



Between Shariah and Sustainability: A Systematic Literature Review of Environmental, Social, and Governance (ESG) Integration in Islamic Finance Sector of Pakistan

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Abstract: The global shift towards ethical and responsible business shares many common goals with Islamic finance. These shared objectives include treating people with fairness, adopting a more responsible attitude towards the environment and also ensuring that organizations are being run transparently. Such ideas are captured in the ESG (Environmental, Social, and Governance) framework. Not surprisingly, such ideals are also encapsulated in the objectives of Islamic law (commonly known as *Maqasid al-Shariah*). This paper seeks to address how thoroughly the Islamic banks in Pakistan are converting the ESG ideas into practice. The authors used a step-wise review method (PRISMA) and shortlisted 30 relevant papers after searching major research databases. Although, the review concludes that there is a lot in common between Islamic Finance and ESG in theory; in practice, the focus of Islamic Banks is primarily geared towards avoiding illegal (*haram*) activities instead of a more holistic approach that actively seeks towards achieving a positive impact on the environment, social dynamics or governance. Several limitations prevent them from achieving these objectives: a lack of standards for “green” Islamic investment, poor regulation, a dearth of trained staff, and the risk of “greenwashing”. The study concludes that Green Sukuk, value-based banking and digital banking could alleviate the problem and help close the gap between theory and practice. At the end we provide actionable advice for regulators, banks and investors.

Keywords: Islamic finance, ESG, Pakistan, *Maqasid al-Shariah*, sustainable finance, Green Sukuk, green banking, Value-Based Intermediation, Sustainable Development Goals (SDGs), systematic literature review

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1. Introduction

There has been a shift in the financial market from a profit-driven to broad spectrum of sustainable finance ranging from Environmental, Social and Governance (ESG) and the United Nations' Sustainable Development Goals (SDGs) (Ullah & Ali, 2026). Islamic finance by nature has philosophical consonance with the global sustainability agendas. Islamic banking principles by default support social justice, prosperity and environmental sustainability, by abstaining from unethical investment, exaggerated risk (*gharar*) and interest (*riba*) as per the *Maqasid al-Shariah* (objectives of Islamic law) (Abbas, Ali, & Musa, 2023).

In Pakistan, an emerging economy, where the Islamic finance sector is growing at a rapid pace, it is essential to strike a delicate balance between industrial and economic growth and the environment (Khan, Quddusi, & Hasan, 2025). Despite the state regulatory bodies such as the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) making initial attempts to offer green policies, the green market is still in its infancy (Khan, Quddusi, & Hasan, 2025). There's a widespread call for a value-based Islamic banking instead of a profit-based one, to include concepts like Value-Based Intermediation (VBI) which produce positive long-term economic and environmental values in accordance to Shariah rulings (Abbas, Ali, & Musa, 2023). Furthermore, new forms of financial intermediaries such as Digital Financial Inclusion (DFI) have also emerged to promote transparency, reduce information asymmetry and lead to Environmental, Social and Governance (ESG) reporting by Islamic financial institutions (Hassan, Rabbani, & Kiran, 2025). However, the operationalized versions of these paradigms remain fragmented and mainly focused on the negative Shariah-related compliance rather than the positive sustainability-focused implementation (Ullah & Ali 2026).

1.1. Problem Statement: ESG in Pakistan's Islamic Finance

Where the principles of Islamic finance - embedded in *Maqasid al-Shariah* (objectives of Islamic law) have a strong intrinsic link with Environmental, Social and Governance (ESG) principles and United Nations' Sustainable Development Goals (SDGs), the implementation of these concepts in the Pakistani financial sector is fragmented and fairly nascent (Jawaid & Sharif, 2025; Khaliq, 2024; Ullah & Ali, 2026). Islamic finance has inherent ethical, social and

environmental values and concerns; however, the integration of ESG with Islamic financial institutions is in its early stages, which indicates a disconnect between the inherent fit and institutionalization of operational, financial and reporting expenditures (Azmat, 2025; Ullah & Ali, 2026).

Novel instrumentation and standardization of ESG for Islamic finance is desperately needed (Jawaid & Sharif, 2025). In Pakistan, for instance, the existing Shariah stock screening (such as KMI index) is inclined to exclusionary financial ratios (*halal* versus non-*halal*) and does not have a well-defined system to positively monitor business activities for environmental and social impacts (Jawaid & Sharif, 2025). Hence, there is a real need to move from single exclusivity towards opportunities of Value Based Intermediation (VBI) that institutionalize positive and sustainable goals in Islamic banking without compromising the Shariah principles (Abbas, Ali & Musa, 2023). Furthermore, although preliminary regulatory guidelines have been developed by regulatory bodies such as State Bank of Pakistan and SECP, there are low regulatory compliance and enforcement of the regulations (Khan, Ejaz, & Arshad, 2025).

Moreover, Islamic banks in Pakistan face internal limitations in terms of skills, lack of data regarding ESG, unawareness among stakeholders, and regulatory uncertainties and interpretations (Ejaz et al., 2025; Ansari et al., 2025). These operational constraints pose a significant challenge for banks to best conceptualize sustainable finance operations into climate change mitigation strategies, and mobilize the sustainable finance portfolio of banks through sustainable finance instruments (such as Green Sukuk), to meet Pakistan's increasing energy demands and environmental needs (Khan, Ejaz, & Arshad, 2025; Khan, Quddusi, & Hasan, 2025). While Islamic banks have enormous empirical potential to improve firms' ESG performance and disclosure through modern safeguards of Digital Financial Inclusion (DFI), they are yet to tap it to remove the above-mentioned restrictions (Hassan, Rabbani, & Kiran, 2025).

Applying the recent empirical findings that a natural compatibility between Islamic finance practices and environmental sustainability is no guarantee for a positive environmental footprint further complicates the issue (Khan & Munir, 2025). Multi-country research involving countries of the Organization of Islamic Cooperation (OIC) reports a higher share of Islamic finance can have a negative or insignificant association with environmental performance, which can be attributed to Islamic banks' attention to economic Shariah-related compliance rather than "green" goals (Khan & Munir, 2025).

Thus, a pressing concern is to understand how to integrate ESG with Shariah governance and stock screening (OICI) in Pakistan. It is essential to adopt an interdisciplinary approach beyond current regulatory, operational, and methodological boundaries in order to establish an integrated environment for Shariah compliance while also harnessing the ESG-related mechanisms (such as Green Sukuk) and analyses (such as VBI) to influence sustainable development and resilience against climate change (Ejaz et al., 2025; Khan, Quddusi, and Hasan, 2025).

1.2. Significance of the Study

This study is significant in the sense of theoretical and practical implications in the emerging markets. Theoretically, this study addresses the critical need for a paradigm shift from merely theoretically discussing the conceptual inter-conduct between Islamic finance and SDGs to the empirical analysis of the implementation of ESG (Ullah & Ali, 2026).

Pragmatically, the findings will help the policymakers, investors and Islamic banks in achieving tangible outcomes. This study will assist regulators to build a quick and Shariah-compliant climate finance policy, as a result of addressing the current lack of harmonization and regulatory ambiguities (Ansari et al., 2025). Further, it highlights the transformative impact of this particular model of financing (e.g. Green Sukuk) in mobilizing long-term funds for the eco-industry in Pakistan (Khan, Quddusi, & Hasan, 2025). Finally, this research also examines the interplay of financial instruments (e.g., Digital Financial Inclusion and ethical finance) as guidelines for Islamic banks to improve their corporate ESG performance and reduce the agency problem (Hassan, Rabbani, & Kiran, 2025).

1.3. Purpose of the Research

The purpose of this systematic review is to explore the relationship between ESG, sustainable development goals and Islamic finance in Pakistan. In particular, to:

1. Understand the extent of integration, in terms of operations, finance and reporting, of ESG principles and Sustainable Development Goals (SDG) in Islamic banks in Pakistan (Ullah & Ali, 2026).
2. Identify regulatory, market and operational barriers to implementing and scaling-up Shariah-compliant sustainable finance instruments, such as Green Sukuk (Khan, Quddusi, & Hasan, 2025).

3. Understand the role of new ideas such as Value-Based Intermediation (VBI) and Financial Inclusion (DFI) in improving corporate sustainability (ESG) and climate change strategies of Islamic banks (Abbas, Ali, & Musa, 2023; Hassan, Rabbani, & Kiran, 2025).
4. Build a comprehensive policy and regulatory framework to establish the nexus between Islamic banking and national/global sustainability agenda (Ansari et al., 2025).

1.4. Research Questions

The paper will seek to achieve the above research objectives in answering the following questions:

1. What is the reflection of the current ESG issues and SDGs in business model and Shariah stock screenings in Islamic finance in Pakistan?
2. What do you consider are the regulatory, operational and awareness barriers to the development of sustainable Islamic financial products (like Green Sukuk) in Pakistan?
3. How do strategic concepts like Value-Based Intermediation (VBI), Digital Financial Inclusion (DFI) influence the ESG reporting and sustainability reporting model and approach of Islamic banks?
4. How can a set of integrated policy guidelines be developed to embed the concept of Shariah into actual (and measurable) environmental and social impact?

2. Literature Review

2.1 Introduction

Theoretically, incorporating the concepts of Environmental, Social and Governance (ESG) criteria into financial institutions is multidimensional, particularly in a dual-banking economy like Pakistan. When considering the integration of ESG in Islamic financial institutions and then its future in this industry, there is a need to build on theories which harmonise the corporate sustainability paradigm and Islamic jurisprudence. This chapter provides a glimpse into the theories considered in this review: *Maqasid al-Shariah* (Islamic law, objectives) and the Islamic Banking Objective Theory, from the Triple Bottom Line (TBL) to the Quadruple Bottom Line (QBL), Stakeholder Theory, and Jeucken's Green Banking Model.

2.2 Maqasid al-Shariah and the Islamic Banking Objective Theory

Its intrinsic compatibility of Islamic finance with ESG begins with *Maqasid al-Shariah* (objectives of Islamic law). According to Chapra's Islamic banking objective theory, Islamic financial institutions are not set up for profit-making; rather they adopt Islamic principles, practices and stakeholders' welfare as their primary goal (Qureshi & Hussain, 2022). *Maqasid al-Shariah*, on the other hand, the protection of life, property, intellect, family and religion go hand in hand with the goals of green banking and environmental protection (Qureshi & Hussain, 2021). Islamic finance and Environment Social and Governance (ESG) Investing have strong ties in the areas of poverty alleviation, income and wealth distribution as well as environmental preservation (Al Ansari & Alansarouti, 2020). Hence, Islamic Financial Institutions (IFIs) see green banking as not only in the letter of the law, but in the spirit of the law too to meet *Maqasid al-Shariah* (Qureshi & Hussain, 2021). This alignment between the foundational objectives of Shariah and the broader ESG agenda has also been emphasized in recent literature, which argues that environmental stewardship and ethical accountability are intrinsic, rather than supplementary, to Islamic financial governance (Farooq & Ahmed, 2022; Sarea & Hanefah, 2022).

Table 1: Map of Maqasid al-Shariah to ESG Pillars

Main Kernel	ESG Pillar	Application in Sustainable Islamic Finance	ESG Literature of Support.
Objective of Maqasid al-Shariah			
Protection of Faith (Din)	Governance (G)	Strict compliance with Shariah, honest leadership and investment in what is not allowable (Haram).	Qureshi & Hussain (2021); Faizulayev (2026)
Protection of Life (Nafs)	Environmental & Social (E, S)	Finance healthcare, and encourage efforts to mitigate climate change by protecting the habitat of humanity, and do not invest in industries that are harmful to the environment.	Al Ansari & Alanzarouti (2020)
Intellect (Aql) Protection	Social/Governance (S, G)	Funding education, encouraging the environmental mindset among parties	Khan et al. (2023)

		concerned and guaranteeing the open reporting of ESG.	
Defending Lineage (Nasl)	Social (S)	Ensuring social justice, community welfare and equity across the generations by enhancing sustainable development.	Al Ansari & Alanzarouti (2020)
Protection of Wealth (Mala)	Economic & Governance (E, G)	even allocation of wealth, banning of Riba (interest) and Gharar (unreasonable uncertainty) and Value-Based Intermediation.	Qureshi & Hussain (2022)

2.3 Triple Bottom Line (TBL) and Quadruple Bottom Line (QBL)?

One of the methods that have been widely used in conventional sustainability research is the Triple Bottom Line (TBL) by Elkington who argued that the performance by businesses should be viewed through the prism of three aspects, i.e. prosperity (economic), people (social), and planet (environmental) (Faizulayev, 2026). However, to holistically assess stability Islamic firms, the TBL has been expanded to include "Prophet" or faith (din), to give a Quadruple Bottom Line (QBL) (Faizulayev, 2026). The QBL theory suggests that religiosity and adherence to Shariah law would be conducive to enhancing the social and economic bottom lines (Faizulayev, 2026). This allows the assessment of the role of Islam and the way it decides economic prosperity, social well-being and environmental sustainability (this ensures integration of ESG principles in evaluated from Islamic, not Christian perspective). This faith-based extension of the bottom line is increasingly reflected in empirical sustainability reporting, where religiosity-driven governance has been shown to shape both the scope and quality of ESG disclosure among Islamic financial institutions (Jan et al., 2023; Buallay, 2023).

Table 2: *Triple Bottom Line (TBL) into Quadruple Bottom Line (QBL)*

Dimension	TBL Focus (Conventional Banking)	QBL Focus (Islamic Banking)	Impact on ESG Integration.
Economic (Profit)	The type of shareholder wealth maximization and cost efficiency.	Fair money making, No Riba and equitable profit-sharing (Mudarabah).	Needs financial instruments that are not exploitative to the stakeholders.

Social (People)	Corporate Social Responsibility (CSR), the rights of PC and the local communities.	Social justice, incorporation of Zakat (alms), Waqf (endowments) and Qard al-Hasan (benevolent loans).	Enhances social contribution in addition to the regular CSR practices.
Environmental (Planet)	Reduction in carbon footprint, resource efficiency and risk reduction.	The ecological care (Khalifah) and extreme care against waste and environmental damage (Israf).	Positioned green banking solely as a moral obligation and not just a risk management activity.
Faith (Din / Prophet)	Not Applicable	Absolute adherence to Shariah principles and divine accountability.	Acts as the primary filter; an investment must be Halal before its E, S, or G metrics are even considered.

2.4 Stakeholder and Resource-Based Theory (RBT)

In the stakeholder theory, in order for the firms to be sustainable, it is important for them to consider all stakeholders - customers, employees, community and government (Faizulayev, 2026). While the general tendency of conventional banks to maximise the interests of the shareholders, Islamic banks strive for the superior stakeholders' approach of social value and ethical (social and financial fairness) side of banking (Faizulayev, 2026). Stakeholder's pressure and the early threat strategy of banks are the factors in developing their green practices and sustainable portfolios (Khan et al., 2023). This is along with the Resource-Based Theory (RBT) where the firm's superior performance is due to a firm's resources (Faizulayev, 2026). In the context of the Pakistani Banking, the banks that are well-managed in terms of resources and make green management, acquire environmental awareness through its employed staff and practice financial technologies (fintech) perform better in terms of ESG issues and corporate branding (Faizulayev, 2026; Khan et al., 2023). Consistent with this view, governance structures that actively engage stakeholders have also been linked to stronger ESG performance outcomes among Islamic financial institutions more broadly (Mollah et al., 2023).

2.5 Jeucken's Green Banking Model and Institutional Change

When considering the analysis later of themes of opposition to ESG practice, it is important to refer Jeucken's Green Banking Model which describes the development of green banking in the following phases:

1. *Defensive Phase*: Banks see environmental regulations as a threat.
2. *Preventive Phase*: Banks regard environmental risks as a potential threat and they practice green banking mainly for political reasons.
3. *Offensive Phase*: Banks regard possibilities of green banking for investments and loans.
4. *Sustainability Phase*: Banks embed the qualitative environmental criteria in all the internal and external processes (Qureshi & Hussain, 2022).

Today, due to institutional issues - lack of awareness, institutional pressure and difficulty in implementing regulatory reforms - empirical evidence shows that many banks in Pakistan are in the defensive-preventive phase (Qureshi & Hussain, 2021). If we apply Jeucken's work towards Islamic financial industry in Pakistan, it highlights the need to align the *Maqasid alShariah* (Objectives) with banking.

Table 3: Application of Jeucken's Green Banking Model in Pakistan

Stage of Green Banking	Strategic Characteristic	Current Status in Pakistan's Islamic Finance Sector	Primary Drivers & Barriers
1. Defensive Phase	Environmental regulations viewed strictly as costs or threats.	Largely surpassed by Islamic banks, though still present in smaller traditional institutions.	Barrier: Lack of foundational environmental awareness.
2. Preventive Phase	Adopting green practices primarily to mitigate risk and comply with regulations.	Current Dominant Stage. Banks are initiating internal green policies but are largely reactive.	Driver: SBP & SECP green guidelines. Barrier: Voluntary nature of compliance and ambiguous regulations.

3. Offensive Phase	Proactively seeking out green financing opportunities as new revenue streams.	Emerging Stage. Initial explorations into instruments like Green Sukuk.	Barrier: Lack of technical ESG expertise and limited green data infrastructure.
4. Sustainability Phase	ESG conditions fully embedded into the core of all financial and operational activities.	Future Goal. Requires full transition to Value-Based Intermediation (VBI).	Barrier: Market fragmentation and priority of strict exclusionary Shariah compliance over proactive ESG targets.

3. Methodology

3.1 Introduction

For this study, A Systematic Literature Review (SLR) is employed to provide a detailed analysis of the adoption of Environmental, Social and Governance (ESG) measures in the Islamic finance sector in Pakistan. This is because the SLR was considered the most appropriate research design to systematically, transparently and reproducibly synthesise empirical and theoretical literature. This chapter outlines the identification, screening, quality appraisal and analysis of the studies.

3.2 Research Design: PRISMA

This is a systematic review that conforms to the Preferred Reporting Items (PRISMA) guidelines of systematic reviews and meta-analyses. PRISMA helps to eliminate bias and create a plan for finding literature. There were four key steps in the literature review: Identification, Screening, Eligibility and Inclusion.

3.3 Information Sources

We carried out an in-depth electronic search to retrieve as many relevant high-quality studies as possible in the key electronic databases, Scopus, Web of Science, ScienceDirect and Google Scholar. This was performed in order to include literature published until 2026.

In creating the search terms, we applied Boolean operators (AND, OR) in joining the search concepts. The primary search was done using the string: ("Islamic Finance" OR "Islamic Banking" OR "Shariah-compliant") AND ("ESG" OR "Environmental, Social, and

Governance" or "Green Banking" or "Sustainability" or "Sustainable Development Goals" or "Green Sukuk") AND ("Pakistan" or "Emerging Markets" or "OIC").

3.4 Inclusion and Exclusion Criteria

To ensure that the most relevant literature is presented for the purpose of the study and the foundation for its theoretical orientation (as outlined in Chapter 2) very specific inclusion and exclusion criteria were developed.

- **Inclusion Criteria:**

Research in journals and conference proceeding papers and highly respected institutional research works.

Studies explicitly investigating Islamic finance and sustainability/ESG factors.

Research that has been conducted in Pakistan, other emerging markets, and the other OIC member countries.

English language publications.

- **Exclusion Criteria:**

Non-academic, editorial articles, rouge journals and unreliable blogs.

Studies that are only green banking related but do not have a Shariah or Islamic finance dimension.

Publications before 2008 to reflect the current gerential and market trends in ESG.

3.5 Study Selection Process

The preliminary search identified 35 citations. The references were imported to a reference manager program after removal of duplicate articles, leaving 32 unique articles.

During the initial screening, the titles and abstracts of the articles were screened for relevance, and 6 articles excluded. In the second phase, the full texts of 26 articles were assessed. The articles that did not include empirical evidence, or did not discuss the ESG implementation in Islamic finance, were removed. Following this iterative process, 30 articles (qualitative, quantitative and mixed methods) were synthesised through qualitative synthesis.

3.6 Analysis

We used a matrix to tabulate information from final articles. This involved information regarding: Authors, Year, Journal/Source, Methodology (e.g., Partial Least Square-Structural Equation Modeling (PLS-SEM), Panel Data Analysis, Semi-structured interviews), Location of the study, Theories used (e.g., *Maqasid al-Shariah*, Institutional Theory), and ESG enablers and barriers.

The quality of the studies was then assessed via evaluation of methodologies of the studies and selection of studies with specified research questions, robust data collection procedures and logical interpretation of the data.

3.7 Data Analysis: Thematic Synthesis

Given the variation in the methodology adopted by the selected studies (some of which include an econometric analysis of panel data and interviews with practitioners), data analysis was done using thematic synthesis.

This process was done in three steps as suggested by Thomas and Harden (2008):

Free Line-by-Line Coding: We analysed the results section of the selected papers to produce concepts.

Descriptive Themes: These concepts were grouped to form descriptive themes.

Analytical Themes: The descriptive themes were then brought together with theories developed and defined the Islamic Banking Objective Theory (*Maqasid al-Shariah*) and the Islamic Banking Model defined by Chapra; the Quadruple Bottom Line (QBL) and the Green Banking Model developed by Jeucken.

This thematic analysis allows the study to not only describe the data and generate new data on the regulatory, operational and structural challenges faced while integrating ESG into the Islamic finance sector of Pakistan that will be discussed in detail in Chapter 4.

4. Thematic Analysis

4.1 Introduction

Having extracted the data from the literature as outlined in Chapter 3, this chapter is a synthesis of literature on the use of Environmental, Social and Governance (ESG) standards in the field of Islamic finance, especially in emerging economies like Pakistan. This review is more than a

summary and outlines the five key themes of the analysis: complementarity, deployment of green finance instruments, risk disclosure, institutional silos, and the integration of digital financial technologies in the financial system.

Table 4.1: *Themes and Empirical Evidence*

The scheme of themes and empirical evidence.

Subject of analysis	Momentum Finding / Phenomenon Observed	First Supporting Literature.
Conceptual Synergy	Good natural fit between Maqasid al-Shariah and ESG/SDGs, in this case, within the framework of environmental stewardship, ethical governance.	Siregar (2025); Yulita (2025); Harun & Rahmat (2025)
Operationalization	This is greatly depended on the use of Green Sukuk and the current advances of using the Green Accounting to articulate the ideas of ethics into quantifiable financial statements.	Hadi et al. (2025); Khaliq (2024)
Dynamics of Disclosure Dynamics	Shariah compliance inherently increases the whole risk disclosure and integrity reporting leading to more internal policy inclination than external regulation.	Ali et al. (2025); Rehman et al. (2021)
Institutional	Lack of Fragmentation of Shariah-ESG taxonomies and ways of standardized reporting, results in disparate practices and risks of greenwashing.	Siregar (2025); Hadi et al. (2025)
Digital Innovation	Islamic FinTech and blockchain are essential facilitators to reduce costs of compliance, improve data transparency and scale ESG initiatives.	Hadi et al. (2025); Siregar (2025)

4.2 Theme 1: Theoretical and Ethical Symbiotics

The strong theoretical and ethical harmony between ESG principles and Islamic finance is a prominent theme in the literature reviewed. The *Maqasid al-Shariah* paradigm that prioritises the preservation of faith, life, intellect, lineage and property offers an important theological base that inherently favours ESG's emphasis on ethical behaviour and sustainability (Siregar, 2025). In terms of both theory and practice, *Maqasid al-Shariah* and ESG share a tight

connection in protective environmental conservation, social equality and fairness, and good corporate governance (Yulita, 2025). Moreover, recent literature shows that a bibliometric analysis of recent studies suggested that the most prevalent of the factors connecting Islamic finance with the United Nations' Sustainable Development Goals (SDGs) is environmental sustainability; which is mentioned in more than 51% of quality studies (Harun & Rahmat, 2025). The prohibition of *riba* (interest), *gharar* (unreasonable uncertainty) and *haram* (unlawful) investments means that Islamic investments tend to revolve around activities that can generate wealth and economic and societal benefits in line with global sustainable finance goals (Siregar, 2025).

4.3 Theme 2: Practicalisation of Green Instruments and Green Accounting

Emphasizing the importance of conceptual agreement, literature highlights the critical role of instruments used in financial reporting in the realisation of green finance. Green Sukuk is one of the main instruments for the operationalisation of green in Islamic debt financing, which has invested in green energy and green infrastructure in emerging markets (Hadi et al., 2025; Siregar, 2025). Alongside financial products, "Green Accounting" is becoming a predominantly crucial means to create trade-offs between profitability and preserving the environment (Khaliq, 2024). Green accounting improves institutional transparency and accountability through the inclusion of environmental costs in traditional financial accounting, which helps to build stakeholders' and institutional trust (Khaliq, 2024).

Table 4.2: *Al-Maqasid Relations between al-Shariah and Green practical instruments*

Shariah / Maqasid Principle	ESG Alignment	Applied financial/operational instrument	primary function in emerging markets.
protections Environment, (Hifz al-Biah)	Environmental (E)	Green Sukuk	Green Sukuk mobilization of massive, long-term capital towards renewable energy and ecologically friendly infrastructure investments.
BAN, Prohibition of Riba (Interest) &	Governance (G)	Value-based Intermediation (VBI)	Making sure the investments bring actual, concrete economic value without

Gharar (Uncertainty)			enriching investors or hiding risk.
Frequent Uses Accountability & Transparency (Adalah)	Governance (G) & Social (S)	Green Accounting	Inclusion of degradation costs of the environment, to construct stakeholder trust, in normal financial reporting.
Social Welfare & Equity (Maslahah)	Social (S)	Shariah-Compliant Microfinance	Promoting financial inclusion and financing projects of sustainable development on a community level.

4.4 Theme 3: Environmental Risk Disclosures and Performance in Pakistan

Taking Pakistan as an example, the literature shows that Shariah compliance is a factor impacting upon transparency and environmental performance. The empirical evidence from non-financial listed firms in Pakistan shows that Shariah compliance has a positive and significant impact on the level of overall, financial, operational and integrity risk disclosures (Ali et al., 2025). Fairness and accountability embedded in Islamic business ethics drive these firms to disclose their risks that may affect stakeholders (Ali et al., 2025). Also, adoption of green banking in Pakistan (still in its early days) is largely driven by internal policy reforms, day-to-day operational changes and particularly the financial commitment towards green projects as opposed to simply meeting the external regulatory requirements (see Rehman et al., 2021). These patterns echo wider cross-country evidence that links the quality of environmental and social risk disclosure to the strength of Shariah governance arrangements and overall financial performance among Islamic banks (Buallay, 2023; Sarea & Hanefah, 2022).

4.5 Theme 4: Fragmentation and Regulation

While the ethical confluence and emergence of specific instruments exists, a major impediment in the literature is the fragmented implementation of ESG in Islamic institutions. The operationisation of ESG in the Islamic financial institutions is not well aligned, primarily because no shared, Shariah-specialised ESG taxonomy and reporting measures exist (Hadi et al., 2025). Currently, the standards established by various people such as the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) are largely restricted to just becoming compliant with Shariah teachings and the need to adopt proactive ESG strategies

(Siregar, 2025). This is due to the absence of regulations and the failure to create standardised metrics of disclosure that necessitates non-standardised disclosure, making it more difficult to benchmark performance and resulting in the greater risk of greenwashing in products, like Green Sukuk (Siregar, 2025; Khaliq, 2024).

Table 4.3: *The Hindrances to the Adoption of ESG vs. Digital Opportunities*

Systemic Barrier (Theme 4)	Impact on Islamic Finance in Pakistan Sector	Technological Enabler / Solution (Theme 5)	How the Solution Addresses the Barrier.
Absence of Uniform ESG Data	The environmental impact of investments are not quite easy to quantify with, thereby, subjective reporting.	Blockchain / Distributed Ledger Tech	Imagine a chronicle of the loci, transparent, and trackable records where green funds are utilized and their precise effect.
High Cost of Compliance	Smaller Islamic institutions are reluctant to integrate ESG because of the administrative cost of having dual reporting (Shariah + ESG) is high.	Islamic FinTech Platforms	Eliminates the need to engage in data collection and ESG screening, cutting overhead costs of monitoring compliance significantly.
Risk of Greenwashing Join forces	Investors would continue to be sceptical about Green Sukuk since unverified or vaguely defined sustainability claims by sukuk issuers.	Smart Contracts	Releases money only on passing of legally and operationally deterministic environmental metrics.
Jackknife Taxonomies	Lack of synchronisation between global standard ESGs and AAOIFI Shariah standards.	AI-managed Data Analytics	Can supplement various databases, cross-binding across global ESG standards and exclusionary Shariah requirements in real-time.

4.6 Theme 5: role of Innovation (Islamic FinTech) in Enabling

The final, emerging theme is the impact of technological improvement in the development of sustainable Islamic finance. Contemporary technological platforms, like Islamic FinTech and blockchain, are shown to be the gatekeepers to resolving reporting and transparency issues (Hadi et al., 2025). These innovative platforms aid in ESG data integration, lowering business compliance costs and facilitating financial inclusion, through a greater access to ethical finance and microfinance (Siregar, 2025). Although still largely understudied in the literature, ICT integration is extremely important for the globalisation of ESG practices in the Islamic finance sector. Comparable evidence from other emerging Islamic banking markets similarly suggests that FinTech adoption strengthens ESG performance and accelerates progress toward sustainable development goals (Adebayo et al., 2024).

5. Conclusion and Recommendations

This systematic literature analysis had the main aim of reviewing the operationalisation of the Environmental, Social and Governance (ESG) criteria in the Pakistani Islamic finance industry. Through a critical review of recent scholarly literature, this research sought to determine the level of ESG integration, reveal barriers and examine technology opportunities. The purpose of this final chapter is to present a summary of the key findings, discuss the theoretical and practical implications, how these findings form a basis for future empirical studies, and address the limitations of the study.

5.1 Main findings

The literature themes concisely answer the main cogent questions (RQs) of this study:

- **Theoretical Synergy vs. Practical Disparity (RQ1):** The literature firmly demonstrates the moral as well as conceptual compatibility between *Maqasid al-Shariah* and global ESG movement. Both embody environmental, social and corporate governance. But, the reality is that Pakistan's Islamic financing industry unabashedly uses negative Shariah screening (abstaining from *haram* industries) rather than incorporating positive, proactive ESG impactful measures in their business models. This finding is consistent with broader evidence that pathways linking green finance and Islamic banking toward sustainable economic growth remain underdeveloped relative to their theoretical potential, and that faith-based governance continues to shape the depth of ESG performance more than it shapes formal disclosure practice (Ashraf et al., 2022; Jan et al., 2023).

- **Hinders to Sustainable Instruments (RQ2):** Although instruments such as Green Sukuk have enormous potential for funding Pakistan's shift towards sustainable energy, their scale-up is greatly hampered by institutional silos. A fragmented, Shariah-compliant ESG taxonomy results in regulatory uncertainty, the potential for greenwash and a lack of domestic and international investor interest. Also, an acute lack of technical ESG skills in Islamic banks hampers green infrastructure building.
- **Value-Based Intermediation and Digitalization (RQ3):** Islamic banks should consider adopting Value-Based Intermediation (VBI) to make the transition to sustainability. Moreover, the literature discusses digital innovation (Islamic Financial Technology [FinTech], blockchain and smart contracts) as a key instrument to reduce the overall costs of complying with the Shariah and ESG standard significantly, enhance transparency in ESG data and drive financial inclusion.
- **The Need Cohesive Policy(RQ4):** RQ4 suggests more than voluntary measures.

5.2 Theoretical Implications

This review adds to the body of knowledge on Islamic sustainable finance. First, it confirms the need for a paradigm shift from Elkington's traditional Triple Bottom Line (TBL) approach to the newly expanded Quadruple Bottom Line (QBL) approach where faith (din) is an ultimate, indisputable filter for embedding ESG in Islamic institutions. Second, by applying Jeucken's Green Banking Model to the integrated information from this review, Pakistan's overall Islamic banking industry is observed to bottle-neck in between two stages: *Preventive* and *Offensive*. Although first green policy guidelines are being shaped to reduce regulatory risk, aggressive ESG value creation has yet to be ingrained in the DNA of most banks.

5.3 Recommendations

This review provides practical insights for the various players:

For Regulators (SBP & SECP): Regulators need to move from voluntary green practice guidelines to regulatory standards for Shariah-compliant ESG reporting. A "tailor-made" Islamic Green Taxonomy developed in consultation with Islamic organisations such as AAOIFI will offer banks speculative details on what defines a "green Shariah investment" to minimise risks of greenwash.

For Islamic Financial Institutions Banks must invest in "capacity building", educating Shariah boards and analysts on up-to-date approaches for measuring ESG risks and "Green

Accounting" approaches. Also, they must actively pursue Islamic FinTech partnerships to automate ESG data collection and reporting of their green financing initiatives. In order, to enhance trust in Green Sukuk issuance, issuers should incorporate smart contracts in the process, that links the expenditure with the mathematically proven changes in the environmental impact.

5.4 Limitations

This systematic review approach has limitations. First, the search protocol was limited to peer-reviewed literature in English published in selected databases, which might overlook very relevant local reports, government whitepapers or Urdu or Arabic-literature. Second, the secondary nature of the data means the results of the studies are dependent on the quality of the primary studies examined. Finally, the field of ESG is rapidly changing so the regulatory settings in the literature reviewed may deserve quick reform so some comments could be time-sensitive.

5.5 Future Studies

To overcome the limitations noted in this review, future studies have to move beyond systematic reviews to empirical and quantitative studies. Areas in need of future research are:

- **Impact Assessments:** Employing panel data analysis to precisely determine the impact of full-blown ESG integration on the financial performance (return on assets (ROA), return shareholder equity (ROE) of Islamic banks in Pakistan against conventional banks.
- **FinTech Adoption Models:** Employing technology acceptance models such as the Technology Acceptance model (TAM) or Structural Equation Model (SEM) for empirical analysis of the constraints of Islamic banks in adopting the blockchain for tracking Green Sukuk.
- **Primary Stakeholder Analysis:** Through primary qualitative research (interviews and focus groups) with Shariah experts, SECP regulators and corporate clients to understand the behavioural barriers in adopting Value-Based Intermediation (VBI) model from conventional screening.

5.6 Concluding Remarks

Islamic finance has an ethical underpinning to lead the global sustainable finance movement. But for this potential to be realised in Pakistan, there needs to be a paradigm change. By

harmonising the theological principles of *Maqasid al-Shariah* with the comprehensive data demands of ESG reporting, Pakistan's Islamic finance industry can lead by example, going beyond compliance to become impactful climate leaders and socio-economic change-makers.

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