

The Effect of Islamic Bank Financing Performance on the Achievement of Maqashid Shariah and Economic Sustainability in Indonesia

*Islamic Bank
Financing
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ABSTRACT

This study examines the effect of Islamic bank financing performance on the achievement of Maqashid Shariah and economic sustainability in Indonesia during the 2020–2024 period. The study is grounded in the view that Islamic banking should not be oriented solely toward profitability, but must also fulfill broader social, ethical, and developmental objectives in accordance with Islamic principles. A quantitative approach was employed using Structural Equation Modeling–Partial Least Squares (SEM-PLS). The analysis was based on secondary data collected from 10 Islamic commercial banks in Indonesia, annual financial reports, Financial Services Authority statistics, and Bank Indonesia publications. Financing performance was measured using indicators such as Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), Return on Assets (ROA), and Operational Efficiency Ratio (BOPO), while Maqashid Shariah was represented by the dimensions of education, justice, and public welfare, and economic sustainability was reflected in green financing, financial inclusion, and sustainable economic contribution. The results show that financing performance has a positive and significant effect on the achievement of Maqashid Shariah. Furthermore, Maqashid Shariah has a positive and significant effect on economic sustainability. The findings also confirm that Maqashid Shariah mediates the relationship between financing performance and economic sustainability. These results imply that the effectiveness of Islamic bank financing should be assessed not only through financial indicators but also through its contribution to social welfare and sustainable economic development. This study contributes to the literature on Islamic banking by integrating performance, maqashid orientation, and sustainability into a single analytical framework and offers practical implications for regulators and Islamic banking institutions in strengthening value-based financial intermediation.

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Keywords: Islamic bank financing performance, Maqashid Shariah, economic sustainability, Islamic banking, SEM-PLS, Indonesia

ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh kinerja pembiayaan bank syariah terhadap pencapaian maqashid syariah dan keberlanjutan ekonomi di Indonesia pada periode 2020–2024. Penelitian ini didasarkan pada pandangan bahwa perbankan syariah tidak seharusnya hanya berorientasi pada profitabilitas, tetapi juga harus memenuhi tujuan sosial, etis, dan pembangunan yang lebih luas sesuai dengan prinsip-prinsip syariah. Penelitian menggunakan pendekatan kuantitatif dengan metode Structural Equation Modeling–Partial Least Squares (SEM-PLS). Analisis didasarkan pada data sekunder yang diperoleh dari 10 bank umum syariah di Indonesia, laporan keuangan tahunan, statistik Otoritas Jasa Keuangan, dan publikasi Bank Indonesia. Kinerja pembiayaan diukur melalui indikator Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), Return on Assets (ROA), dan rasio efisiensi operasional (BOPO), sedangkan maqashid syariah direpresentasikan melalui dimensi pendidikan, keadilan, dan kemaslahatan, serta keberlanjutan ekonomi tercermin dari pembiayaan

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hijau, inklusi keuangan, dan kontribusi terhadap pembangunan ekonomi berkelanjutan. Hasil penelitian menunjukkan bahwa kinerja pembiayaan berpengaruh positif dan signifikan terhadap pencapaian maqashid syariah. Selanjutnya, maqashid syariah juga berpengaruh positif dan signifikan terhadap keberlanjutan ekonomi. Temuan penelitian ini juga menegaskan bahwa maqashid syariah memediasi hubungan antara kinerja pembiayaan dan keberlanjutan ekonomi. Hasil tersebut mengindikasikan bahwa efektivitas pembiayaan bank syariah perlu dinilai tidak hanya berdasarkan indikator keuangan, tetapi juga dari kontribusinya terhadap kesejahteraan sosial dan pembangunan ekonomi berkelanjutan. Penelitian ini berkontribusi pada pengembangan literatur perbankan syariah dengan mengintegrasikan kinerja, orientasi maqashid, dan keberlanjutan dalam satu kerangka analitis, serta memberikan implikasi praktis bagi regulator dan institusi perbankan syariah dalam memperkuat intermediasi keuangan berbasis nilai.

Kata kunci: kinerja pembiayaan bank syariah, maqashid syariah, keberlanjutan ekonomi, perbankan syariah, SEM-PLS, Indonesia

INTRODUCTION

Islamic banking in Indonesia has developed significantly over the last decade and has become increasingly strategic during the 2020–2024 period, which was marked by post-pandemic recovery, financial digitalization, and growing demands for sustainable economic development. Although Indonesia has the largest Muslim population in the world, the market share of Islamic banking remains relatively limited compared to conventional banking. Nevertheless, Islamic banks continue to contribute to the stability of the national banking system through the growth of financing and deposits, even though their profitability and broader developmental role are still under continuous evaluation (Rizvi et al., 2020). At the same time, the industry faces important structural challenges, including regulatory complexity, overlapping supervisory functions, and the need to strengthen sharia compliance in a rapidly changing financial environment (Yusmad et al., 2025). In addition, the expansion of financing products, particularly equity-based contracts, offers higher developmental potential but also creates greater risk exposure, thereby requiring stronger risk management and more balanced financing strategies (Sari et al., 2024). These conditions indicate that the performance of Islamic banking should not be assessed solely on the basis of conventional financial indicators, but also on its capacity to generate broader social and economic benefits.

From the perspective of Islamic economics, the performance of Islamic banks should be aligned with the objectives of Maqashid Shariah, which emphasize not only profitability but also justice, welfare, and the protection of essential human interests. Maqashid Shariah provides a normative foundation for Islamic finance by placing financial intermediation within broader ethical and social objectives, including the protection of religion, life, intellect, lineage, and wealth (Güney, 2024). In the banking context, this perspective implies that Islamic banks are expected to function not merely as profit-seeking institutions, but also as agents of inclusive development that promote fairness, education, welfare, and social responsibility. Previous studies have shown that the achievement of maqashid-oriented performance is influenced by governance quality, including the effectiveness of sharia supervisory mechanisms and the institutional commitment of Islamic financial institutions to ethical objectives (Mergaliyev et al., 2021; Taufik et al., 2023). Moreover, Maqashid Shariah is increasingly considered compatible with the broader agenda of sustainable development because both frameworks emphasize human well-being, justice, and long-term societal benefit (Taufik et al., 2023; Khandakar et al., 2025).

In parallel, the discourse on economic sustainability has shifted the evaluation of banking performance beyond traditional measures such as profitability, liquidity, and efficiency. In Islamic finance, economic sustainability is closely associated with financial

inclusion, green financing, support for MSMEs, and long-term value creation that is consistent with ethical and social objectives. Empirical studies suggest that sustainability practices in Islamic banking are positively associated with financial performance and stakeholder value, although the strength and direction of such relationships are not always consistent across contexts (Jan et al., 2019; Faizulayev, 2025). Islamic banks are also argued to possess inherent structural advantages in promoting sustainable finance because sharia principles encourage prudence, real-sector linkage, fairness, and risk sharing. However, other studies indicate that sustainability performance may not automatically translate into stronger profitability, especially when governance quality, disclosure practices, and strategic alignment remain weak (Kashi et al., 2025). This suggests that the relationship between Islamic banking performance and economic sustainability is complex and may depend on the extent to which Islamic financial institutions genuinely embed maqashid values into their financing behavior (Paltrinieri et al., 2020).

The Indonesian context provides a particularly important setting for examining this issue. Post-pandemic Islamic financing in Indonesia has shown promising growth, especially in relation to MSME financing, financial inclusion, and green economic initiatives (Faizi et al., 2024). Sharia-based fintech has also contributed to reducing financing barriers for MSMEs and supporting inclusive entrepreneurship, although challenges such as digital literacy and ecosystem readiness remain significant (Anggara et al., 2024; Rokhlinasari et al., 2025). In addition, Islamic financing in Indonesia has been linked to economic growth through working capital, investment, and household financing, while instruments such as green sukuk and green banking services are increasingly promoted as channels for sustainable development (Rofik et al., 2025; Faizi et al., 2024). Regulatory support from OJK and DSN-MUI has further strengthened the ecosystem of sharia financing and encouraged more inclusive financial innovation (Noviarita et al., 2025). Despite these developments, the extent to which financing performance contributes to the realization of Maqashid Shariah and ultimately strengthens economic sustainability remains insufficiently examined in a unified empirical framework.

Previous studies have generally examined the relationships among Islamic banking performance, Maqashid Shariah, and sustainability in partial ways. Some studies focus on maqashid-based performance measurement, while others emphasize sustainability practices, green finance, or the contribution of Islamic finance to the Sustainable Development Goals. Several studies report that Islamic banks with stronger maqashid orientation tend to contribute more positively to sustainable development, including through green financing and inclusive finance (Taslina Julia et al., 2020; Radin et al., 2024). However, empirical results remain mixed across countries and time periods. Research in Bangladesh, for example, suggests relatively strong maqashid achievement through green financing, whereas studies in other jurisdictions indicate that environmental and social dimensions remain underdeveloped compared to economic dimensions (Mergaliyev et al., 2021). These variations imply that maqashid-based performance and sustainability outcomes are shaped by contextual factors such as governance structure, ownership, socio-political environment, and the maturity of Islamic financial institutions. Therefore, the existing literature has not yet reached a consistent conclusion regarding how financing performance affects economic sustainability and whether Maqashid Shariah serves as a key explanatory mechanism in that relationship.

Based on the above discussion, this study identifies three main research gaps. First, the empirical gap lies in the inconsistency of prior findings regarding the relationship between Islamic banking performance, maqashid achievement, and economic sustainability across different countries and institutional settings. Second, the contextual gap arises because limited studies have specifically examined Indonesian Islamic commercial banks during the 2020–2024 period, a critical phase characterized by post-pandemic recovery, digital acceleration, and expanding sustainability agendas. Third, the analytical gap lies in the limited number of studies that integrate financing performance, Maqashid Shariah, and economic sustainability into a single causal framework, particularly by positioning

Maqashid Shariah as a mediating variable. Existing studies tend to examine these constructs separately, thereby leaving the mechanism through which Islamic bank financing contributes to sustainable economic outcomes insufficiently explained.

Accordingly, the novelty of this study lies in its effort to develop an integrated analytical framework that links Islamic bank financing performance, the achievement of Maqashid Shariah, and economic sustainability within the context of Indonesia. Unlike prior studies that predominantly focus either on financial performance or on maqashid and sustainability in isolation, this study examines the mediating role of Maqashid Shariah in explaining how financing performance can be translated into broader sustainable economic outcomes. The study also offers contextual novelty by focusing on the 2020–2024 period, which reflects an important transition in the Indonesian Islamic banking industry shaped by recovery pressures, digital transformation, and sustainability-oriented policy developments. Therefore, this research is expected to contribute theoretically by strengthening the linkage between Islamic banking performance theory and maqashid-based sustainability perspectives, and practically by providing insights for regulators and Islamic banking managers in designing value-based and sustainability-oriented financing strategies.

Research Objectives

1. To analyze the trends in Islamic bank financing performance in Indonesia during the 2020–2024 period.
2. To measure the achievement of Maqashid Shariah through the financing activities of Islamic banks.
3. To examine the effect of Islamic bank financing performance on economic sustainability.
4. To formulate strategic recommendations for strengthening the role of Islamic financing in promoting sustainable economic development.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Islamic Bank Financing Performance

Financing performance reflects the effectiveness of Islamic banks in channeling funds to the real sector in accordance with sharia principles and prudential banking practices (Bashir & Ahmad, 2021). In the context of Islamic banking, financing performance is commonly assessed using several financial indicators, including Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), Return on Assets (ROA), Return on Equity (ROE), and Operational Efficiency Ratio (BOPO). These indicators provide a comprehensive picture of the bank's liquidity, asset quality, profitability, and operational efficiency.

In the Indonesian Islamic banking industry, financing performance is generally interpreted as the ability of Islamic banks to allocate financing productively, maintain financing quality, and generate sustainable profitability. A higher FDR may indicate a stronger intermediation function, although excessive financing expansion may also increase risk exposure if it is not accompanied by sound risk management. By contrast, a lower NPF reflects better financing quality and healthier asset management. Meanwhile, ROA and ROE are important indicators of profitability, while BOPO reflects the degree of operational efficiency achieved by the bank. Previous studies show that financing performance is influenced by the interaction between financing growth, financing quality, and operational control, all of which determine the sustainability of Islamic bank intermediation (Ascarya, 2022; Karim & Affandi, 2021).

The literature also suggests that financing performance is shaped by both internal and external factors. Internally, risk management quality, governance, operational efficiency, and financing portfolio composition influence the effectiveness of Islamic bank financing. Externally, macroeconomic conditions, regulatory changes, and market dynamics also affect financing outcomes (Rizvi et al., 2020; Sari et al., 2024). Several scholars further argue that evaluating Islamic bank performance solely through conventional financial

ratios is insufficient because Islamic banking is expected to fulfill not only commercial objectives but also broader social and ethical functions. Therefore, financial indicators should be complemented by sharia-based performance dimensions in order to generate a more holistic assessment of Islamic banking performance (Mohammed et al., 2015; Sarea & Hanefah, 2021).

The post-pandemic period has also changed the landscape of Islamic bank financing performance. Digitalization, financial technology adoption, and innovation in service delivery have contributed to improvements in financing efficiency and customer accessibility. At the same time, risk management has become increasingly important in ensuring that financing remains productive and resilient amid uncertainty. Research indicates that the integration of digital technology in Islamic finance enhances service efficiency and supports financing productivity, particularly during and after the COVID-19 crisis (Ascarya, 2022; Karim & Affandi, 2021). Accordingly, the performance of Islamic bank financing in the 2020–2024 period should be viewed not only in terms of financial strength, but also in relation to the strategic adaptation of Islamic banks to crisis recovery, digital transformation, and sustainability demands.

Maqashid Shariah and the Measurement Index

Maqashid Shariah refers to the higher objectives of Islamic law, which aim to protect and promote human well-being through the preservation of religion, life, intellect, lineage, and wealth (Auda, 2021; Güney, 2024). In the context of Islamic banking, Maqashid Shariah provides a normative and ethical foundation that distinguishes Islamic financial institutions from conventional ones. Islamic banks are therefore expected not only to pursue profitability, but also to contribute to justice, education, public welfare, and inclusive social development (Dusuki & Bouheraoua, 2020; Chapra, 2021).

According to Abu Zahrah, as further operationalized by Mohammed et al. (2008; 2015), Maqashid Shariah in Islamic banking can be represented through three key dimensions: tahdhib al-fard (individual education), iqamah al-'adl (the establishment of justice), and jalb al-maslahah (the promotion of public welfare). These dimensions are widely used in the development of the Maqashid Shariah Index (MSI), which serves as a tool for evaluating the extent to which Islamic banks fulfill their sharia-based objectives in practice. Through this framework, Islamic banking performance can be assessed not only in terms of financial achievement, but also in terms of its contribution to ethical, social, and developmental goals (Mohammed & Taib, 2020; Omar & Rahman, 2021).

The Maqashid Shariah Index has become an important approach in contemporary Islamic banking research because it translates normative Islamic values into measurable performance indicators. Several studies have developed maqashid-based measurement models to assess whether Islamic banking operations reflect values such as justice, transparency, welfare, and compliance with sharia principles (Sarea & Hanefah, 2021; Azis & Rahman, 2023; Rahmi et al., 2025). In many cases, the development of MSI is linked to disclosure quality, Islamic social reporting, governance effectiveness, and internal sharia supervision. This indicates that maqashid performance is not merely a theoretical concept, but can be operationalized through institutional policies, reporting practices, and governance mechanisms (Kassim & Abdullah, 2021; Lahsasna, 2020).

Moreover, the relevance of Maqashid Shariah has expanded beyond its classical legal meaning and is now closely connected to broader contemporary concerns such as sustainability, social inclusion, and ethical governance. In Islamic finance, maqashid-based evaluation supports the view that banking institutions should protect public interest, promote fairness in financial transactions, and contribute to long-term social welfare (Alhammedi et al., 2020; Taufik et al., 2023). Therefore, incorporating the Maqashid Shariah Index into Islamic banking research enables a more comprehensive assessment of how Islamic banks create value not only for shareholders, but also for society at large.

Economic Sustainability from the Perspective of Islamic Finance

Economic sustainability refers to the ability of an economic system to generate long-term prosperity while maintaining social justice, institutional resilience, and environmental balance. In the perspective of Islamic finance, economic sustainability is

closely aligned with the principles of Maqashid Shariah because both emphasize justice, welfare, responsibility, and intergenerational benefit (Alhammedi et al., 2020; Hasan & Lewis, 2023). As a result, Islamic finance is not only expected to support economic growth, but also to ensure that such growth is inclusive, ethical, and environmentally responsible.

Within the Islamic finance framework, economic sustainability is commonly associated with several strategic dimensions, including green financing, financial inclusion, and financing support for micro, small, and medium enterprises (MSMEs). These instruments represent practical channels through which Islamic banking can contribute to sustainable development. Green financing reflects the commitment of Islamic financial institutions to environmentally responsible investment. Financial inclusion ensures that underserved communities gain access to financial services. Meanwhile, MSME financing supports productive entrepreneurship, employment creation, and equitable economic participation (Aziz & Salleh, 2023; Banna & Alam, 2024; Majeed & Zainudin, 2020).

The literature suggests that the integration of sustainability principles into Islamic finance may strengthen the long-term relevance and legitimacy of Islamic banking. Islamic financial institutions are often considered well positioned to support sustainability because their foundational principles encourage real-sector linkage, fairness, ethical investment, and social responsibility (Ahmed & Asutay, 2020; Laldin & Furqani, 2021). At the same time, empirical studies indicate that the sustainability performance of Islamic banks is still uneven. While some Islamic banks demonstrate strength in economic and governance dimensions, the integration of environmental and social aspects remains less developed in many contexts (Rosman & Nor, 2021; Hassan et al., 2021). This implies that sustainability in Islamic banking should be understood as a multidimensional construct that requires institutional commitment, strategic alignment, and measurable performance indicators.

In addition, Islamic social finance instruments such as zakat, waqf, and qard al-hasan strengthen the connection between Islamic finance and sustainable development by promoting redistribution, inclusion, and social justice in line with the Sustainable Development Goals (Bahari & Rahman, 2020; Farooq & El-Galfy, 2021). Similarly, green Islamic finance instruments, including green sukuk and environmentally oriented financing products, have emerged as important tools for supporting renewable energy, clean technology, and low-carbon development (Biancone & Radwan, 2020; Sukmana, 2022). Empirical evidence also suggests that sectoral financing by Islamic banks can contribute positively to environmental sustainability and inclusive economic growth, especially when financing is directed toward productive and socially beneficial sectors (Abduh & Othman, 2021; Nursyamsi & Huda, 2023). Therefore, economic sustainability in Islamic finance is best understood as the capacity of Islamic financial institutions to create enduring economic value while simultaneously advancing social welfare and environmental stewardship in accordance with Islamic ethical principles.

Previous Research

Previous studies have highlighted the growing relevance of integrating Maqashid Shariah, Islamic banking performance, and economic sustainability within a unified analytical perspective. Noor and Mohammed (2022) reported a positive relationship between the Maqashid Shariah Index and sustainability, indicating that Islamic financial institutions that better fulfill maqashid-oriented objectives are more likely to create broader social and economic value. Similarly, Ibrahim and Omar (2022) examined the contribution of Islamic banks to the Sustainable Development Goals (SDGs) and concluded that value-based financing grounded in maqashid principles can strengthen the developmental role of Islamic banking in promoting inclusive and sustainable growth.

In the Indonesian context, Rahman and Karim (2024) found that Maqashid Shariah plays an important role in strengthening the relationship between financial performance and sustainable economic development. Their findings suggest that the developmental impact of Islamic banking becomes more substantial when banking operations are aligned

with maqashid-oriented objectives. In addition, Khan and Rashid (2022) demonstrated that Islamic financing has a significant positive effect on sustainable economic growth, thereby confirming the strategic role of Islamic finance in fostering inclusive and long-term economic development.

Other studies have also emphasized the need to move beyond conventional financial indicators in evaluating the performance of Islamic banks. Maqashid-based performance models have been developed to assess whether Islamic banking activities are aligned with broader sharia objectives, including justice, welfare, and social responsibility. In this regard, maqashid-based evaluation frameworks are considered more appropriate than purely conventional indicators because they capture both the financial and ethical dimensions of Islamic banking operations (Mohammed et al., 2015; Sarea & Hanefah, 2021; Omar & Rahman, 2021). These studies collectively suggest that Islamic banking performance should be evaluated through a more holistic lens that incorporates both commercial achievement and value-based outcomes.

Overall, the previous literature confirms that the integration of Maqashid Shariah into financing practices and performance measurement can enhance the contribution of Islamic banking to economic and social sustainability. However, prior studies have generally examined these relationships in a partial manner, either focusing on maqashid-based measurement, Islamic financing, or sustainability outcomes separately. As a result, the causal mechanism linking financing performance, the achievement of Maqashid Shariah, and economic sustainability remains insufficiently explored. Therefore, further research is needed to integrate these dimensions into a single analytical framework, particularly in the context of Indonesian Islamic banking during the 2020–2024 period.

Conceptual Framework

This study is built on the assumption that the performance of Islamic bank financing does not only reflect the success of financial intermediation, but also determines the extent to which Islamic banks are able to achieve Maqashid Shariah and contribute to broader economic sustainability. Financing performance, as reflected in indicators such as liquidity, financing quality, profitability, and operational efficiency, represents the institutional capacity of Islamic banks to allocate funds effectively and productively. When financing is managed efficiently and directed toward productive sectors, Islamic banks are more likely to fulfill maqashid-oriented objectives, including educational development, social justice, and public welfare (Mohammed et al., 2015; Sarea & Hanefah, 2021).

Furthermore, the achievement of Maqashid Shariah is expected to strengthen the contribution of Islamic banking to economic sustainability. In the context of Islamic finance, economic sustainability is reflected in the support of Islamic banks for inclusive development, green financing, financial inclusion, and the financing of productive sectors such as MSMEs. A stronger maqashid orientation implies that Islamic banks operate not only for short-term profitability, but also for long-term social and developmental value creation (Ahmed & Asutay, 2020; Hasan & Lewis, 2023). Therefore, Maqashid Shariah is positioned in this study as an intervening variable that explains how financing performance can be translated into sustainable economic outcomes.

Based on this reasoning, the conceptual framework of this study proposes that Islamic bank financing performance influences the achievement of Maqashid Shariah, which in turn affects economic sustainability. In addition, financing performance may also have a direct effect on economic sustainability because productive, efficient, and inclusive financing can immediately support sustainable economic development. However, the inclusion of Maqashid Shariah as a mediating variable provides a more comprehensive explanation of the value-based mechanism through which Islamic bank financing contributes to sustainability. Accordingly, this study integrates three main constructs, namely financing performance, Maqashid Shariah, and economic sustainability, into a single analytical framework in order to explain both the direct and indirect relationships among them.

The conceptual relationship among variables in this study can be illustrated as follows:

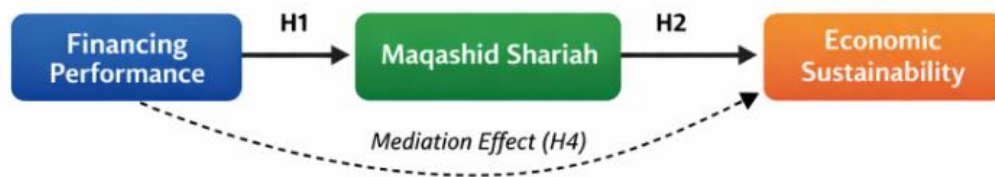


Fig 1. Conceptual Framework

In addition, financing performance is also expected to influence economic sustainability directly. This framework reflects the argument that Islamic bank performance should be evaluated not only from financial achievement, but also from its ability to fulfill maqashid-based objectives and promote sustainable development.

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Research Hypothesis

Based on the theoretical review and previous empirical findings, this study formulates the following hypotheses:

H1: Islamic bank financing performance has a positive effect on the achievement of Maqashid Shariah. This hypothesis is based on the argument that stronger financing performance reflects a better capacity of Islamic banks to channel funds effectively, maintain financing quality, and generate institutional stability. These conditions enable Islamic banks to perform their broader social and ethical roles more effectively, thereby strengthening the achievement of maqashid-oriented objectives such as justice, welfare, and educational contribution (Mohammed et al., 2015; Sarea & Hanefah, 2021).

H2: Maqashid Shariah has a positive effect on economic sustainability. This hypothesis is grounded in the view that the stronger the implementation of maqashid principles in Islamic banking operations, the greater the contribution of Islamic banks to inclusive and sustainable economic development. Islamic banks that emphasize justice, public welfare, and ethical responsibility are more likely to support green financing, financial inclusion, and productive sector financing, all of which are essential components of economic sustainability (Alhammadi et al., 2020; Ahmed & Asutay, 2020; Hasan & Lewis, 2023).

H3: Islamic bank financing performance has a positive effect on economic sustainability. This hypothesis reflects the assumption that stronger financing performance directly enhances the ability of Islamic banks to support sustainable economic outcomes. Efficient and productive financing contributes to capital circulation in the real sector, improves financial inclusion, and supports the financing needs of MSMEs and environmentally responsible sectors, thereby promoting sustainable economic growth (Khan & Rashid, 2022; Nursyamsi & Huda, 2023).

H4: Maqashid Shariah mediates the relationship between Islamic bank financing performance and economic sustainability. This hypothesis is based on the argument that the impact of financing performance on sustainability is not only direct, but also value-driven. Financing performance becomes more meaningful for long-term sustainability when it is aligned with maqashid-oriented objectives. In this sense, Maqashid Shariah serves as an explanatory mechanism through which the financial strength of Islamic banks is translated into broader social and economic benefits (Rahman & Karim, 2024; Ibrahim & Omar, 2022).

RESEARCH METHODOLOGY

This study employs a quantitative research approach with an explanatory design to examine the causal relationships among financing performance, Maqashid Shariah, and economic sustainability in Islamic commercial banks in Indonesia. The study applies Structural Equation Modeling–Partial Least Squares (SEM-PLS) as the main analytical method because it is suitable for testing direct and indirect relationships among latent variables and for explaining the mediating role of Maqashid Shariah in the proposed model.

The population of this study consists of all Islamic Commercial Banks (Bank Umum Syariah) operating in Indonesia. The sample was determined using a purposive sampling

technique, with the criterion that the selected banks must have complete and accessible annual data for the 2020–2024 period.

Based on this criterion, the final sample consists of 10 Islamic commercial banks in Indonesia. The observation period covers five years, from 2020 to 2024, so that the study uses a combination of cross-sectional and time-series data. The use of this period is relevant because it captures the post-pandemic recovery phase, the acceleration of financial digitalization, and the growing emphasis on sustainable finance in Indonesia.

This study uses secondary data obtained from authoritative and publicly accessible sources. The data were collected from: Islamic Banking Statistics published by the Financial Services Authority (OJK) for the period 2020–2024; Annual reports and financial statements of Islamic commercial banks included in the sample; and Publications issued by Bank Indonesia (BI) and Badan Pusat Statistik (BPS), particularly those related to supporting macroeconomic data. These data sources were selected to ensure the reliability, consistency, and comparability of the observed indicators across banks and over time.

The application of SEM-PLS in this study is justified by the nature and objective of the analysis. Although the dataset has a panel structure, combining cross-sectional observations of Islamic commercial banks with time-series observations from 2020 to 2024, the main purpose of this research is to examine the relationships among latent constructs rather than to estimate conventional panel regression coefficients. SEM-PLS is suitable because it enables the simultaneous testing of the measurement model and the structural model, allowing abstract variables such as Financing Performance, Maqashid Shariah, and Economic Sustainability to be analyzed through their indicators. Furthermore, PLS-SEM is appropriate for predictive and explanatory research, is robust for relatively small samples, and does not impose strict distributional assumptions. For these reasons, SEM-PLS is considered methodologically acceptable for analyzing pooled panel-based observations in this study.

This study consists of three main variables: financing performance as the independent variable, Maqashid Shariah as the mediating variable, and economic sustainability as the dependent variable.

Financing Performance (Independent Variable). Financing performance reflects the effectiveness of Islamic banks in managing financing activities and maintaining financial soundness. This variable is measured using the following indicators: Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), Return on Assets (ROA), Return on Equity (ROE) and Operational Efficiency Ratio (BOPO) These indicators are commonly used to assess liquidity, asset quality, profitability, and operational efficiency in Islamic banking (OJK, 2024; Ascarya, 2022).

Maqashid Shariah (Mediating Variable). Maqashid Shariah reflects the extent to which Islamic banks achieve sharia-based objectives in their operations. This variable is measured using the Maqashid Shariah Index (MSI), which includes three main dimensions: Education (Tahdhib al-Fard), Justice (Iqamah al-‘Adl), Public Welfare (Jalb al-Maslahah). The measurement of this variable refers to the framework developed by Mohammed et al. (2008) and further discussed by Sarea and Hanefah (2021).

Economic Sustainability (Dependent Variable). Economic sustainability refers to the contribution of Islamic banking to long-term and inclusive economic development. This variable is measured through several indicators, including: Green financing, Financial inclusion, Support for productive economic growth These indicators are used to capture the extent to which Islamic bank financing contributes to sustainable economic development in accordance with Islamic finance principles (Ahmed & Asutay, 2020; Hasan & Lewis, 2023).

The data analysis in this study is conducted in several stages. First, descriptive statistical analysis is used to examine the trends of financing performance, Maqashid Shariah, and economic sustainability during the 2020–2024 period. Second, the study evaluates the measurement model (outer model) to assess the validity and reliability of the constructs. This includes testing convergent validity, discriminant validity, composite

reliability, and Cronbach’s alpha. Third, the structural model (inner model) is analyzed to test the direct effects among variables and the explanatory power of the model. This stage includes the assessment of path coefficients, coefficient of determination (R^2), and predictive relevance. Fourth, the mediation effect of Maqashid Shariah on the relationship between financing performance and economic sustainability is tested through the indirect effect analysis within the SEM-PLS framework. The significance of the mediation effect is examined using the bootstrapping procedure.

The validity and reliability of the constructs are assessed using the SEM-PLS measurement model. Convergent validity is evaluated through outer loading values and the Average Variance Extracted (AVE), where an AVE value above 0.50 indicates acceptable validity. Discriminant validity is assessed using the Fornell–Larcker criterion and/or the Heterotrait–Monotrait Ratio (HTMT). Meanwhile, construct reliability is evaluated using Composite Reliability and Cronbach’s Alpha, with threshold values above 0.70 indicating satisfactory reliability.

RESULTS

This study focuses on 10 Islamic Commercial Banks operating in Indonesia during the 2020–2024 period, namely Bank Syariah Indonesia (BSI), Bank Muamalat Indonesia, Bank Mega Syariah, Bank Panin Dubai Syariah, Bank Victoria Syariah, Bank Aladin Syariah, Bank NTB Syariah, Bank Aceh Syariah, Bank BPD DIY Syariah, and Bank BJB Syariah. Secondary data were collected from official publications of the Financial Services Authority (OJK) as well as from the annual reports of each selected bank.

Table 1 Descriptive Statistics of Research Variables

Variables	Indicator	2020 average	2021	2022	2023	2024
Financing Performance (X)	FDR (%)	80.4	82.1	84.5	87.2	88.0
	NPF (%)	3.3	3.1	2.8	2.5	2.4
	ROA (%)	1.2	1.4	1.7	1.9	2.1
	BOPO (%)	88.5	85.2	83.9	82.1	81.3
Maqashid Syariah (Z)	MSI Index	0.68	0.72	0.75	0.79	0.82
	ESG Index– Islamic Finance	0.55	0.61	0.68	0.73	0.78

Source: Primary Data

Table 1 shows that during the 2020–2024 period, all research variables exhibited a positive trend. In terms of Financing Performance, the FDR increased from 80.4% in 2020 to 88.0% in 2024, indicating a stronger intermediation function of Islamic banks in channeling funds into financing activities. At the same time, NPF declined from 3.3% to 2.4%, suggesting an improvement in financing quality and risk management. The ROA rose from 1.2% to 2.1%, reflecting improved profitability, while BOPO fell from 88.5% to 81.3%, indicating greater operational efficiency. Collectively, these figures suggest that the financing performance of Islamic banks improved consistently during the observation period.

For the Maqashid Shariah variable, the MSI Index increased from 0.68 in 2020 to 0.82 in 2024. This trend indicates that the achievement of maqashid-oriented objectives became stronger over time. Similarly, the ESG Index – Islamic Finance, as a proxy for Economic Sustainability, increased from 0.55 to 0.78, showing that the sustainability orientation of Islamic banking also improved during the same period. Overall, the descriptive results imply that better financing performance was followed by stronger Maqashid Shariah achievement and higher economic sustainability, thereby providing preliminary support for the proposed relationships among the study variables.

Outer Model Evaluation

Outer model evaluation was conducted to assess the validity and reliability of the measurement model for the three latent constructs, namely Financing Performance, Maqashid Shariah, and Economic Sustainability. The evaluation results show that all constructs meet the required standards of convergent validity and construct reliability.

Based on the validity and reliability test, the Average Variance Extracted (AVE) values for Financing Performance, Maqashid Shariah, and Economic Sustainability were 0.729, 0.752, and 0.785, respectively. All these values exceed the minimum threshold of 0.50, indicating that each construct is able to explain more than 50 percent of the variance of its indicators. This finding confirms that the indicators used in this study have adequate convergent validity and are capable of representing their respective latent variables.

Table 2 Validity and Reliability Test (CFA)

Variables	AVE	Composite Reliability	Cronbach Alpha
Financing Performance	0.729	0.902	0.876
Maqashid Sharia	0.752	0.915	0.888
Economic Sustainability	0.785	0.923	0.896

In terms of reliability, the Composite Reliability (CR) values for Financing Performance, Maqashid Shariah, and Economic Sustainability were 0.902, 0.915, and 0.923, respectively. All values are above the recommended threshold of 0.70, which indicates strong internal consistency among the indicators within each construct. Likewise, the Cronbach's Alpha values for the three constructs were 0.876, 0.888, and 0.896, respectively. Since all values are greater than 0.70, the constructs can be considered reliable and consistent in measuring the intended concepts.

These results indicate that the measurement model used in this study is statistically acceptable. In other words, the constructs of Financing Performance, Maqashid Shariah, and Economic Sustainability are supported by valid and reliable indicators, so the analysis can proceed to the evaluation of the structural model.

In summary, the outer model results indicate that: all constructs have satisfied convergent validity because the AVE values are greater than 0.50; all constructs have satisfied composite reliability because the CR values are greater than 0.70; all constructs have satisfied internal consistency reliability because the Cronbach's Alpha values are greater than 0.70. Therefore, it can be concluded that the measurement model in this study is adequate and meets the required criteria to be used for hypothesis testing in the inner model.

Discriminant validity was assessed using the Fornell–Larcker criterion and may also be supported by the HTMT ratio. Based on the AVE values, the square roots of AVE for Financing Performance, Maqashid Shariah, and Economic Sustainability were 0.854, 0.867, and 0.886, respectively. According to the Fornell–Larcker criterion, discriminant validity is established when the square root of AVE of each construct is greater than its correlations with other constructs. In addition, discriminant validity can be confirmed using the HTMT ratio, where values below 0.90 indicate acceptable discriminant validity. Thus, the constructs in this study can be considered distinct from one another if these criteria are satisfied.

Inner Model Evaluation

After the measurement model was confirmed to be valid and reliable, the next step was to evaluate the **inner model** in order to assess the structural relationships among the latent variables. The inner model evaluation in this study includes the assessment of model fit, coefficient of determination, and path coefficients.

Table 3 Goodness of Fit

Criteria	Value	Information
SRMR	0.052	< 0.08 (Good)
NFI	0.924	> 0.9 (Decent)
R ² Maqashid Syariah	0.61	Variation explained 61%
R ² Economic Sustainability	0.69	Variation explained 69%

Models are assessed own good *fit* and can used for hypothesis testing .

The model fit assessment shows that the proposed structural model has a satisfactory level of fit. The Standardized Root Mean Square Residual (SRMR) value is 0.052, which

is below the recommended cut-off value of 0.08. This indicates that the discrepancy between the empirical covariance matrix and the model-implied covariance matrix is low, meaning that the model has a good fit.

In addition, the Normed Fit Index (NFI) value is 0.924, which exceeds the recommended threshold of 0.90. This result indicates that the model has an acceptable to good level of fit and is suitable for explaining the relationships among the variables under study. Based on these values, the structural model can be considered appropriate for hypothesis testing.

The explanatory power of the model can be observed from the R^2 values of the endogenous constructs. The R^2 value for Maqashid Shariah is 0.61, which means that 61 percent of the variance in Maqashid Shariah can be explained by Financing Performance. This indicates a moderate to substantial explanatory power, suggesting that Financing Performance plays an important role in shaping the achievement of Maqashid Shariah in Islamic banks.

Meanwhile, the R^2 value for Economic Sustainability is 0.69, indicating that 69 percent of the variance in Economic Sustainability is explained jointly by Financing Performance and Maqashid Shariah. This value shows a relatively strong explanatory power, meaning that the proposed model is capable of explaining the variation in Economic Sustainability to a considerable extent. Overall, the R^2 results suggest that the structural model has good predictive relevance and that the endogenous variables are meaningfully explained by the predictors included in the model.

Table 4 Path Coefficient Results

Track	Coefficient	t- statistic	p-value	Information
Financing Performance → Maqashid Syariah	0.782	8.71	0.000	Significant
Maqashid Syariah → Economic Sustainability	0.615	7.12	0.000	Significant
Financing Performance → Economic Sustainability	0.332	2.74	0.006	Significant
Financing Performance → Economic Sustainability (via Maqashid Syariah)	0.480	Sobel t=5.83	0.000	Mediation significant

The path coefficient analysis reveals that all hypothesized relationships in the model are positive and statistically significant.

First, the relationship between Financing Performance and Maqashid Shariah shows a path coefficient of 0.782, with a t-statistic of 8.71 and a p-value of 0.000. This indicates that Financing Performance has a positive and significant effect on Maqashid Shariah. The result implies that better financing performance, as reflected in healthier financing distribution, better profitability, and improved efficiency, significantly enhances the ability of Islamic banks to achieve maqashid-oriented objectives such as education, justice, and public welfare. This finding supports the argument that financial soundness and effective financing management are important prerequisites for the realization of Islamic banking's broader ethical and social mission.

Second, the relationship between Maqashid Shariah and Economic Sustainability produces a path coefficient of 0.615, with a t-statistic of 7.12 and a p-value of 0.000. This result confirms that Maqashid Shariah has a positive and significant effect on Economic Sustainability. In substantive terms, this finding suggests that the stronger the implementation of maqashid principles in Islamic banking operations, the greater the contribution of Islamic banks to inclusive, sustainable, and socially beneficial economic development.

Third, the direct relationship between Financing Performance and Economic Sustainability yields a path coefficient of 0.332, with a t-statistic of 2.74 and a p-value of 0.006. This result shows that Financing Performance also has a positive and significant direct effect on Economic Sustainability. Thus, beyond its indirect value through maqashid achievement, better financing performance itself contributes directly to sustainable economic outcomes, particularly through productive financing expansion, financial intermediation, and support for real-sector development.

The mediation test shows that Financing Performance has an indirect effect on Economic Sustainability through Maqashid Shariah with a coefficient of 0.480, a Sobel t-value of 5.83, and a p-value of 0.000. This indicates that the mediating role of Maqashid Shariah is statistically significant.

These findings demonstrate that Maqashid Shariah serves as an important intervening mechanism in the relationship between Financing Performance and Economic Sustainability. In other words, the effect of financing performance on sustainability becomes stronger when Islamic bank financing is translated into maqashid-oriented outcomes. Since both the direct effect and indirect effect are significant, the mediation pattern in this study is more appropriately interpreted as partial mediation, not full mediation. This means that Financing Performance influences Economic Sustainability both directly and indirectly through Maqashid Shariah.

Based on the outer and inner model evaluations, several important findings can be summarized.

First, all constructs in the study have met the validity and reliability requirements, indicating that the measurement model is robust and acceptable. Second, the structural model has a good fit and strong explanatory power, as reflected in the SRMR, NFI, and R^2 values. Third, all direct relationships among the latent variables are positive and significant. Fourth, Maqashid Shariah is proven to play a significant mediating role in linking Financing Performance to Economic Sustainability.

Taken together, these results confirm that the performance of Islamic bank financing is not only relevant for financial intermediation, but also crucial for achieving maqashid-based objectives and supporting sustainable economic development. This finding reinforces the view that the assessment of Islamic banking performance should not be limited to conventional financial indicators, but should also incorporate maqashid and sustainability dimensions.

DISCUSSION

The Effect of Financing Performance on Maqashid Shariah

The results show that Financing Performance has a positive and significant effect on Maqashid Shariah, as indicated by the path coefficient of 0.782, t-statistic of 8.71, and p-value of 0.000. This finding implies that stronger financing performance enhances the ability of Islamic banks to achieve maqashid-oriented objectives. In practical terms, improvements in financing quality, profitability, liquidity management, and operational efficiency provide Islamic banks with stronger institutional capacity to fulfill broader sharia objectives, including education, justice, and public welfare. This result supports the argument that Islamic banking performance should not be understood solely in commercial terms, but also in relation to its ethical and social responsibilities. A financially stronger Islamic bank is more capable of directing resources toward socially beneficial financing activities and of maintaining a more balanced orientation between profit and welfare. Thus, sound financing performance serves as an important foundation for the realization of Maqashid Shariah in Islamic banking operations.

This finding is in line with previous studies which emphasize that Islamic banking performance must be evaluated not only through financial ratios but also through maqashid-based indicators. Mohammed et al. and Sarea and Hanefah argue that financial strength and institutional effectiveness are important enabling factors in the achievement of sharia objectives because maqashid realization requires both financial capacity and governance commitment. Accordingly, the significant relationship found in this study confirms that financing performance is not merely a technical banking outcome, but also a strategic determinant of Islamic value creation.

The Effect of Maqashid Shariah on Economic Sustainability

The findings further indicate that Maqashid Shariah has a positive and significant effect on Economic Sustainability, with a path coefficient of 0.615, t-statistic of 7.12, and p-value of 0.000. This result confirms that the stronger the implementation of maqashid principles in Islamic banking, the greater the bank's contribution to sustainable economic

development. Economic sustainability in this study is reflected through indicators such as sustainability orientation, inclusive financing, and support for long-term welfare-oriented development. Therefore, the significant effect of Maqashid Shariah suggests that Islamic banks can contribute meaningfully to sustainability when their financing and operational strategies are guided by principles of justice, public interest, and social responsibility.

This result reinforces the conceptual link between Islamic finance and sustainability. Maqashid Shariah provides a normative basis for Islamic banking to promote not only economic growth but also equitable development and intergenerational welfare. When Islamic banks align their financing activities with maqashid objectives, they become more likely to support sectors and programs that generate long-term social and economic value, including financial inclusion, productive sector financing, and green-oriented initiatives. Therefore, the significance of this relationship confirms that Maqashid Shariah is not only a philosophical principle but also an operational driver of sustainability in Islamic banking practice.

The Mediating Role of Maqashid Shariah

The mediation test shows that Financing Performance has a significant indirect effect on Economic Sustainability through Maqashid Shariah, with an indirect coefficient of 0.480, Sobel t-value of 5.83, and p-value of 0.000. This finding indicates that Maqashid Shariah plays an important mediating role in explaining how financing performance contributes to sustainable economic outcomes. In other words, financing performance does not influence sustainability only through direct financial intermediation, but also through the extent to which Islamic banks transform their financial strength into maqashid-oriented outcomes. This means that financing performance becomes more meaningful for long-term sustainability when it is aligned with the ethical, social, and welfare-oriented values embedded in Maqashid Shariah.

Since the direct effect of Financing Performance on Economic Sustainability remains significant, while the indirect effect through Maqashid Shariah is also significant, the mediating pattern in this study can be interpreted as **partial mediation**. This suggests that Economic Sustainability is influenced both directly by financing performance and indirectly through maqashid achievement. The result is theoretically important because it demonstrates that Islamic banking performance should not be treated as value-neutral. Rather, its developmental impact depends on the presence of a maqashid-based orientation that connects financial capacity with social and economic benefit. This finding also strengthens the view that Maqashid Shariah functions as a bridge between Islamic financial performance and sustainable development outcomes.

Practical Implications

The results of this study have important practical implications for regulators, Islamic banking institutions, and academics. For regulators such as the Financial Services Authority (OJK) and Bank Indonesia, the findings suggest the need to broaden the performance evaluation framework of Islamic banks by incorporating maqashid-based indicators in addition to conventional financial ratios. Such an approach would allow regulators to assess not only the financial soundness of Islamic banks, but also their contribution to social welfare and sustainable development. This is particularly relevant in the current era, where Islamic banking is increasingly expected to align with sustainability agendas and inclusive growth strategies.

For Islamic bank management, the findings highlight the importance of aligning financing strategies with Maqashid Shariah and sustainability objectives. Bank managers should not focus solely on expanding financing volume or improving profitability, but should also ensure that financing is directed toward productive, inclusive, and socially beneficial sectors. Strong financing performance should be used as a basis for enhancing the developmental role of Islamic banks through support for MSMEs, green financing, and equitable economic participation. For academics, this study contributes to the development of a more comprehensive performance framework in Islamic banking by integrating financial indicators, maqashid achievement, and sustainability outcomes into a single empirical model. This opens opportunities for further studies to refine maqashid-

based performance measurement and to explore broader institutional and cross-country comparisons in Islamic finance research.

CONCLUSIONS AND SUGGESTIONS

This study aims to examine the effect of Islamic bank financing performance on the achievement of Maqashid Shariah and economic sustainability in Indonesia during the 2020–2024 period. Based on the results of the SEM-PLS analysis, several important conclusions can be drawn.

First, the study finds that Financing Performance has a positive and significant effect on Maqashid Shariah. This indicates that stronger financing performance, reflected in better liquidity management, improved financing quality, higher profitability, and greater operational efficiency, enhances the ability of Islamic banks to achieve maqashid-oriented objectives. In other words, the financial strength of Islamic banks supports their broader role in promoting education, justice, and public welfare.

Second, Maqashid Shariah has a positive and significant effect on Economic Sustainability. This finding confirms that the stronger the implementation of maqashid principles in Islamic banking operations, the greater the contribution of Islamic banks to sustainable economic development. Thus, maqashid-oriented banking is not only relevant from a normative Islamic perspective, but also important in supporting inclusive, equitable, and long-term economic sustainability.

Third, the study also shows that Financing Performance has a direct positive and significant effect on Economic Sustainability. This means that better financing performance contributes directly to sustainable economic outcomes through stronger financial intermediation, support for productive sectors, and improved economic resilience.

Fourth, Maqashid Shariah is proven to mediate the relationship between Financing Performance and Economic Sustainability. This result suggests that the contribution of Islamic bank financing to sustainability becomes stronger when financing activities are aligned with maqashid-based objectives. The mediation result indicates that Maqashid Shariah serves as an important value-based mechanism that links financial performance with broader developmental outcomes.

Overall, this study concludes that the performance of Islamic bank financing should not be evaluated solely on the basis of conventional financial indicators. A more comprehensive assessment is needed, one that integrates financial performance, Maqashid Shariah achievement, and sustainability contribution. Therefore, Islamic banking performance should be understood as both a financial and value-based construct that supports sustainable economic development in Indonesia.

Based on the findings of this study, several suggestions can be proposed.

First, for regulators, particularly the Financial Services Authority (OJK) and Bank Indonesia, it is recommended to broaden the performance evaluation framework of Islamic banks by incorporating Maqashid Shariah-based indicators alongside conventional financial ratios. This would enable a more comprehensive assessment of Islamic bank performance, not only in terms of financial soundness but also in terms of social and sustainability contribution.

Second, for Islamic banking institutions, management should strengthen financing strategies that are aligned with maqashid principles and sustainability objectives. Islamic banks are encouraged to expand financing for productive sectors, MSMEs, socially beneficial activities, and environmentally sustainable projects. In addition, improving financing quality, efficiency, and governance remains essential to ensure that financing performance can generate both financial returns and broader social value.

Third, for future researchers, it is recommended to develop this study further by including additional variables such as digital transformation, Islamic social finance, ESG disclosure, governance quality, or financial inclusion intensity in order to enrich the explanatory power of the model. Future studies may also employ broader samples, longer observation periods, or cross-country comparisons to obtain a more comprehensive

understanding of the relationship between Islamic banking performance, Maqashid Shariah, and sustainability.

Finally, future research is also encouraged to refine the measurement of Maqashid Shariah and economic sustainability by developing more robust and context-specific indicators, so that the evaluation of Islamic banking performance can better reflect the unique characteristics and developmental role of Islamic finance.

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