

Maqasid al-Sharī'ah as a Framework for ESG and Sustainable Finance in Muslim Jurisdictions

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Abstract

This study seeks to outline a new vision for Islamic finance that focuses on purpose and Maqāṣid al-Sharī'ah, instead of merely compliance. While contemporary Environmental, Social, and Governance (ESG) frameworks are influential, they are hyper secular and mostly do not capture the ethical and legal dimensions of Maqāṣid. The study addresses Maqāṣid-Driven ESG Framework, a fully normative model which incorporates the theological, operational, and institutional dimensions of finance to an action plan. This concept is framed in three layers all are interrelated dimensions and intentionally designed to guarantee transactions and every investment while securing the spirit of preservation of faith, life, intellect, progeny, and wealth. Incorporating fiqh al-awlawiyyāt reframes ESG from a matter of compliance or voluntary adoption into a requirement grounded in religious duty. The cases of Malaysia, the UAE, and Saudi Arabia show that Islamic ethical principles can be meaningfully integrated into sustainable finance, though several practical obstacles remain among them differing juristic interpretations, resistance masked as compliance, and ongoing difficulties in evaluating ethical performance. The study's exploration of Maqāṣid-oriented ESG indicators and the use of data-supported ijtihād for measuring impact adds important depth to this discussion. It also introduces the idea of fiqh al-istidāmah, a jurisprudence of sustainability. For Muslim jurisdictions, approaching finance through the lens of Maqāṣid is not simply a policy choice but a Sharī'ah duty. Viewed this way, Islamic finance becomes a vehicle for responsible governance, social welfare, and long-term sustainable development.

Keywords: Maqasid Al-Sharī'ah, Islamic Finance, Sustainable Finance, Esg Integration, Sharī'ah Governance, Fiqh Al-Istidāmah

1. Introduction

The integration of the Environmental, Social, and Governance (ESG) criteria into financial frameworks represents a pivotal shift from capitalism centered on profit to one centered on values. The movement of ESG criteria across borders and jurisdictions is closing the ESG gap and approaching the status of a quasi-normative standard. This indicates, unequivocally, that financial profit and moral loss can no longer coexist (Porter & Kramer, 2011). The shift signals a global understanding and unanimous consensus that the creation of long-term sustainable value must uphold human, environmental, and institutional rights.

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Prior to the inclusion of the acronym ‘ESG’ into the global markets, Islam's ethical vision of the economy, even then, was embracing finance with a moral vision. Also, in finance Islam’s principles of the Shar’iah not only prohibits exploitation (*riba*), excessive uncertainty (*gharar*), and unethical gambling (*maysir*) but also embraces fairness (ﻋﺪﻝ), transparency (*bayān*), and social solidarity (*ta’āwun*). Within the non-transactional components of Islamic finance, the social and ethical principles designed to ensure the protection of social justice and the welfare of the community. Regrettably, the Islamic finance institutions of today have a compliance focus, thus, paradoxically, constituting a system of legal form, and in enforcement, a moral absence, instead of the profoundly ethical Islamic finance realities.

El-Gamal (2006) even calls this phenomenon “Sharī‘ah arbitrage,” which also captures the essence of the law being subordinated to procedural compliance. Instead of promoting the well-being of people and the earth, Islamic Financial Institutions (IFIs) focus on ensuring financial products do not contain any prohibited elements. The Islamic finance industry, and IFIs in particular, work in a fragmented and thinly regulated (or unregulated) industry. Therefore, IFIs primarily focus on the removal of prohibitive elements and permissibility does not necessarily point to a neglect of the product’s and service’s purpose in the name of Maqāṣid. To Asutay (2012) the characteristic of legal minimalism defines the essence of the paradox of Islamic finance: an industry (and its finance) can be masked with Islamic contracts, have no moral distinction, and still legally veil its moral bragging and risk. Yet, moral finance risk returns are the hallmark of conventional finance. Current practices of negative screening by exclusion of investments in alcohol, gambling, and interest-bearing institutions do not cross ethical boundaries and remain unchanged for years. While legally capturing minimalism by avoiding these risks, the Islamic finance industry has not even extended risk positive obligations to ethical minimalism. The more crucial ethical dimension of stagnation Islamic finance can afford to fold is the unprecedented climate crisis coupled with the glaring social challenges of unregulated inequities and the immorality of global governance failures. Indeed, the absence of a cap in Islamic finance jurisprudence with pro-active and legally binding frameworks will remain a glaring missed opportunity in the Islamic finance landscape. Until then, the Islamic finance industry will operate with compliance and primary legal obligations, avoiding purposeful risk stewardship.

This paper aims not to advocate for secular ESG frameworks, but to propose the need for revitalizing the moral dimensions of Sharī‘ah, particularly Maqāṣid Sharī‘ah and intents of Islamic law. As codified by classical jurists, particularly al-Ghazālī and al-Shāṭibī, the Sharī‘ah tradition requires the protection of five core values (*al-ḍarūriyyāts al-khamsah*): faith (*dān*), life (*nafs*), intellect (*‘aql*), lineage (*nasl*), and wealth (*māl*) (al-Shāṭibī, 1997; Kamali, 2008). These goals are not mere ideals; they are actionable and hierarchically ordered principles. Today, they could inform an indigenous legal approach to modern financial governance and, in particular, to the legal frameworks of modern financial governance and the concept of profit, thereby establishing a legal paradigm for sustainability that integrates collective welfare.

A *Sharī‘ah*-Driven ESG Model aims to create a seamless transition from the objectives of the Islamic vision to practical ESG indicators. This framework views the *Sharī‘ah* objectives as both a binding normative foundation as well as a flexible regulatory instrument. This synthesis makes ESG more a part of the Islamic finance jurisprudential logic than an external imposition. This study focuses on the following questions:

- Does *Maqāṣid al-Sharī‘ah* create a binding normative obligation to integrate the principles of ESG into Islamic finance?
- In what ways and through which methods can the five *ḍarūriyyāt* be converted into practical, measurable and enforceable ESG indicators for Islamic Financial Institutions and policymakers in Islamic countries?

For this purpose, the study uses a qualitative, doctrinal, and comparative approach. It draws on the Islamic jurisprudential historical texts in Islamic legal theory to determine the normative status of the Sharī‘ah and analyzes contemporary ESG models to locate agreements and disagreements. The coming sections describe the role of Maqāsid as a meta-ethical base for developing an Islamic approach to sustainability that is Sharī‘ah compliant and ethically compliant with the global order. This inquiry is justified on non-academic grounds as well. It shows how the discipline of Islamic finance could move from being a marginal compliance part of the global sustainable finance system to a leader. Positioning ESG within Sharī‘ah’s doctrinal framework reaffirms the teleological nature of Islamic law and shows that the Sharī‘ah and sustainability conversation are not separate but are two intertwined critical conversations. It is hoped this will inspire Islamic financial institutions to exceed the legal baseline and fulfill their calling as human development agents and custodians of the earth.

2. Literature Review

The combination of Islamic finance and global sustainability is one of the most promising and least explored areas of current finance and finance-related disciplines. Although both disciplines share the foundations of ethical responsibility and social justice, their developments have taken separate routes on different conceptual diagrams. This part will analyze the rise of ESG as a universally accepted ethical regime, the phenomenon and paradox of contemporary Islamic finance, the revival of Maqasid al-Sharī‘ah as a purposive jurisprudential paradigm, and, lastly, the convergence attempts outlined in the study, focusing on the doctrinal and operational gap the current study aims to bridge.

The roots of the ESG concept go back to the mid-twentieth century debates on corporate social responsibility (CSR). The dominant view held by Friedman (1970) that the only social responsibility of a business is to increase its profits has set the tone for the shareholder primacy model that dominated the economic paradigm. This narrow-styled reasoning has started to shift with the works of Porter and Kramer (2011) who introduced the idea of “creating shared value,” their theory was a substantial move in reframing the interrelationship of business and society in a positive equilibrium.

The intellectual maturation of this shift led to the development of global architecture for the regulation and reporting of sustainability. The Global Reporting Initiative and the Sustainability Accounting Standards Board are some examples of how the institutionalisation of the principles of ESG was achieved through standardised disclosure practices. The ISSB's creation under the IFRS Foundation's aegis became another steppingstone to global integration on ESG. The European Union's Sustainable Finance Taxonomy also played an important role in the development of ESG regulations. It ensured the transition of ESG from a voluntary moral initiative to a legally enforceable framework. These and other similar initiatives have conclusively demonstrated that ESG activities can no longer be voluntary. It is a new legally binding global norm, and ESG reporting must be integrated into Islamic financial systems.

Biz Islamic Finance, the field of Islamic finance is evolving and shifting towards a more business-like practice to create better systems and practices. Unlike western finance, Islamic finance is still based on strong ethical and moral principles, which include the prohibitions on *riba*, *gharar*, and *maysir*. These principles are not just ritualistic and are a strong moral basis to create an equitable and just economic system. It is this moral basis that has led to some modern Islamic finance practice looking toward the form of finance, and not the moral basis.

El-Gamal (2006) describes the replication of conventional instruments in the industry as “Sharī‘ah arbitrage.” The resultant transactions may be legal but may not pass the ethical test of the Sharī‘ah. Consequently, the Islamic finance industry is “ethical minimalist”—only concerned with the

avoidance of haram, and not embracing actively the tayyib. Such a stance does not allow engagement with the ESG paradigm, as Islamic finance lacks the ability to positively embrace social justice and sustainability in transformative ways.

Islamic jurisprudence's purposive and foundational theory and principles must be restated for the Maqasid al-Sharī'ah to be functional. First, al-Juwaynī conceived the theory, and then al-Ghazālī systematized it, followed by al-Shāṭibī who refined it in *Al-Muwāfaqāt*. He identified the five fundamental objectives (*darūriyyāt*): religion (*dīn*), life (*nafs*), intellect (*'aql*), progeny (*nasl*), and economy or wealth (*māl*). These objectives help shape the moral foundation of the Sharī'ah and organize human welfare into three tiers: essentials, needs, and enhancements.

Ibn 'Ashūr, al-Raysūnī (2005), Auda (2008), and Kamali (2019), as modern reformist scholars, expanded on and put into practice these ideas, arguing that Sharī'ah provides a system's governance, policy formulation, and socio-economic regulation. Sharī'ah integrates the Divine and rational considerations of welfare. Islamic ethics and morality can very easily become the basis for sustainability discourse and impact measurement. By translating Divine will into normative action, Sharī'ah can anchor Islamic finance with moral coherence and operational consistency as intended for the global ESG framework.

The alignment of Islamic law principles with global sustainability has never been in doubt. Comparative work by Derigs and Marzban (2008), Dusuki and Bouheraoua (2011), and Chapra (2008) focuses on justice, stewardship, and human dignity, which are core to both Islamic law and global sustainability. That said, like many others, these authors focus primarily on the normative side. While ethical similarities between the two systems are evident, these works lack a framework for practical application.

The delay in translating Sharī'ah from an abstract philosophical concept to tangible legal frameworks that can be measured and integrated within ESG benchmarks explains this gap. If this translation does not take place, Islamic finance will forever have an industry focus of pure compliance, not an integrated system that can impact the global conversation regarding sustainability. This gap serves as the purview of this work, proposing the "Shari'ah-Driven ESG Framework", which places the *darūriyyāt* within a set of ordered goals framework and associated with quantifiable ESG standards for Islamic Financial Institutions (IFIs) and regulators in Muslim nations.

3. Methodology and Legal Reasoning

This study utilizes qualitative, doctrinal, and conceptual approaches and investigates the interaction of the Islamic legal theory and the modern law of sustainability. The stance is more than just descriptive. The explanation is normative, and the aim is to develop a viable legal model based on the pillars of Islamic Progressing toward a legal model is based on Islamic legal principles of Islamic jurisprudence which outlines the core techniques of text interpretation, analogy reasoning (*qiyās*), and the consideration of the public interest (*maslahah*). The aim here is to address contemporary issues of sustainable finance by applying the classical juristic paradigm in order to produce a work that is true to its tradition and is, at the same time, contemporary and globally applicable. The study's inquiry follows a downward trajectory.

Researching for this project has embraced the scholarly literature and the sources highlighted in the previous section. The texts of the Islamic tradition that remain untouched are the Qur'an and the Sunnah and hold the supreme *hujjah*. Using these texts in conjunction with the works of the classical jurists who developed the *Sharī'ah* theory, particularly al-Ghazālī and al-Shāṭibī, and those who came after these two, enabled us to draw the doctrinal and philosophical fundamentals for the study's model. To address the practical aspects of the model, it is preferable to compile a more extensive range of secondary literature. For instance, it is important to consider the

governance and accounting standards of the Islamic Finance AAOIFI and the IFSB, which are the current standards for Islamic finance regulation. The global principles of ESG from the IFRS Foundation and the ISSB, as well as the policy documents on the UN SDGs, are additionally examined as secular frameworks and substantial metrics that this model has to deal with.

The chosen analytical methods rely on deductive reasoning and comparative analogy. The deductive method, which is foremost in Islamic jurisprudence, is the main approach for the analysis. One commences the analysis with the upper, overarching objectives of the *Sharī'ah*, which are the five *darūriyyāt*. From the general principle of preserving life (*nafs*), for example, this will make it possible to derive specific policy implications such as the prohibition of financing industries that cause widespread ecological harm and the active encouragement of investments in clean water and healthcare. This top-down reasoning justifies the inclusion of every proposed ESG metric to ensure that it is not an arbitrary addition, but rather a logical extension of a divine objective. The second approach is comparative analogy as a translational technique. It is important to methodically cross-map the concepts and metrics of the secular ESG framework with the structure of the *Sharī'ah* and for instance, the ESG 'S' (Social) criterion pertaining to labor rights is linked to the *Sharī'ah* objective of preserving wealth through equitable remuneration and preserving intellect in dignifying labor. This technique builds a conceptual bridge that illustrates the compatibility of the two frameworks and enriches the ESG with a higher and more purposeful structure.

The last, and most important, element in the legal reasoning, and the one which sits at the core of this paper, is the normative superiority of the *Sharī'ah* framework. Conventional ESG, for all its value, is still the outcome of human concord, shaped by the pressures of the market, political will, and societal relations. Market-derived human constructs will, therefore, have tentative and fluid authority. *Sharī'ah* derives its name from the intentions of the divine legislator or *maqṣūd al-shāri'*. This gives the *Sharī'ah* an authority which is unconditional, absolute, and untouched by humanity. The argument is definitive. While ESG outlines and meets the 'what' and 'how' of contemporary sustainable finance within a context, *Sharī'ah* provides the 'why' and does so, uncompromisingly. *Sharī'ah* determines the fixed and absolute order within the hierarchy of all the values every ethical finance ought to be organized. *Sharī'ah* transforms ethical finance from a mere compliance exercise to a religious obligation to fulfill one of the divine purposes of creation. Such a doctrinal foundation will always bear legal and moral weight which human-constructed frameworks will inevitably lack.

4. Doctrinal Synthesis: Mapping the Five Darūriyyāt to ESG Dimensions

After resolving the theoretical as well as methodical challenges it is pertinent to shift the focus to the doctrinal component of the analysis, particularly concerning the older paradigm of *Sharī'ah* and the contemporary approach of the Environmental, Social, and Governance (ESG) criteria. This is not simply the positioning of two ethical lexicons in proximity. It is the construction of a jurisprudential bridge which situates the will of the Almighty with the operationalized tools of policymakers and financial actors. This rests on the central principle of *uṣūl al-fiqh: dar' al-mafāsīd muqaddam 'alā jalb al-maṣāliḥ*, which means 'the avoidance of harm takes priority over the pursuit of benefit' (Kamali, 2019). This principle anchors the definition of a contextually relevant sustainability on the avoidance of harm, thus, on the negative aspect of exploitation, injustice, and corruption, rather than strictly the positive attainment of a beneficial outcome.

In this synthesis, we will focus on the *ḥifẓ al-dīn* that is preservation of faith. Traditionally, this was concerned with defending the belief and moral order. However, with regard to the Governance and Social aspects of the ESG, this takes on deeper meaning. The elements of governance such as corporate integrity (*amānah*), accountability (*'ibārah*), transparency (*ṣidq*), and trust (*ḥusn al-*

zann) are not purely formal or technical aspects of governance. They are fundamental religious obligations (Auda, 2008).

A Shari'ah-compliant institution whose governance includes open, honest, and trusting relations with stakeholders, truthful manipulations of financial algorithms, and trust in the breach of contract acts not just on a governance failure. Such an institution fundamentally violates the moral foundations of faith-based finance. This is why self-governance, compliant governance codes, and ethics training systems facilitate the enforcement of *ḥifz al-dīn*.

Focusing on the Social and Environmental parts of the ESG framework, the second objective, *ḥifz al-nafs*, or the preservation of life, is important. The Qur'an talks about God's different attributes and refers to humanity as *khulafā' fi al-ard* trustees of the earth, meaning people are to look after other people and the environment (Qur'an 2:30). Environmental harm, toxic production, and dangerous work are all unsafe and unfit labor practices that violate juridical harms (*mafsadah*) and divine trust (*amānah fi al-ard*). Life-threatening, profit-generating activities utilize the principle of *dar' al-mafāsīd*. Hence, "green" financing, investing in renewables, financing of healthcare, and upholding health standards in work environments are all legally, ethically, and morally prescribed (Dusuki & Bouheraoua, 2011).

Ḥifz al-'aql suggests creative thinking and the value of openness. In the modern world and particularly the social and governance facets of ESG, one must safeguard the reason against disinformation and manipulative information, especially dealing with fraud, predatory marketing, unethical governance, and the so-called responsible investing (Chapra, 2016). Research and development financing, aimed at societal benefits, fulfilled honest stakeholder promises and transparent communication, achieves this goal, leaving the preservation of reason as the divine objective (Kamali, 2019).

In this case, *ḥifz al-nasl*, the intergenerational aspect of the sustainability framework, is the 4th objective, the preservation of progeny. Progeny signifies that members of the current generation engage with the social framework, systems, and structures necessary for the equitable distribution of resources and intergenerational social support. It also embodies the social stewardship of the environment, the management of renewable resources, and family supportive corporate policies. For instance, educational endowments are one way this principle is operationalized (Auda, 2008; Ibn 'Āshūr, 2006). It follows that the investment in the preservation of social and natural resources, as for example, social infrastructure, renewable energy, sustainable agriculture, is the social imperative.

To conclude, *ḥifz al-māl*, or the preservation of wealth, was associated with the economic dimension of Shari'ah as fully compliant with the ESG standards. According to Shari'ah, wealth is a vehicle to morally account for justice, distributive equity, and social welfare. Wealth circulation without the payment of *ribā* and the assumption of *gharar* signifies ethical wealth circulation along with transparent and risk-sharing circulatory frameworks. Incorporation of *ḥifz al-māl* within the ESG paradigm entails the integration of anti-bribery and corruption legislation and equitably sustainable resource control to *dakāh* and *waqf* provisions, which function as social circulation of wealth and its circulation from the individual to the community (Chapra, 2016; AAOIFI, 2022). Hence, the foremost duty to preserve wealth operationalizes all the components of justice within the ESG framework, making wealth preservation an economic enterprise far beyond economic preservation.

With the Shari'ah, the *ḥājiyyāt* (needs) and *taḥsīniyyāt* (enhancement) components further expand the ESG framework from mere survival to human excellence, *ḥājiyyāt* social functionality through the provision of housing, transportation, and digital access, while the *taḥsīniyyāt* contribute to the social flourishing through the investment and legitimization of art and culture and the beautification of public spaces (Al-Shāṭibī, 2002; Kamali, 2019). Together, these two components

aim to shift the ESG framework from mere compliance to proactive ethical financing, with a vision of flourishing for both humanity and the Earth.

Under *Shari'ah*, ESG moves from being just a reporting tool to a governance philosophy. While being compliant to international sustainability standards, it provides a positive justification through *maqṣūd al-shāri'ah*. It also resolves the Islamic finance paradox of being compliant, yet disengaged, with an ethically rich sector. To consider finance through *Shari'ah* is to regard financial actions as a response to a divine order, and to incorporate sustainability as part of an obligation to the hierarchy of the sacred elements that protect and preserve life, intellect, progeny, faith, and wealth (Auda, 2008; Chapra, 2016; Kamali, 2019).

5. A Normative Model: The *Shari'ah*-Driven ESG Framework

The previous doctrinal synthesis and concordance table provide the basic grammar for translating the objectives of Islamic law into practice for ESG. Still, grammar, by itself, will not produce a living language. A grammar requires a structure that will enable the principles to be operationalized, and, more importantly, applied literally. This is the purpose of the *Shari'ah*-Driven ESG Framework. It represents more than a screening tool and reporting template. It is an all-encompassing framework that integrates, under the normative dictates of *Shari'ah*, the governance and strategic decision-making of an institution. By integrating the law's higher objectives into all aspects of one's practice, the framework repositions ESG for IFIs from mere market conditions to a legally and morally prioritized framework, a legally justified hierarchy of preferences, and, thus, a coherent ethical compass (Dusuki & Abdullah, 2016; Al-Suwailem, 2021).

The framework's conceptual design is structured in three interdependent layers to bridge the transcendent with the temporal, the divine and the corporate balance sheet, and the command of the higher and the law.

Every system which permits the use of public funds is justified because it is controlled by the *maqṣūd al-shāri'ah* and the *maslahah* concepts from Islamic law. Given the essential role of public health and other resources which may be disproportionate and conflicting in the pursuit of profit, public and social resources ought to prioritize the welfare and health of the populace rather than profit. In contrast to the ephemeral and abstract principles of secular Environmental, Social and Governance (ESG) frameworks, the approach justified by the *Shari'ah* principles retains authority from a fixed and universally valid perspective in the Islamic tradition. This perspective offers Islamic Financial Institutions (IFIs) a form of guidance that is beyond market value systems and profit logic, and that treats sustainability and profit-preservation instinctively from the operational logic to a sacred trust (*amanah*) which must be preserved in a strong faith and conscience. In terms of accountability, the violation of any of the *Shari'ah* principles which must be protected and preserved is a legal accountability violation and not a reputational liability. This violation poses a risk with accountability in the moral and spiritual domains.

The operational layer acts as a bridge to translate the spiritual aspirations of the *Shari'ah* into practical, implementable steps under the ESG framework. The *Shari'ah*-ESG Concordance Table helps institutions understand how to align with the ESG framework as a way to translate the abstract and spiritual objectives of faith, life, intellect, progeny, and wealth. For instance, robust data privacy policies that protect individuals from perceptual harm go beyond legal compliance and fulfill *ḥifẓ al-'aql*. Anti-corruption policies also fulfill *ḥifẓ al-māl* by stopping wrongful economic gain, and *ḥifẓ al-dīn* by upholding moral order and trust. ESG metrics achieve order and purpose. Each operational decision made satisfies the moral and divine vision of the sponsor and *Shari'ah*. (AAOIFI, 2022).

The institutional element embeds the Islamic finance operations integrative framework. SSBs move from just procedural monitors to ethical strategists, approving product structures and guiding

the institution's Sharī'ah-ESG frameworks. They evaluate significant investments via the lens of the *darūriyyāt*, ethically pioneering new product innovations. Regulators, mainly Central Banks and Securities Regulators, can enhance this model via directives like Sharī'ah-aligned ESG reporting. These might involve a standardized access-through-line taxonomy that correlates corporate activities with the five essentials, pushing Islamic finance institutions (IFIs) to adopt sustainability as a moral, legal, and fiduciary obligation. Financial instruments such as green and social sukuk, strengthened with *ḥifz al-nafs* and *ḥifz al-nasl*, Sharī'ah sustainability indices, and modern waqf endowments, help sustain healthcare, education, and cultural development focused on *ḥifz al-nafs*. This will preserve the *ḥifz al-nafs*.

This framework's decision-making model, grounded in *fiqh al-awlawiyyāt*, relies on priority-based jurisprudence. This enables institutions to eliminate adjudicating priorities and trade-offs. Picture an IFI deciding whether to finance a lucrative pharmaceutical plant that makes vital drugs but has dubious waste management or a green *sukuk* for a lower return water purification project. Both projects relate to *ḥifz al-nafs* (preservation of life). Using the principle of *dar' al-mafāsīd muqaddam 'alā jalb al-maṣāliḥ*—harm must be prevented before any benefits can be obtained—the SSB will probably choose the green *sukuk*, as the environmental harm of the pharmaceutical plant is greater, despite the profit. ESG evaluation can therefore shift from a qualitative preference to a measurable jurisprudentially based order of priorities, and ethical decision-making will be auditable, mandatory, and coherent (Shahid, 2020).

The dynamic nature of the *Sharī'ah* framework allows its application to transcend the five essentials (*darūriyyāt*). This is because, in addition to the five essentials, *Sharī'ah* also incorporates *ḥājiyyāt* (needs) and *taḥsīniyyāt* (enhancements). *ḥājiyyāt* necessitate that IFIs fund public transport, reasonably priced housing, and connectivity via broadband Internet to alleviate distress and support the functioning of society. Investment in *taḥsīniyyāt* allows for the promotion of societal advancements and excellence. Examples of these are the funding of the performing and visual arts and the development of civic infrastructure such as public parks and collections of books in libraries, as well as contemporary scholarly pursuits in research. Although these activities will probably not produce any revenue in the short term, their contribution to the flourishing of civilization is priceless. This is why the Sharī'ah-Driven ESG Framework seeks to be transformative rather than just an exercise in compliance. The focus of financial practice, in this case, is to positively turn the transformative purpose of practice to prosper ethically in an aligned, sustainable manner to support flourishing in all its dimensions, from basic survival needs to the most exalted aspects of life.

6. Comparative Case Studies

A Sharī'ah-Driven ESG framework is theoretical but reflects knowledge from practicing Muslim jurisdictions. No country has fully implemented the model. However, looking at the case studies from Malaysia, the UAE, and Saudi Arabia demonstrates the merging and integration of Islamic ethics and principles with the practices of sustainable finance. Although these cases are unique in their approaches, they are rich in lessons on the practical difficulties and prospects of such integration with respect to the interplay of institutional preparedness, jurisprudential adaptability, and regulatory agency.

Value-Based Intermediation (VBI) initiative is currently one of the major advancements taken in the practice of Islamic Finance in the Malaysian market. VBI is one of the actions taken by Bank Negara Malaysia, the central bank of Malaysia, which has come to be regarded as a mature Islamic Finance market. As a regulatory initiative, VBI is mandated to realign the practices of the Islam banking community. Thus moving the Islamic banking sector to a compliance and practice to achieve real impact. The otherwise success of VBI implementation is attributable to the structured, and top-down, implementation approach. With a defined score system, VBI forces banks to

evaluate their practices and systems through the lenses of integration of social and financial objectives, and systemically, through the lenses of the *Maqāṣid*. Community wellbeing, economic growth, and the environment. This emplaced the incentive and focus to develop impact investment products, which includes integration of new and innovative green *ṣukūk* and micro financing (Ismail et al., 2020).

Nonetheless, there are valuable lessons to be learned from the shortcomings of the VBI. While the VBI is inspired by the *Maqāṣid*, its operational lexicon lies in “values” and “impact” as opposed to the specific and hierarchically defined legal constructs of the *darūriyyāt*, *ḥājjiyyāt* and *taḥsīniyyāt*. This, in turn, makes it more flexible and perhaps more widely palatable, yet the VBI lacks the direct *Sharī‘ah* articulation potency. Furthermore, the connection to the five essentials appears to be more implicit than explicit, which VBI ethics leaves a gap between the VBI ethics and the prioritized, systematic, and rigorous approach that ought to be demanded by *fiqh al-awlawiyyāt* (Dusuki & Abdullah, 2016).

In the case of the United Arab Emirates, the strategic emphasis is on the UAE aiming to be a global center for Islamic finance and sustainable finance. A Working Group for Sustainable Finance in the UAE (SFWG) was created and comprised of cross-ministry, central bank, and financial regulator departments. The UAE integrates *Maqāṣid* language into the country’s ESG policy. The strategic documents and public statements of the UAE’s Sustainable Finance Working Group reference the protection of life, wealth, and future generations as the Islamic basis of the UAE’s national sustainability vision (UAE Sustainable Finance Working Group, 2023).

This strategy illustrates important innovative jurisprudential flexibility and an advanced understanding soft power. By employing *Maqāṣid* theology, the UAE convinces stakeholders that ESG is an economically local initiative instead of a Western import owning ESG, aligning economically with cultural and religious identity. The approach's primary advantage is the will generation on the regulatory and national consensus levels. However, the limitation is that the integration is mostly rhetorical and policy high-level. The *Maqāṣid* vision has to be operationalized, with the imposition of detailed mandatory disclosure and a standardized taxonomy to govern the everyday functioning of financial institutions, similar to the EU taxonomy, in a secular context (UAE Sustainable Finance Working Group, 2023).

In Saudi Arabia, the scale and ambition of Vision 2030 transformation plan, which aims at regional convergence, drives the economic convergence in the Kingdom. Although the Vision 2030 goals of “building a vibrant society, thriving economy, and an ambitious nation” do not explicitly use the *Sharī‘ah* framework, the pillars of all the goals have a compatibility of the lexicon of preserving life, preserving intellect, preserving progeny, and preserving wealth. This possibility of connection is being instituted with the support of the major institutions. The Public Investment Fund (PIF) is the principal engine of diversification and is making enormous investments in renewable energy, green hydrogen, and NEOM, the city of the future. These developments directly satisfy the *Maqāṣid* “preserving life” and “preserving progeny” (Public Investment Fund, 2025). At the same time, the Tadawul stock exchange started its own ESG disclosure framework, thereby promoting disclosure and, as a result, transparency. (Saudi Exchange, 2025).

The Saudi case reflects considerable opportunity and practical implementation. Institution building is nearing completion and is heavily supported by sovereign capital. The only limitation is the lack of an articulate and clear framework between these elements. Vision 2030 and Sharia are harmonizable and in theory Saudi Arabia would be able to base the transformative agenda on a Sharia-Driven ESG framework if it were to make this formally adopt and build on the legal and moral framework over its vision. This will help guarantee that the Saudi Vision economic diversification and growth agenda are in alignment are situated economic and social welfare of the world and its people in its totality (Almubarak, 2023).

From these three cases, some directions on how to proceed become apparent. Malaysia underscores the importance of a complete, comprehensive, regulator-led framework and the need for a deeper, more profound jurisprudential grounding. In the positive case of the UAE, the strategic importance of the Sharī'ah rhetoric to the expression of the national will is evident, although gaps in implementation can also be observed. Saudi Arabia demonstrates the potential for aligning national developments with the Sharī'ah higher objectives, while also indicating the need for a more fully developed conceptual model. The absence of a systematically organized and legally integrated hierarchically Sharī'ah framework highlights the challenges that need to be addressed in order to advance in coherence, depth, and authenticity to lead in the current era of sustainable finance. The lesson is clear that within the context of unprepared institutions and the regulator's willingness, the most important reason fuelling regulatory momentum in any jurisdiction is the impracticality of the *maqāsid* framework.

7. Discussion: Implications and Critiques

From a Sharī'ah perspective and as Moving out to a more practical perspective, Within the Islamic finance industry, it's likely to change the entire Islamic finance industry. Moving out to a more practical perspective, the new Sharī'ah-Driven ESG framework wishes to form a paradigm shift in the Islamic finance industry. Beyond the ethical, legal, and functional paradigm shifts, integrating the Islamic financial institutions (IFIs) might prove to be the greatest challenge. There is a potential to transform Islamic finance with the new paradigm framework. However, the counterbalance to this potential transformation is the great challenges that come with implementing the new paradigm, which would be the absence of an Islamic finance framework. This framework's impact includes the emotional significance of the industry paradigm shift it facilitates. There is a change in the ethos of Islamic finance. Islamic finance, until now, has been operating under the industry ethos of reactivism, where the focus is only on what must be avoided. For every Islamic finance transaction, the foremost question has been, 'Will it be devoid of *riba*, *gharar*, or any haram commodity?' While this approach undermined the negative baseline of avoidance, it has confined Islamic finance institutions (IFIs) to the passive role of gatekeepers, where the safeguarding of compliance boundaries is done without positively empowering any proactive role in societal contribution. The *Shari'ah*-Driven ESG framework seeks to change this default ethos by posing a question of the opposite nature; "Will this financial transaction contribute to upholding and augmenting the *maqāsid* of religion, life, intellect, progeny, and wealth?" This is a shift from a negative theology of avoidance to a positive theology of promotion with the Islamic finance institution ethos set to achieve *tayyib*—ethical. This change to the IFIs ethos is of integral importance. It positions them as active operatives in the sphere of ethical and social change for the first time in the Islamic financial industry (Dusuki & Abdullah, 2016).

The potential developments outlined above in the previous paragraph may have significant implications for the law and regulation of the practice. For example, AAOIFI and the IFSB will have to expand their focus beyond structural compliance. The inclusion of *maqāsid* in governance and impact reporting will need to be written in the form of codified ESG standards. These *Shari'ah* ESG standards will perhaps require entities to assess and report *Shari'ah* compliant impacts addressing the five degrees of needs to be included in the Sharī'ah compliance report and impact audit. Consequently, this will be a bottom line requirement. The Sharī'ah Supervisory Boards (SSB), however, will have a different mandate, transitioning from procedural gatekeeping to strategic oversight. SSBs conducting periodic sustainability audits could ease the requirement that an institution's activities progress their Sharī'ah hierarchy, reduce the risk of "Sharī'ah arbitrage," and enhance the practice's ethical financial autonomy (Al-Suwailem, 2021).

Nonetheless, the implementation of this framework remains an elusive target. The central difficulty stems from interpretive subjectivity. The Sharī'ah is more than non-classical scholarship. Juridical diversity (*ikhtilaf*) among the Mājalīs on prioritization and public benefit could result in a wide divergence of Sharī'ah practices across different institutions and jurisdictions. The issue of subjectivity is exacerbated by "Sharī'ah-washing," the practice of institutions superficially conforming to the Sharī'ah without true changes. The framework, without any guides, becomes an exercise in futility. The absence of reference points undermines the framework's trust and, crucially, its efficacy. Its very existence poses challenges in its measurement.

Some aims, such as the circulation of wealth and the state of the environment, are easier to measure than others, such as the preservation of faith (*ḥifẓ al-dīn*) and the cultivation of intellect (*ḥifẓ al-aql*), which are, by most, deemed immeasurable. The lack of appropriate means to measure these moral and spiritual aims within a framework of sustainable Islamic finance (Shahid, 2020) may be the most significant unanswered question in the field.

In implementing a Sharī'ah-Driven ESG framework, combining creativity with global integration is important. One option is adding Sharī'ah indicators to global ESG indices so that Islamic financial institutions (IFIs) can demonstrate their ethical standings. Providers of ESG indices like MSCI and FTSE Russell could make a Sharī'ah Alignment Score' that measures and scores ethical practices, allowing global investors to find and reward IFIs that significantly promote human and environmental welfare. A second and more innovative option is at the cutting edge of *ijtihād* and advanced technologies. The unique value of Islamic law is the flexibility enabled through *ijtihād*. Modern AI and big data tools can determine investments and socio-economic results and provide jurists with the data to validate more adventurous and practical *ijtihād*. Combining advanced technologies with Sharī'ah will make the framework more practical, adaptable to legal and modern challenges, and able to promote sustainable growth.

The launch of the Sharī'ah-Driven ESG framework starts a new chapter and dramatic change in Islamic finance. In the field, the focus is changing from simply compliance to a more purposeful and intentional approach, harmonizing profit with ethical and social equity, all within the scope of divine intention. Although challenges such as interpretive pluralism, measurement difficulties, and the threat of symbolic compliance remain, they are not impossible to solve. With the right approach to institutionalization, banking compliance, and the appropriate use of technology, the framework positions Islamic finance to be a leader in sustainable finance, providing a balance between fiduciary duty with the moral imperative of the welfare of people and the planet.

8. Conclusion

This paper has traversed the less imagined transition within contemporary Islamic finance, moving from a compliance-based approach to a more centered-vision approach as Islamic finance's own legal traditions recognize. While avoidance of the haram is primordial, a more ambitious approach is demanded as to meet the ethical and social challenges of modern world. Integrating foreign ESG paradigms in their entirety will not accomplish the goal. The Muslim world should strive to implement the objectives of *Sharī'ah*, as this is the will of God. In this sense, *Maqasid al-Sharī'ah* is not an afterthought to ESG in a rhetorical or philosophical sense. It is the central legal and moral component. *Maqasid al-Sharī'ah* offers a hierarchy, rigor, and transcendence to Islamic law's underlying ESG principles. Consequently, *Maqasid al-Sharī'ah* provides Islamic law and sustainable finance with their ultimate purpose and wisdom.

What distinguishes a *Sharī'ah*-Driven ESG framework revolves around where its normative authority comes from. In contrast to traditional ESG, which relies on market consensus, legal requirements, or changing social expectations, guidance from the *Sharī'ah* is unchanging and divine. Because the framework roots its ethical and legal purpose in the jurisprudence of finance,

Sharī'ah-Driven ESG prioritizes the preservation of faith (dīn), life (nafs), intellect ('aql), descendants (nasl), and wealth (māl) in a non-negotiable order of relative importance. Thus, valuing 'preserving' dīn, further prioritizes the role of IFIs to consider 'sustainability' as a non-optional intrinsic primary purpose, and 'sacred' a divine obligation. Consequently, the role of IFIs changes from merely 'profit' generating to 'responsibly' universal welfare generating.

The vision described in the previous paragraph does operationalize, but it does so as the first manifestation of a much broader conceptual and legal framework envisioned as fiqh al-istidāmah. In effect, this jurisprudence of sustainability, will first integrate the principles of uṣūl al-fiqh, fiqh and the *Sharī'ah* hierarchy in addressing contemporary finance as well as the climate and social challenges. In time, and while upholding continuous *ijtihād*, the Islamic finance regulators, *Sharī'ah* boards and institutions will ensure Islamic finance responds in real time to the most ethical, innovative, and transformative practices.

For Muslim jurisdictions, incorporating a *Sharī'ah*-Driven ESG framework is both strategic and necessary. It ensures that countries ethically maneuver within the global financial system and, at the same time, fulfill their Sharī'ah obligation as guardians of the welfare of both humanity and the environment. Integrating *Sharī'ah* finance non-ethical and sustainability considerations makes the alignment of all financial activities higher *Sharī'ah* goals a full-fledged moral obligation. The *Sharī'ah*-Driven ESG framework provides the Islamic finance industry with a legally sound vision that advances the industry in ethically compelling and holistic ways. It shifts the industry mindset from compliance to purpose, from legality of a transaction to stewardship, and from avoidance of divine objectives to proactive fulfillment. For the industry and its institutions, it is not merely a pathway to sustainable prosperity, but the fulfillment of the *Sharī'ah* human obligation.

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