness and educational outreach within the Islamic finance industry about the importance of ESG standards, which implies not only a clearer understanding of the moral imperatives of ESG but also clarity regarding the value creation and risk mitigation capacity of investment alternatives that comply with these standards.

The limitation of this study is that the dataset of individual ESG indicators of Islamic banks at the country level is not available. Their combined ESG commitment was used instead. However, the challenge limits the ability to accurately identify the magnitude of individual ESG indicators at the country level. This presents an opportunity for future research on the related topic, provided data are available to address the stated research gap.

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DECLARATION

Credit Authorship Contribution Statement

- Monsurat Ayojimi Salami: Conceptualisation, Write-up, Methodology, Presentation of findings, Editing
- Aishath Muneeza: Write up, Review, Data collection, Funding
- Saeed Awadh Bin-Nashwan: Write-up, Review

Declaration of Competing Interest

The authors declare that no conflict of financial interest or personal relationship has influenced the result of this study.

Acknowledgement

We appreciate the contributions of the anonymous reviewers, the conference section chair, the conference organiser, and the participants who attended the paper's presentation at the International Conference on Social Research & Innovation (ICSRI), June 2024.

Ethical Statement

The authors have no intention of using the same secondary data for conducting another research or to reproduce the same paper in another journal for publication. Paper presenters at the ICSRI 2024 have the opportunity to publish their conference paper after incorporating the reviewer comments at the journal of their choice. This paper is original and has not been published in any journal, nor is it under consideration by another publication.

Use of Generative AI and AI-Assisted Technologies in the Writing Process

The authors declare that none of the sections of this article is AI-generated. The paper is the culmination of the authors' efforts.

Data Availability

Data is available upon request.

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