

Integrating ESG and Maqashid Syariah for Sustainable Islamic Finance in Indonesia

Indonesia's
Sustainable Sharia
Investments

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ABSTRACT

The global financial sector has shifted toward sustainability, emphasizing environmental, social, and governance principles alongside ethical frameworks like Islamic law objectives. This study explores the integration of environmental, social, and governance principles with Islamic law objectives to develop sustainable Islamic financial investment strategies in Indonesia. As the world's largest Muslim-majority country, Indonesia offers significant potential for aligning these principles with its growing Islamic finance market. The research employs a qualitative approach, utilizing a systematic literature review and thematic content analysis to examine relevant academic articles, institutional reports, and policy documents. Findings reveal a strong conceptual alignment between environmental, social, and governance principles and Islamic law objectives, particularly in environmental preservation, social justice, and ethical governance. Practical applications include Green Sukuk, with Indonesia issuing over six billion dollars since 2018, and waqf sukuk, supporting social welfare projects. However, challenges such as low awareness and regulatory gaps hinder broader adoption. This study proposes a conceptual framework to integrate these principles, enhancing Indonesia's position as a global leader in sustainable Islamic finance. This study recommends collaboration among regulators, industry players, and academics to develop standardized guidelines, fostering a financial ecosystem that balances profitability, ethical values, and sustainability.

Keywords: ESG, Green Sukuk, Islamic Finance, Maqashid Sharia, Sustainable Investment.

ABSTRAK

Sektor keuangan global telah bergeser ke arah keberlanjutan, dengan menekankan prinsip-prinsip lingkungan, sosial, dan tata kelola di samping kerangka etika seperti tujuan hukum Islam. Studi ini mengeksplorasi integrasi prinsip-prinsip lingkungan, sosial, dan tata kelola dengan tujuan hukum Islam untuk mengembangkan strategi investasi keuangan Islam yang berkelanjutan di Indonesia. Sebagai negara dengan mayoritas Muslim terbesar di dunia, Indonesia menawarkan potensi yang signifikan untuk menyelaraskan prinsip-prinsip ini dengan pasar keuangan Islam yang sedang berkembang. Penelitian ini menggunakan pendekatan kualitatif, memanfaatkan tinjauan pustaka sistematis dan analisis konten tematik untuk mengkaji artikel akademis, laporan kelembagaan, dan dokumen kebijakan yang relevan. Temuan penelitian menunjukkan keselarasan konseptual yang kuat antara prinsip-prinsip lingkungan, sosial, dan tata kelola dengan tujuan hukum Islam, khususnya dalam pelestarian lingkungan, keadilan sosial, dan tata kelola yang etis. Aplikasi praktisnya meliputi Sukuk Hijau, dengan Indonesia telah menerbitkan lebih dari enam miliar dolar sejak 2018, dan sukuk wakaf, yang mendukung proyek-proyek kesejahteraan sosial. Namun, tantangan seperti rendahnya kesadaran dan kesenjangan regulasi menghambat adopsi yang lebih luas. Studi ini mengusulkan kerangka konseptual untuk mengintegrasikan prinsip-

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prinsip ini, yang memperkuat posisi Indonesia sebagai pemimpin global dalam keuangan Islam berkelanjutan. Studi ini merekomendasikan kolaborasi antara regulator, pelaku industri, dan akademisi untuk mengembangkan pedoman standar, yang mendorong ekosistem keuangan yang menyeimbangkan profitabilitas, nilai-nilai etika, dan keberlanjutan.

Kata kunci: ESG, Sukuk Hijau, Keuangan Islam, Maqashid Syariah, Investasi Berkelanjutan.

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INTRODUCTION

The paradigm shift in the global financial sector has shown an orientation shift from a profit-oriented approach to one that prioritizes sustainability, social responsibility, and ethics (Nartey, 2025). One of the tangible manifestations of this transformation is the increasing adoption of Environmental, Social, and Governance (ESG) principles in investment practices and corporate governance. ESG is no longer considered a complementary aspect but is the main pillar in measuring the sustainability performance of a business entity and is a key consideration for global investors. According to the Global Sustainable Investment Alliance, total assets under management with ESG considerations have surpassed USD 40 trillion, reflecting a significant portion of global financial assets and underscoring the growing demand for sustainable investments. This phenomenon reflects a new demand for financial industry players to formulate investment strategies that are not only oriented towards economic returns but also contribute to social and ecological sustainability (Gomber et al., 2018; Hoang, 2018).

ESG is a non-financial evaluative framework used to assess the sustainability performance and risks of a business entity. The environmental aspect emphasizes the company's responsibility for the environment, such as waste management, energy efficiency, and adaptation to climate change (Hoang, 2018). Social is related to the impact of companies on society, including the protection of workers' rights, gender equality, and contribution to the community (Keenan, 2016). Meanwhile, governance assesses the company's internal governance, such as transparency, accountability, and business ethics (Rezaee, 2008; Sullivan & Mackenzie, 2017). In the context of global investment, ESG plays an important role as an indicator in measuring a company's long-term sustainability and competitiveness, and is a major concern for institutional investors who demand social and environmental accountability from their investment portfolios (Matos, 2020; Khan, 2022).

On the other hand, *maqashid sharia* is a basic principle in Islamic law that aims to protect and advance the five fundamental aspects of human life, namely religion (*din*), soul (*nafs*), intellect (*'aql*), heredity (*nasl*), and property (*mal*) (Chapra, 2008; Yusuf & Harun, 2024). This principle emphasizes the importance of justice, social usefulness, and a balance between individual rights and collective interests. In the context of Islamic economics, *maqashid sharia* serves as an ethical parameter that ensures that all financial and business activities are not only legally halal but also beneficial to humanity and nature (Dusuki & Abozaid, 2007; Rahman et al., 2017). The integration of ESG with *maqashid sharia* presents a unique opportunity to align global sustainability goals with Islamic ethical values, thereby creating investment strategies that are both Sharia-compliant and responsive to contemporary challenges, such as climate change and social inequality (Ercanbrack, 2022; Zain et al., 2024).

The integration between ESG and *maqashid sharia* opens up a great opportunity to create a sharia investment strategy that is not only compliant with Islamic law but also globally relevant in addressing sustainability challenges (Zain et al., 2024). For example, environmental protection efforts in the ESG pillar are in line with the goal of protecting Allah's creation (*hifz al-bi'ah*), which is a new dimension of the protection of lives and property within the framework of *maqashid* (Marianingsih, 2025). The social aspect of ESG that emphasizes justice and inclusion is also closely related to the principles of *adl* (justice) and *maslahah* (common good) in Islam (Ercanbrack, 2022; Regita et al., 2024).

Meanwhile, good governance can strengthen the value of trust and transparency in Islamic financial institutions. Despite these synergies, a significant research gap exists in systematically integrating ESG and *maqashid sharia* within Indonesia's Islamic finance sector. According to Khan (2022), while ESG has been extensively studied for its impact on firm performance globally, its alignment with Islamic principles like *maqashid sharia* remains underexplored, particularly in the context of Indonesia's unique market dynamics. Furthermore, Agustin et al. (2023) highlight that existing studies on Islamic finance in Indonesia focus primarily on sharia compliance, often neglecting the broader sustainability dimensions that ESG and *maqashid sharia* could address together.

In this context, this research seeks to address this gap by achieving three specific objectives. First, identifying the common values and principles between ESG and *maqashid sharia*. Second, developing an integrative framework for sustainable Islamic financial investment strategies in Indonesia. Third, providing policy recommendations for regulators, Islamic financial institutions, and stakeholders to foster a sustainable Islamic finance ecosystem. The benefits of this research are both theoretical and practical. From a theoretical perspective, it enriches Islamic financial discourse by combining Islamic ethics with a globally accepted ESG framework. Practically, it offers a strategic guide for designing sustainable sharia investment products that are competitive in domestic and international markets. With Indonesia's vast Islamic finance potential, driven by its position as the world's largest Muslim-majority country and supported by policies like the Financial Services Authority's (*Otoritas Jasa Keuangan/OJK*) sustainable finance roadmap since 2015, this study aims to position Indonesia as a leader in sustainable Islamic finance. By integrating ESG and *maqashid sharia*, Indonesia's Islamic finance sector can grow not only quantitatively but also in quality, addressing contemporary challenges effectively.

LITERATURE REVIEW

Basic Concepts of Environmental, Social, and Governance in Sustainable Investing

The concept of ESG has become the main reference in the global sustainable investment approach. According to Friede et al. (2015), ESG has been shown to have a positive correlation with a company's financial performance in the long term, particularly due to increased transparency, environmental risk management, and social accountability. The environmental dimension highlights aspects of ecological sustainability such as carbon emission reduction, energy efficiency, and conservation of natural resources (Clark et al., 2015; Hoang, 2018). The social aspect includes industrial relations, human rights, and contributions to the welfare of society, while the governance aspect assesses the company's internal oversight system, board structure, and regulatory compliance (Rezaee, 2008; Sullivan & Mackenzie, 2017). As emphasized by Khan (2022), ESG frameworks are increasingly critical for investors seeking to balance financial returns with ethical and sustainable outcomes, driving global investment trends. In Indonesia, the adoption of ESG principles has been spurred by OJK sustainable finance initiatives, though challenges like low awareness among firms persist (Noor et al., 2023; Azkiya et al., 2024). These elements collectively make ESG a cornerstone for evaluating long-term corporate sustainability and competitiveness in the global market (Gomber et al., 2018; Matos, 2020).

The growing emphasis on ESG reflects a broader shift in investment paradigms toward sustainability. For instance, ESG-focused investments have surpassed USD 40 trillion globally, signaling strong market demand. In the Indonesian context, ESG adoption is still nascent, with many firms struggling to integrate environmental and social metrics due to limited expertise and regulatory support (Agustin et al., 2023). This gap underscores the need for frameworks that align ESG with local values and market conditions. By addressing environmental, social, and governance risks, companies can enhance their resilience and appeal to institutional investors who prioritize ethical investments (Keenan, 2016; Nartey, 2025).

Maqashid sharia and Islamic Financial Principles

Maqashid sharia, as a philosophical framework in Islamic law, aims to preserve and develop the five main aspects of human life: religion, soul, intellect, heredity, and property (Chapra, 2008). In the context of Islamic finance, this goal directs business and investment practices to create distributive justice, avoid exploitation (*gharar*, *usury*, *maysir*), and ensure social and spiritual value in economic transactions (Dusuki & Abozaid, 2007; Rahman et al., 2017). According to Mohammed et al. (2015), the *maqashid sharia* index model serves as a tool to evaluate the effectiveness of Islamic financial institutions, focusing not only on profitability but also on contributions to the welfare of the ummah and environmental protection. This framework has gained traction in Indonesia, where scholars like Yusuf and Harun (2024) argue that *maqashid sharia* provides a robust ethical foundation for aligning Islamic finance with sustainable development goals. For example, the principle of *hifz al-Bi'ah* (environmental preservation) has been increasingly linked to green financing initiatives like Green Sukuk in Indonesia (Marianingsih, 2025).

The relevance of *maqashid sharia* extends beyond compliance to fostering a holistic financial system. Its emphasis on justice and social welfare aligns with global sustainability trends, yet its application in Indonesia faces challenges like limited public understanding and inconsistent regulatory frameworks (Abozaid, 2016; Fahmi, 2025). By integrating *maqashid* principles, Islamic financial institutions can address social inequalities and environmental challenges, creating a system that is both sharia-compliant and globally competitive (Regita et al., 2024). This approach ensures that financial activities contribute to societal well-being and ecological balance, aligning with the broader objectives of Islamic economics (Ercanbrack, 2022).

Convergence of ESG and Maqashid Sharia

Several studies have explored the potential to bridge ESG and *maqashid sharia* as an ethical and sustainable investment framework. According to Asutay (2012), Islamic values have substantial compatibility with ESG principles, particularly in terms of social justice, environmental responsibility, and responsible governance. A study by Abdullah et al. (2021) shows that integrating ESG in Islamic finance can strengthen the position of Islamic institutions in meeting the expectations of global investors who prioritize sustainability. Zain et al. (2024) further argue that combining ESG with *maqashid sharia* enhances the spiritual depth and ethical purpose of Islamic financial products, creating a framework that is both inclusive and impactful. In Indonesia, this convergence is evident in initiatives like Green Sukuk, which align environmental sustainability with *Maqashid's hifz al-bi'ah*, though broader adoption is hindered by regulatory gaps (Alif et al., 2025).

The synergy between ESG and *maqashid sharia* offers a pathway to address global challenges like climate change and inequality within an Islamic ethical framework. However, practical implementation remains limited, particularly in Indonesia, where the Islamic finance sector is still developing its sustainability focus (Azizah, 2024; Hadi et al., 2025). This convergence requires standardized frameworks to measure ESG-Maqashid alignment, as current indices like the FTSE4 Good Bursa Malaysia Shariah Index (F4GBMS) do not fully incorporate *maqashid* principles (Taleb & Khater, 2024). By combining these frameworks, Islamic finance can appeal to a broader investor base while upholding ethical and spiritual values (Siregar, 2025).

Although there have been studies on ESG in Islamic finance at the global level, there is still very limited research that explicitly integrates ESG and *maqashid sharia* in the context of Islamic investment strategies in Indonesia. According to Haniffa and Hudaib (2007), Islamic finance studies often focus on sharia compliance through halal-haram screening, neglecting broader sustainability dimensions. Aziz et al. (2022) note that while global research on ESG and *maqashid sharia* has grown, Indonesia-specific studies are scarce, particularly in developing operational frameworks for sustainable Islamic investments. This gap is critical given Indonesia's position as the world's largest Muslim-majority country and its rapidly growing Islamic finance sector, which reached USD 114

billion in assets by 2024 (Muarif, 2025). The lack of integration is compounded by challenges like low ESG literacy among practitioners and limited regulatory support for sustainability-focused sharia products (Febrina & Abdulah, 2024; Sofya & Puteri, 2024).

Indonesia's unique context, with over 64 million Micro, Small, and Medium Enterprises (MSMEs) and a strong Islamic finance ecosystem, underscores the urgency of addressing this gap. Developing a framework that integrates ESG with *maqashid sharia* can enhance Indonesia's competitiveness as a global Islamic finance hub while addressing local challenges like poverty and environmental degradation (Adawiah et al., 2025; Muklis et al., 2025). This research aims to fill this gap by proposing a multidimensional approach that combines ESG and *maqashid* principles to design sustainable Islamic investment strategies tailored to Indonesia's needs (Farhan, 2024).

RESEARCH METHODS

This study employs a descriptive qualitative approach with a systematic literature review method combined with thematic-critical analysis to integrate the ESG framework with *maqashid sharia* in the context of sustainable Islamic financial investment strategies in Indonesia. This approach was chosen to explore in depth the normative and applicative relationship between global sustainability values and ethical principles in Islam (*maqashid sharia*), as well as their relevance in the contemporary Islamic financial landscape. By utilizing a qualitative lens, the research aims to construct a comprehensive conceptual framework that aligns with Indonesia's unique Islamic finance ecosystem. The systematic review ensures a rigorous synthesis of existing knowledge, allowing for a robust exploration of how ESG and *maqashid sharia* can converge to address sustainability challenges in Islamic finance.

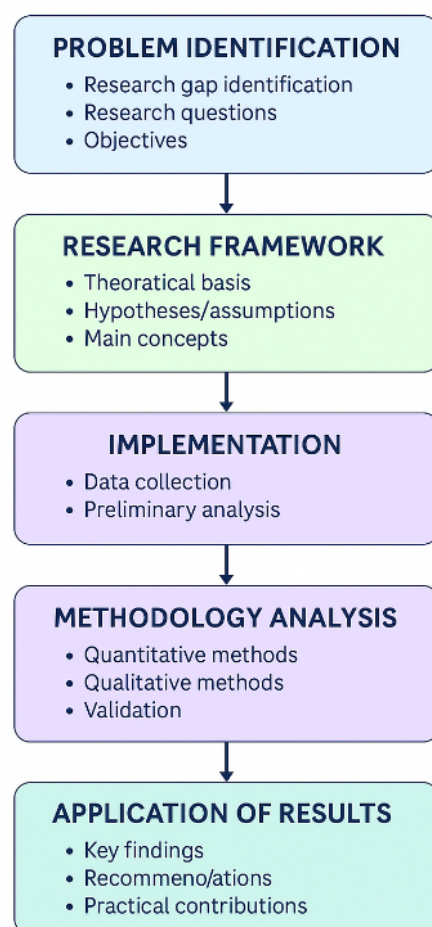


Figure 1. PRISMA Method Flowchart

The data sources consist of articles from scientific journals indexed by Scopus and Web of Science, institutional reports from OJK, the National Sharia Council (*Dewan Syariah Nasional-Majelis Ulama Indonesia/DSN-MUI*), and the Islamic Financial Services Board (IFSB), as well as policy documents and academic books related to green finance and Islamic finance. The selected literature meets strict criteria: (1) published between 2013 and 2024, (2) discusses aspects of ESG, *maqashid sharia*, or sustainable Islamic finance, and (3) employs a clear, scientifically accountable methodology. A total of 27 articles and documents were reviewed as the primary unit of analysis. These sources were systematically identified using the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) protocol, as depicted in Figure 1, which illustrates the process of identification, screening, eligibility, and final synthesis. The PRISMA flowchart ensures transparency in source selection, guiding the study toward a reliable and replicable analysis.

Data collection was conducted through systematic searches on databases such as Scopus, ScienceDirect, JSTOR, and Google Scholar, using keyword combinations like “ESG and Islamic Finance,” “*maqashid sharia* investment,” “Sustainable Islamic Finance,” and “Green Sukuk.” The thematic analysis process involved coding data to identify recurring themes, such as social justice, environmental sustainability, and ethical governance, which were then mapped to ESG and *maqashid sharia* dimensions (Febrina & Abdulah, 2024). Source triangulation and interpretive validation techniques were applied to enhance the credibility of the findings, drawing on the theoretical frameworks of Chapra (2008), Asutay (2012), and Abdullah et al. (2021) as analytical foundations. To address potential bias in literature selection, the study cross-referenced sources across multiple databases and included diverse perspectives from global and Indonesian contexts.

To ensure validity, the researchers cross-checked themes and verified findings with the latest literature. The study’s conceptual and non-empirical nature limits its generalizability to industrial practices, necessitating future quantitative or comparative case studies. To mitigate this limitation, future research could incorporate empirical data from Islamic financial institutions or stakeholder interviews to validate the proposed framework. Additionally, potential biases, such as over-reliance on English-language sources, were addressed by including Indonesian policy documents and local studies to ensure cultural and contextual relevance. This approach strengthens the study’s applicability to Indonesia’s Islamic finance sector while maintaining scientific rigor. Identifying the common values and principles between ESG and *maqashid sharia*. Second, developing an integrative framework for sustainable Islamic financial investment strategies in Indonesia. Third, providing policy recommendations for regulators, Islamic financial institutions, and stakeholders to foster a sustainable Islamic finance ecosystem.

RESULTS

Integrating ESG and Maqashid sharia in Islamic Investment Strategies

The results of the systematic study show that there is a significant conceptual and practical convergence between ESG framework and the core principles in *maqashid sharia*, which together can be the foundation in building a sustainable Islamic financial investment strategy in Indonesia. Conceptually, ESG and *maqashid sharia* both emphasize sustainability, justice, and social responsibility as fundamental principles in economic activities (Rafiki et al., 2025). *Hifz al-mal*, for example, not only covers the preservation of wealth from losses and adverse risks, but also demands trustworthy, transparent, and accountable governance, which is in line with the principles of governance in ESG. In addition, in the contemporary context, a number of Muslim scholars have expanded the scope of *maqashid* by including aspects of environmental conservation or *hifz al-bi’ah* as an integral part of the collective responsibility of the *ummah*. This parallels the “E” pillar of ESG, which demands environmentally sustainable practices such as energy efficiency,

conservation of natural resources, reduction of carbon emissions, and responsible waste management.

In practical implementation, the linkage between the “E” dimension of ESG and *maqashid sharia* can be realized through various Islamic financial products and instruments, one of which is green sukuk. These instruments are not only designed to meet sharia principles, but are also designed to fund projects that have a positive impact on the environment, such as the development of renewable energy, clean water management, and green infrastructure. Data from OJK (2023) states that Indonesia has issued more than USD 6.54 billion in Green Sukuk since 2018, making Indonesia a pioneer in the green sukuk market globally and the first country to issue sovereign green sukuk under the sharia framework. Not only that, a report from the Ziarmal (2025) shows that more than 40% of funds raised through Green Sukuk in Indonesia are used to fund clean energy and environmental conservation projects. This fact proves that ESG integration in the Islamic financial system is not only normative and idealistic, but also feasible and implementable in competitive and sustainability-oriented market practices.

Furthermore, the adoption of ESG values within the framework of *maqashid* also creates added value from the perspective of value alignment with Islamic ethics. This is important because the global Islamic financial market is currently undergoing a shift towards ethical investing, where investors, especially the Muslim millennial generation, are more interested in instruments that are not only legally halal, but also *thayyib* (both socially and ecologically). Research conducted by Hadi et al. (2025) shows that the demand for ESG-based investment instruments in the Islamic financial market has increased by 32% in the last three years. These findings reinforce the argument that strengthening ESG–*maqashid* integration not only expands the Islamic financial market but also increases investor confidence and encourages the formation of an Islamic financial ecosystem that is more resilient and adaptive to the challenges of climate change and social inequality (Taleb & Khater, 2024).

Thus, it can be concluded that the integrative approach between ESG and *maqashid sharia* in Islamic financial investment strategies is not just an idealistic theory but has been proven to have a strong conceptual basis, a wide scope of practice, and empirical evidence demonstrating its economic potential. In the context of Indonesia, which has the largest Muslim population and a rapidly growing Islamic finance ecosystem, this integration is a strategic opportunity to strengthen global competitiveness, deepen Islamic financial inclusion, and contribute to the national and global sustainable development agenda.

Integrative ESG–Maqashid Sharia Framework

The social dimension in the framework of ESG includes fundamental aspects related to human rights, worker welfare, Corporate Social Responsibility (CSR), gender equality, protection of vulnerable groups, and community involvement in the development process (Keenan, 2016). This dimension has a strong wedge with the two main pillars of *maqashid sharia*, namely *hifz al-nafs* (protection of the soul) and *hifz al-nasl* (protection of heredity). The Qur’an strongly emphasizes the sanctity of life, as mentioned in Surah Al-Mā’idah (5): 32.

In the context of Islamic finance, the protection of generational life and sustainability is articulated not only through ethical consumption policies but also through the design of economic systems that support social welfare in an inclusive manner (Maulana, 2025). This includes the provision of equitable access to finance, equitable distribution of wealth, and a social security system based on zakat, infaq, and productive waqf, which are the pillars of Islamic finance that is *rahmatan lil ‘alamin*. This concept is reinforced by Surah Al-Ḥasyr (59): 7.

On a practical level, the concepts of social ESG and *maqashid* are integrated into an Islamic finance approach that emphasizes distributive justice and the value of utility. The success of Islamic financial institutions in integrating Islamic social and ESG principles has been proven to drive the growth of inclusive financial markets. One concrete example

is through the development of green microfinance, which not only provides sharia-based capital for micro business actors, but is also directed towards projects that are environmentally friendly and improve the welfare of the community. This aligns with Surah Al-A'rāf (7): 56.

Programs like this have begun to be developed in a number of entrepreneurial Islamic boarding schools in West Java and West Sumatra, which combine a community-based finance approach with the values of sustainability and social resilience. A study by Shalhoob (2025) even noted that Islamic financial institutions that explicitly apply ESG principles experienced an increase in investor trust of up to 18% compared to institutions that did not adopt the same principles. This shows that Islamic social values and ESG are not just normative ideals, but can be capitalized as a competitive advantage in the market.

The Indonesian context, which has more than 64 million MSME actors, most of which are in the informal and Muslim-based category, makes the potential for ESG–*maqashid* integration a big strategy in expanding Islamic financial inclusion. The Qur'an urges believers to care for future generations, as stated in Surah An-Nisā' (4): 9. This approach will not only strengthen Indonesia's position as a global Islamic financial center, but also address the challenges of social inequality and financial exclusion that still shackle marginalized groups. When ESG encourages companies to be socially responsible, *maqashid* provides a value framework that guides the direction of that responsibility within the framework of spirituality and blessing. The synergy of both values is grounded in the principle of cooperation and collective good, as commanded in Surah Al-Mā'idah (5): 2. By uniting the two, Indonesia can form an Islamic financial investment strategy that is not only environmentally and economically sustainable, but also equitable and human-centered in accordance with the spirit of *maqashid* and the Sustainable Development Goals (SDGs).

Recommendations in a Sustainable Islamic Financial Ecosystem

Governance is the third pillar of the ESG framework, which focuses on the principles of good governance, transparency, accountability, anti-corruption, and the protection of shareholder rights. In the financial world, the governance aspect functions as a control and supervision mechanism for all operational activities, with the aim of ensuring that the company runs fairly, openly, and can be trusted by all stakeholders. This aspect also includes management integrity, which plays a role in maintaining compliance with applicable regulations and standards. Within the framework of *maqashid sharia*, the values contained in this governance are in line with two main principles, namely *al-'adl* (justice) and *amanah* (trust), which are the foundation of Islamic ethics in economic and financial management.

The principle of *al-'adl* in *maqashid sharia* demands transparency and fair distribution in the management of resources. This justice is not only limited to the sharing of profits, but also to fair treatment of all parties involved, including employees, shareholders, and the wider community. *Amanah*, which is the basis of business relationships in Islam, demands that every decision and action taken by management be carried out with integrity and responsibility. Here, the concept of good governance is not only related to risk management, but also to maintaining the trust given by stakeholders. In the context of Islamic finance, the implementation of sharia-based Governance, Risk, and Compliance (GRC) plays an important role in maintaining a system that is not only compliant with sharia principles but also with ESG standards that are increasingly accepted globally.

A report from the Islamic financial services board states that Islamic financial institutions that effectively implement sharia-based GRC systems have a higher level of compliance with sharia regulations, as well as lower reputational risks. It is empirically proven that institutions that adhere to GRC principles that include transparency, accountability, anti-corruption, and social responsibility can avoid legal problems and negative imagery that can harm them in the long run. These institutions show better

performance in maintaining relationships with stakeholders and building market credibility. Therefore, the implementation of good governance principles in Islamic finance is in line with efforts to improve the competitiveness and reputation of these institutions, as well as ensure the sustainability of their growth.

However, despite the similarity of principles between Governance in ESG and *maqashid sharia*, the biggest challenge in this integration is the lack of a framework or standard that comprehensively combines ESG indicators with *Maqashid*. Currently, several initiatives, such as the FTSE4 Good Shariah Index and the Thomson Reuters Ideal Ratings ESG Index, are beginning to accommodate the sharia dimension in ESG assessments, but none have explicitly included *maqashid* as a measure of the balance between economic, social, and spiritual goals in the context of sharia investment. Nonetheless, some studies have shown that indicators such as transparency, internal oversight, and management responsibility in governance can be analyzed in more depth using the *maqashid* framework, which emphasizes the need for fair and trustworthy management in all economic transactions.

The lack of this standard provides room for further development in the research and implementation of ESG-*Maqashid* integration which can be a practical guide for Islamic financial institutions in formulating sustainable investment strategies in accordance with Islamic values. Efforts to create a framework that combines ESG and *Maqashid* indicators will not only strengthen the legitimacy and sustainability of Islamic finance but will also increase the market's attractiveness to sharia-based investment instruments. Indonesia, as the country with the largest Islamic financial market, has a great opportunity to be a pioneer in creating a sustainable Islamic finance model based on *maqashid* values that can be clearly measured through internationally accepted ESG indicators.

DISCUSSION

The integration of ESG principles with *maqashid sharia* offers a transformative framework for sustainable Islamic finance in Indonesia, aligning global sustainability standards with Islamic ethical values. The study reveals a robust conceptual synergy between ESG and *maqashid sharia*, particularly in their shared emphasis on social justice, environmental stewardship, and ethical governance. The environmental pillar of ESG, which prioritizes ecological sustainability, resonates with the *Maqashid* principle of *hifz al-bi'ah*, an extension of protecting life and property by preserving the environment (Zain et al., 2024). Similarly, the social dimension of ESG, encompassing human rights and community welfare, aligns with *Hifz al-Nafs* and *Hifz al-Nasl*, which emphasize the sanctity of life and the protection of future generations, as reflected in Qur'anic verses like Surah Al-Mā'idah (5):32 and Surah An-Nisā' (4):9. Governance in ESG, focusing on transparency and accountability, mirrors the *Maqashid* principles of *al-'adl* and *amanah*, ensuring ethical financial practices (Asutay, 2012). This alignment suggests that integrating ESG with *maqashid sharia* can create a holistic investment framework that is both sharia-compliant and globally relevant.

However, the practical application of this integration in Indonesia faces significant challenges. Despite the conceptual harmony, the study highlights that discourse on ESG-*Maqashid* integration outpaces the development of regulatory and market infrastructure. Abozaid (2016) notes that the Islamic finance industry often struggles with internal challenges, such as inconsistent sharia compliance and limited adoption of sustainability metrics, which hinder systemic integration. The lack of standardized ESG-*Maqashid* indicators further complicates implementation, as current frameworks like the FTSE4 Good Shariah Index do not fully incorporate the spiritual and social depth of *Maqashid* (Abdullah et al., 2021). In Indonesia, while initiatives like Green Sukuk demonstrate progress, evidenced by over USD 6.54 billion issued since 2018, the broader adoption of ESG principles within Islamic financial institutions remains limited. Friede et al. (2015) emphasize that ESG integration enhances long-term financial performance, yet many

Indonesian Islamic financial institutions prioritize short-term profitability over sustainability, reflecting a gap between normative ideals and operational realities.

The potential of ESG-*Maqashid* integration is particularly significant in Indonesia, given its position as the world's largest Muslim-majority country and a growing hub for Islamic finance. The study underscores the role of instruments like waqf sukuk and green sharia mutual funds, which align with both ESG's environmental and social goals and *Maqashid*'s focus on collective welfare (Awang et al., 2025; Sari et al., 2025; Wulandari & Aziz, 2025). For instance, the MUI (2025) estimates untapped waqf potential at over 180 trillion, which could finance sustainable projects like renewable energy or community infrastructure, aligning with *hifz al-bi'ah* and *hifz al-nafs*. Moreover, the rising demand for ethical investments among Muslim millennials, as noted by Hadi et al. (2025), highlights a market opportunity to develop ESG-compliant sharia products. However, Agustin et al. (2023) argue that without enhanced financial literacy and regulatory support, the scalability of such instruments remains constrained, particularly in addressing Indonesia's vast MSME sector.

The implications of this integration are profound for both theory and practice. Islamic finance discourse by bridging global sustainability frameworks with Islamic ethical principles, offering a multidimensional approach to investment strategy development. It provides a blueprint for Islamic financial institutions to design competitive, sharia-compliant products that meet global sustainability standards, such as green sukuk or zakat-based social bonds. To realize this potential, collaboration among regulators, industry players, and academics is critical to develop standardized ESG-*maqashid* indicators and enhance financial literacy. Such efforts could position Indonesia as a global leader in sustainable Islamic finance, contributing to the SDGs while addressing social and environmental challenges. Ultimately, this integrative approach can transform Indonesia's Islamic finance ecosystem into one that is not only profitable but also equitable and sustainable, aligning with the ethical imperatives of both ESG and *maqashid sharia*.

CONCLUSION

The integration of ESG principles with *maqashid sharia* presents a transformative approach to developing sustainable Islamic financial investment strategies in Indonesia. This synergy creates a robust framework that aligns global sustainability standards with Islamic ethical values, emphasizing social justice, environmental stewardship, and transparent governance. By embedding *maqashid sharia*'s core objectives, protection of religion, life, intellect, lineage, and property, within the ESG framework, Islamic finance can offer investment solutions that are not only sharia-compliant but also responsive to contemporary challenges like climate change and social inequality. This integrative model positions Indonesia's Islamic finance sector to meet the growing demand for ethical and sustainable investments, fostering a financial ecosystem that balances economic growth with social and environmental responsibility, thereby enhancing its global competitiveness.

The implications of this integration are significant, offering a pathway for Islamic financial institutions to design innovative, sharia-compliant products like green sukuk and waqf-based investments that support sustainable development goals. However, this study's conceptual nature limits its ability to provide empirical evidence of practical implementation, highlighting the need for further quantitative research and case studies to validate the proposed framework. Future research should focus on developing standardized ESG-*maqashid* indicators and testing their applicability in real-world Islamic finance settings. Collaboration among regulators, industry players, and academics is essential to create supportive policies and enhance financial literacy, ensuring the scalability and impact of this integrative approach in transforming Indonesia's Islamic finance landscape.

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