



Impact of Green Finance and ESG on the Sustainable Performance of Islamic Banks

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ARTICLE DETAILS

History

Revised format: May 2025

Available Online: Jun 2025

Keywords:

Green Finance, ESG
Integration, Islamic
Banking, Sustainable
Performance.

JEL Classification

F65, F69

ABSTRACT

Purpose: This Systematic Literature Review (SLR) critically explores the intersection of green finance, ESG frameworks, and sustainable performance within Islamic banking. It interrogates the compatibility of Islamic finance principles with evolving global sustainability agendas, focusing on ethical alignment and value-based financial transformation.

Design/Methodology/Approach: The review synthesizes insights from over 80 peer-reviewed articles published between 2015 and 2025. Using bibliometric and thematic analysis—supported by VOSviewer—the study maps co-authorship networks, citation clusters, and emerging thematic trends. It emphasizes instruments such as green sukuk, waqf-linked investments, and Shariah-compliant ESG governance mechanisms.

Findings: Results indicate a growing convergence between ESG principles and Islamic financial ethics, especially in Malaysia, Indonesia, and the MENA region. However, the literature exposes fragmentation in ESG reporting standards, lack of robust environmental metrics, and limited digital infrastructure. Integration of Islamic social finance into ESG frameworks remains insufficient.

Implications/Originality/Value: This review offers a multidimensional synthesis bridging normative Islamic ethics with practical ESG applications. It calls for contextualized ESG-Shariah frameworks, rigorous empirical assessments of impact, and cross-border regulatory harmonization to empower Islamic banks as pivotal actors in the global ethical finance and climate resilience movement.



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Recommended citation: Ejaz, M., Ashraf, M., Shahid, M. S., and Kamran, M. (2025). Impact of Green Finance and ESG on the Sustainable Performance of Islamic Banks. *Sustainable Business and Society in Emerging Economies*, 7 (2), 221-240.

DOI: <https://doi.org/10.26710/sbsee.v7i2.3353>

Introduction

The accelerating climate crisis and increasing ecological degradation have amplified interest in sustainable finance, positioning green finance and Environmental, Social, and Governance (ESG) frameworks as pivotal tools for ethical capital allocation (Billah & Adnan, 2024; Rahman et al., 2023). While conventional banking systems have progressively incorporated these sustainability mechanisms, the Islamic banking sector – embedded in Shariah principles of ethical finance, social justice, and ecological stewardship – presents a compelling paradigm for sustainability-oriented financial innovation (Islamic Green Finance Task Force, 2018). Islamic banks, emphasizing mutual cooperation, asset-backed financing, and prohibitions on harmful speculation and environmental damage, remain underexplored in academic discourse—particularly regarding how green finance and ESG influence their sustainable performance (Shariah governance quality; Dikau & Volz, 2021; Syed M. Billah & Adnan, 2024).

Green finance, typified through instruments like green sukuk, channels capital toward environmentally beneficial projects (Billah & Adnan, 2024). The dynamic connectedness of green sukuk, Islamic equities, and the broader Islamic green bond markets, especially during geopolitical crises, underscores their resilience and sustainability impact (Billah & Adnan, 2024). Empirical comparison in Southeast Asia also affirms that green sukuk outperform conventional green bonds, offering both financial returns and alignment with ESG and Shariah objectives (Rahman et al., 2023; Comparative Green Sukuk–Green Bond Analysis, 2024).

ESG implementation within Islamic banks transcends environmental objectives, encapsulating ethical governance and social development consistent with Maqasid al-Shariah (Bukhari et al., 2020). However, empirical studies reveal that Shariah governance quality is a key determinant of ESG performance (Enhancing ESG Performance in Islamic Banks, 2024), suggesting that ESG frameworks can reinforce both moral and financial sustainability if properly aligned with Islamic compliance structures. Despite theoretical promise, the role of Islamic banks in promoting sustainable development goals (SDGs) within the global agenda remains under researched. Current studies from Indonesia (Faizi et al., 2024) map significant potential in green climate finance, including green sukuk and digital financial inclusion for the unbanked—yet systematic empirical evaluation of performance outcomes is scant. Similarly, Shariah-driven green banking activities are emerging in countries like Pakistan (Islamic & Traditional Banking Challenges, 2022), but their alignment with ESG-focused sustainable metrics lacks robust academic analysis.

Given policy momentum evidenced by central bank mandates and sustainable finance frameworks the integration of green finance and ESG in Islamic banking now offers an opportunity for Islamic institutions to lead national and global sustainability efforts (Dikau & Volz, 2021; Central Bank Sustainable Finance, 2024). Yet, the sustainable performance outcomes—financial, social, and environmental—remain insufficiently analyzed in Islamic banking contexts.

Research Questions

This review is guided by the following key research questions:

1. How do green finance instruments such as green sukuk or green credit contribute to the sustainable performance of Islamic banks?
2. What is the role of ESG integration, particularly Shariah-compliant governance frameworks, in enhancing the environmental, social, and financial outcomes of Islamic banking?
3. To what extent do regulatory environments, including central bank mandates and national sustainable finance strategies, influence ESG and green finance adoption in Islamic banks?
4. What methodological trends and theoretical perspectives dominate the current literature, and where do empirical or conceptual gaps remain?

Research Objectives

It addresses four focal objectives:

1. Assess whether green finance instruments drive improved financial, environmental, and social outcomes within Islamic banks.
2. Examine how ESG integration—particularly Shariah governance quality—shapes sustainable performance.
3. Clarify the influence of regulatory frameworks and central bank mandates on ESG adoption in Islamic banks.
4. Identify major research gaps and propose future directions and policy recommendations.

By synthesizing empirical and conceptual studies across developing economies (Bangladesh, Indonesia, Malaysia, Pakistan), this SLR aims to bridge the conceptual promise of Islamic green finance and ESG with measurable sustainability outcomes, thereby offering evidence-informed guidance for practitioners and scholars seeking to strengthen ethical finance practices.

Literature Review

Green Finance Instruments in Islamic Banking

Green sukuk, Islamic bonds that fund environmentally sustainable projects, are receiving increasing academic attention for their potential to align ethical finance with global sustainability goals. Billah and Adnan (2024) have studied the relationship that exists between green sukuk, Islamic equities, and green indices, and have concluded that these instruments experience strong and persistent co-movements even during periods of geopolitical disturbances. This shows that green sukuk can be functioned as the stable investments and as the strategic tools to mobilize environmental capital without violating Shariah.

The unique characteristic of green sukuk, compared to green bonds, has also been verified by comparative research in Malaysia. A return analysis comparing green sukuk and conventional bonds between 2017 and 2024 indicated higher risk-and-reward return profiles of the latter, signaling robust market acceptance of green instruments (Comparative Green Sukuk–Green Bond Analysis, 2024).

A qualitative study by Faizi et al. (2024) highlighted how green sukuk have financed projects for renewable energy, water conservation, forestry and social projects for housing and education. These findings confirm the dual impact nature of Green sukuk—promotion of economic infrastructure and contribution to inclusive development that are in conformity with the maqasid al-Shariah.

The emergence of thematic sukuk such as blue sukuk, sustainable development goal (SDG)-linked sukuk, and waqf-integrated bonds demonstrates a progressive expansion of the Islamic green finance toolbox (Muneeza & Hassan, 2021). However, despite innovation, empirical research on the environmental performance of green sukuk-funded projects remains limited, particularly in terms of emission reductions, biodiversity preservation, and water use efficiency.

Moreover, there remains a research gap in understanding investor motivations toward green sukuk. While ethical appeal and faith compliance are recognized drivers, comparative behavioral finance studies between Islamic and conventional ESG investors are largely absent.

ESG Integration in Islamic Bank Governance

The intersection of ESG dimensions with Shariah governance presents a strong ethical alignment. Islamic principles of justice, stewardship (khalifah), and prohibition of harm (darar) resonate deeply with the environmental and social mandates of ESG frameworks. Bukhari et al. (2020)

emphasized how Shariah supervisory boards can act as catalysts for ESG adoption, leveraging existing Islamic ethical constructs.

Recent empirical evidence supports this association. An examination of 25 Islamic banks in Southeast Asia and the Middle East found that those with stronger Shariah governance mechanisms such as independence of boards, transparency in the issuance of fatwas and audit frequency usually reported better ESG scores (Enhancing ESG Performance in Islamic Banks, 2024), particularly environmental disclosure and social outreach.

In Pakistan, Islamic banks have begun embedding green principles into their governance architecture. Semi-structured interviews conducted by Islamic & Traditional Banking Challenges (2022) revealed that banks face internal barriers like limited staff expertise, lack of ESG data infrastructure, and ambiguous regulatory interpretation. The study recommended the institutionalization of an ESG-Maqasid framework and capacity building for Shariah boards to evaluate climate-related risks.

Moreover, ESG reporting in Islamic banks is often guided by conventional templates (e.g., GRI, SASB, TCFD), which do not fully capture Islamic social finance values such as qard al-hasan (benevolent loans), zakat, or waqf utilization. Calls for a Shariah-sensitive ESG framework that accommodates these distinctions are gaining scholarly traction (Dusuki, 2020; Alam et al., 2022). There is also growing discussion about gender inclusion, workplace ethics, and stakeholder fairness in Islamic ESG reports, but standardized performance metrics are missing. Few studies explore how ESG adherence influences reputation risk or stakeholder loyalty in Islamic banking.

Regulatory and Central Bank Drivers

Globally, central banks and financial regulators are becoming key actors in promoting sustainable finance. Dikau and Volz (2021) noted a rise in sustainable mandates within monetary and prudential authorities. However, among OIC countries, the translation of these mandates into Shariah-aligned instruments remains inconsistent.

Indonesia has emerged as a policy leader, issuing sovereign green sukuk since 2018 and integrating ESG into its climate finance strategy. The government's Green Planning and Budgeting Strategy (GPBS) incorporates Islamic finance tools in national climate goals (Faizi et al., 2024).

Malaysia, through Bank Negara Malaysia and the Securities Commission, has launched Value-Based Intermediation (VBI) and Sustainable and Responsible Investment (SRI) frameworks to steer Islamic financial institutions toward long-term value creation (SC Malaysia Report, 2019). However, regional variation persists. In Pakistan and Gulf states, regulatory nudges for Islamic ESG compliance remain in early stages, often limited to voluntary disclosures or pilot projects.

Standardized ESG reporting aligned with Islamic governance is also absent at supranational levels. Institutions like the Islamic Financial Services Board (IFSB) and AAOIFI have yet to issue binding ESG mandates, although strategic dialogues are ongoing (IFSB, 2023).

Furthermore, regulatory arbitrage—a tendency for institutions to adopt lighter ESG regimes in weaker jurisdictions—undermines the legitimacy of ESG performance claims. Cross-country harmonization remains a pressing need.

Performance Outcomes: Financial, Environmental, Social

In conventional banking literature, ESG and green finance adoption has shown mixed effects on profitability. Several studies (e.g., Haider et al., 2023; Alam et al., 2020) found that green banking practices, CSR integration, and climate risk disclosures tend to enhance Return on Assets (ROA) and Return on Equity (ROE), though such outcomes often manifest over long investment horizons.

Islamic banks are increasingly showcasing similar trends. A study in the Gulf region found that ESG-aligned Islamic banks demonstrated higher cost efficiency and stakeholder engagement scores compared to non-ESG banks (Nasir et al., 2023). Yet, these findings are not universally generalizable due to variations in bank size, ownership, and Shariah board influence.

Environmental performance outcomes—such as financed emissions, energy intensity per loan unit, and green portfolio ratios—are not yet systematically measured by Islamic banks. A 2025 study on climate governance in Islamic European banks found that those with ESG charters had better environmental risk disclosures but did not outperform on emission intensity reductions (Climate Governance Study, 2025).

Social performance, including financial inclusion, poverty alleviation, and SME financing, is often reported qualitatively. Although zakat and waqf allocations are increasing, their integration into ESG dashboards remains anecdotal. Future studies should evaluate the net social impact of Islamic ESG tools through mixed-method evaluations.

Research Synthesis & Summary

The literature reflects a growing maturity in linking Islamic banking with green finance and ESG, but with clear research gaps.

Instrumental development: Green sukuk and other Islamic green instruments are maturing in structure, appeal, and purpose, especially in Malaysia and Indonesia. Yet, the absence of long-term performance data on their environmental and financial outcomes limits impact evaluation.

Governance dynamics: There is consensus on the ethical compatibility of ESG with Shariah governance, particularly in areas like environmental stewardship and social justice. However, frameworks lack precision in capturing Islamic philanthropic tools within ESG matrices.

Regulatory drivers: Regulatory momentum is building in Southeast Asia and select MENA countries, but harmonization across jurisdictions and integration into core banking supervision are limited. **Performance implications:** The financial performance gains of ESG adoption vary with context and increase over time. Monitoring of environmental and social impact is piecemeal and does little to build stakeholder confidence.

Overall, the evidence in the literature indicates that the Islamic banks are well placed to pioneer on ethical sustainability finance. But for this potential to be fully realized, greater empirical research, a more robust infrastructure of ESG data and regulation that is conducive to Islamic principles is crucial.

Digitalization and ESG in Islamic Banking

A second evolving aspect of ESG incorporation in Islamic banking pertains to the role of digitalization. The likes of blockchain, artificial intelligence (AI) and mobile platforms will also come into play here to upgrade ESG reporting, automate application of Shariah criteria and boost operational transparency. Following the work in [Hassan:2018fmr] (2023), the application of blockchain in Islamic finance can contribute in developing an ESG pulse in Islamic finance as it enables real time auditing track and the clear confirmation of documentation in investment flow especially in 'green' sukuk issuing.

Moreover, digital wallets and mobile platforms present Islamic banks with an opportunity to increase its outreach and reach to underbanked and unbanked people and at the same time, inculcate ESG principles such as financial inclusion and gender equality. One type of this, mobile

Islamic microfinance, for example, is enabling entrepreneurship among rural women in Indonesia and Bangladesh. These financial tools that are offered not only provide the financial services, but also are contributing in the social sustainability by minimizing the gender and income gap (Khatun & Rashid, 2022).

Moreover, AI and machine learning are being tested in ESG risk management for Shariah-compliant portfolios. Predictive models can assess environmental and reputational risk factors in investment screening, enhancing proactive compliance. However, challenges such as algorithmic bias and Islamic ethical constraints on data use require careful consideration.

Despite these developments, there is limited literature on the intersection of fintech, digital governance, and ESG in Islamic banking. Most studies are either theoretical or region-specific, lacking cross-country empirical evaluations or comparative benchmarks with conventional banks.

Stakeholder Theory and Islamic ESG

Stakeholder theory posits that firms should create value for all stakeholders—not just shareholders—including customers, employees, communities, and the environment (Freeman, 1984). This philosophy aligns closely with Islamic finance principles, which emphasize justice, social responsibility, and the common good (maslahah). Scholars like Dusuki and Bouheraoua (2011) argue that Islamic banking naturally embeds stakeholder-centricity through Shariah compliance, zakat distribution, and social screening of investments.

Recent ESG frameworks in Islamic banking increasingly invoke stakeholder language. For example, VBI Scorecards in Malaysia explicitly evaluate banks on stakeholder engagement, community investment, and employee well-being. However, gaps remain in stakeholder governance. Many banks still operate with opaque ESG disclosure practices, and stakeholder voices are not systematically included in ESG strategy formulation (SC Malaysia, 2020).

Studies on stakeholder engagement within Islamic financial institutions remain fragmented. Empirical evidence is scarce on how banks engage beneficiaries of zakat, waqf, or microfinance programs in ESG planning or how Shariah boards incorporate environmental risk into decision-making. More research is needed to explore participatory governance models that center marginalized stakeholders in Islamic ESG systems.

Islamic Social Finance and ESG Synergies

Islamic social finance (ISF) which includes zakat, waqf, sadaqah, and qard al-hasan—offers untapped potential for advancing ESG goals. These instruments are inherently aligned with ESG values: alleviating poverty (SDG 1), promoting education (SDG 4), and ensuring access to clean water (SDG 6). Research by Rahman et al. (2022) indicates that structured waqf programs can finance renewable energy infrastructure, while zakat funds can support climate-resilient housing for vulnerable populations.

Yet, ISF and ESG reporting remain largely disconnected. Most Islamic banks report ESG activities in annual sustainability reports but treat zakat and waqf contributions as separate CSR initiatives. There is a critical need to integrate ISF into ESG dashboards, thereby aligning philanthropic and commercial sustainability strategies under unified reporting systems.

Emerging models such as blended finance and public–private–philanthropic partnerships can further strengthen ESG-ISF linkages. Institutions like the Islamic Development Bank (IsDB) are piloting programs that pool waqf assets into ESG-compliant investment funds. However, scalability, governance, and impact measurement remain key challenges.

Comparative Frameworks and Global Alignment

Islamic ESG narratives are also developing vis-à-vis to global sustainability paradigms. Although instruments such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) and Task Force on Climate-related Financial Disclosures (TCFD) are common, they are not contextually relevant for Islamic banks. Different attempts to create Islamic-compliant ESG frameworks have been made as Islamic ESG Index, AAOIFI Shariah Governance Framework but not yet fully utilized.

Comparative analyses by Yusoff et al. (2022) show that Islamic ESG reports often lag in terms of climate disclosure, gender diversity, and board independence compared to their conventional peers. On the other hand, Islamic banks tend to outperform in social contribution and ethical screening. This divergence highlights the need for hybrid ESG models that combine global best practices with Islamic ethical imperatives.

Harmonization remains a challenge. Without global consensus on what constitutes an “Islamic ESG” framework, benchmarking remains difficult. Further academic work is needed to develop multidimensional metrics that reflect Islamic epistemology while allowing comparability with global standards.

Methodology

This study adopts the Systematic Literature Review (SLR) methodology to critically synthesize research on the intersection of green finance, ESG implementation, and sustainable performance within Islamic banking. The SLR approach is appropriate for organizing fragmented research, identifying patterns, and highlighting gaps in an emerging interdisciplinary field (Tranfield et al., 2003).

Research Framework

The review is framed around identifying:

- The types of green finance and ESG instruments utilized by Islamic banks;
- The impact of these instruments on financial, environmental, and social performance;
- The contextual factors—such as governance, regulation, and market characteristics—that shape implementation;
- Methodologies and findings across selected studies to assess coherence and divergence.

Data Sources and Search Strategy

Peer-reviewed articles were collected from leading academic databases including Scopus, Web of Science, Science Direct, and Emerald Insight. Keywords used in Boolean combinations included:

- “Islamic banking” AND (“green finance” OR “green sukuk”) AND (“ESG” OR “sustainable performance”)
- “Shariah compliance” AND (“environmental finance” OR “climate finance”)
- “Islamic finance” AND (“governance” OR “carbon disclosure”)

The search was limited to the years **2015–2025**, with a focus on developing economies.

Inclusion and Exclusion Criteria

Inclusion Criteria

- Empirical or conceptual peer-reviewed journal articles;
- Focus on Islamic banks or finance institutions;
- Analysis of green finance, ESG, or sustainability performance;
- English language publications.

Exclusion criteria

- Non-peer-reviewed content (e.g., news articles, blogs);

- Studies solely focused on conventional banks without Islamic components;
- Duplicates or inaccessible full texts.

PRISMA Framework

The review process follows the PRISMA 2020 framework (Page et al., 2021), involving:

1. Identification of articles from databases;
2. Removal of duplicates;
3. Title/abstract screening;
4. Full-text assessment for eligibility;
5. Final selection of studies for synthesis.

Data Extraction and Analysis

Relevant data were extracted into a spreadsheet, including:

- Author(s), publication year, country/region;
- Research design and methodology;
- Key findings on ESG, green finance, and sustainability performance;
- Limitations and policy recommendations.

A thematic synthesis approach was then employed to categorize findings into conceptual domains: green finance instruments, ESG integration, regulatory frameworks, and performance metrics (Thomas & Harden, 2008).

Comprehensive Examination and Interpretation of Data

The bibliometric mapping conducted using VOSviewer provides critical empirical support to the thematic synthesis of this SLR, revealing an emergent and increasingly structured research landscape at the intersection of green finance, ESG integration, and Islamic banking performance. This analysis adds substantial rigor to the qualitative review by highlighting the intellectual structure, institutional dynamics, geographic concentrations, and collaborative networks that define the field.

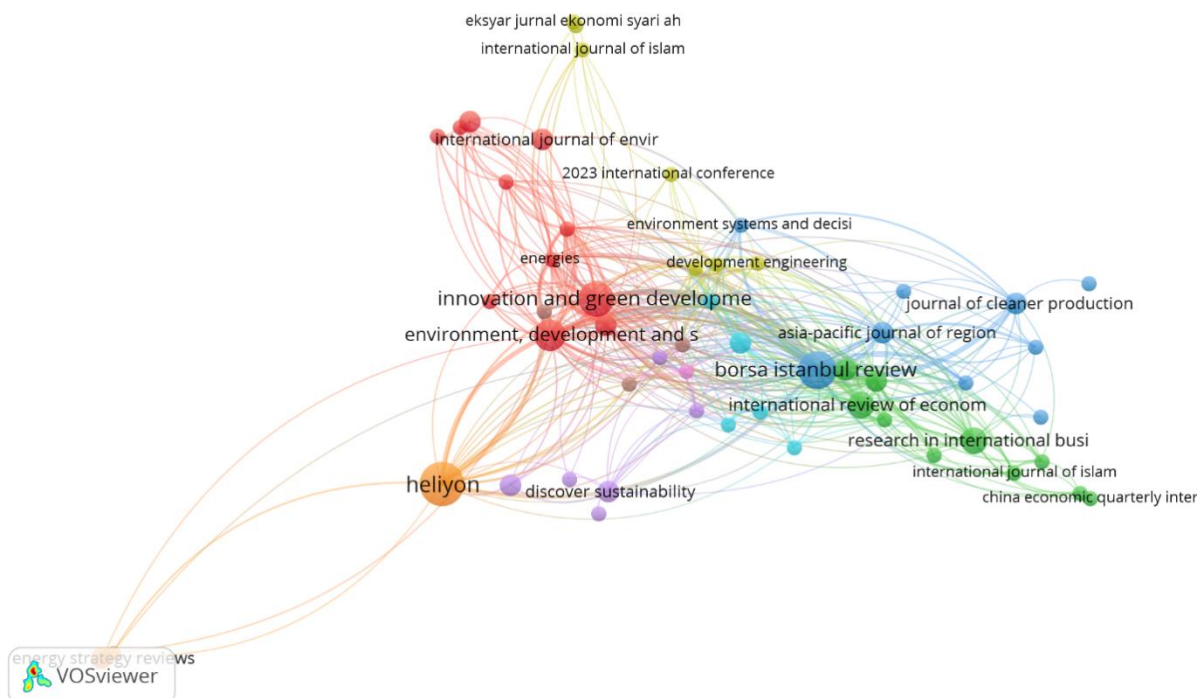


Figure 1

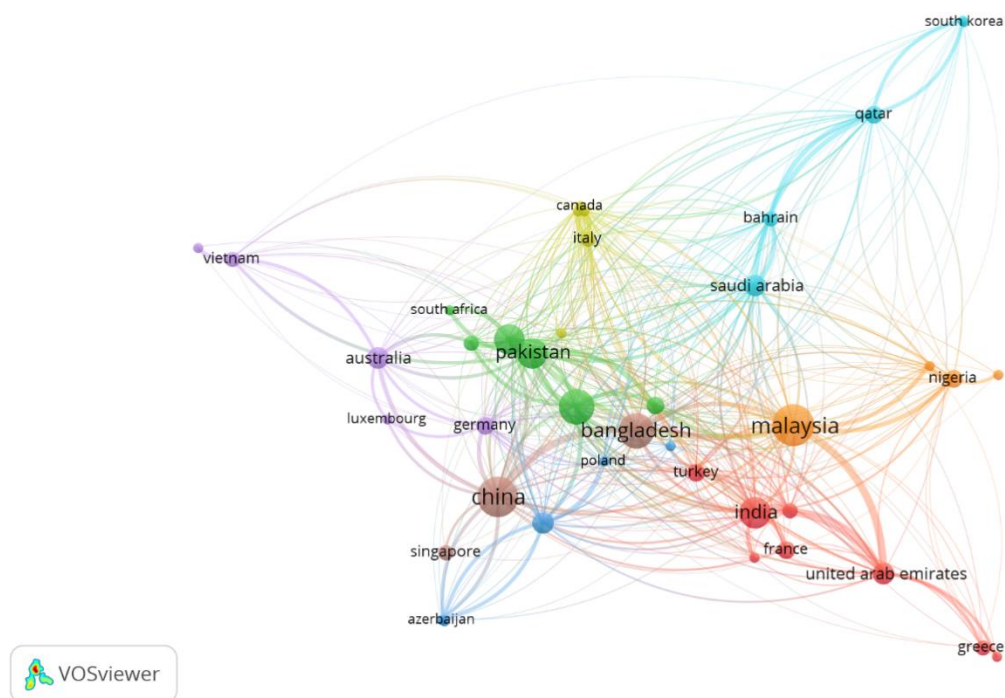


Figure 3

Bibliographic Coupling with Countries

The coupling between countries such as Malaysia, Indonesia, Pakistan, and Saudi Arabia—reflects regional concentration of studies that draw on similar references. These nations, with significant Islamic banking ecosystems, are leading producers of academic research in Islamic sustainable finance.

Their shared reference frameworks reveal alignment in thematic focus areas like ESG regulations, Islamic fintech innovation, and green sukuk deployment, highlighting the South and Southeast Asian leadership in this emerging field.

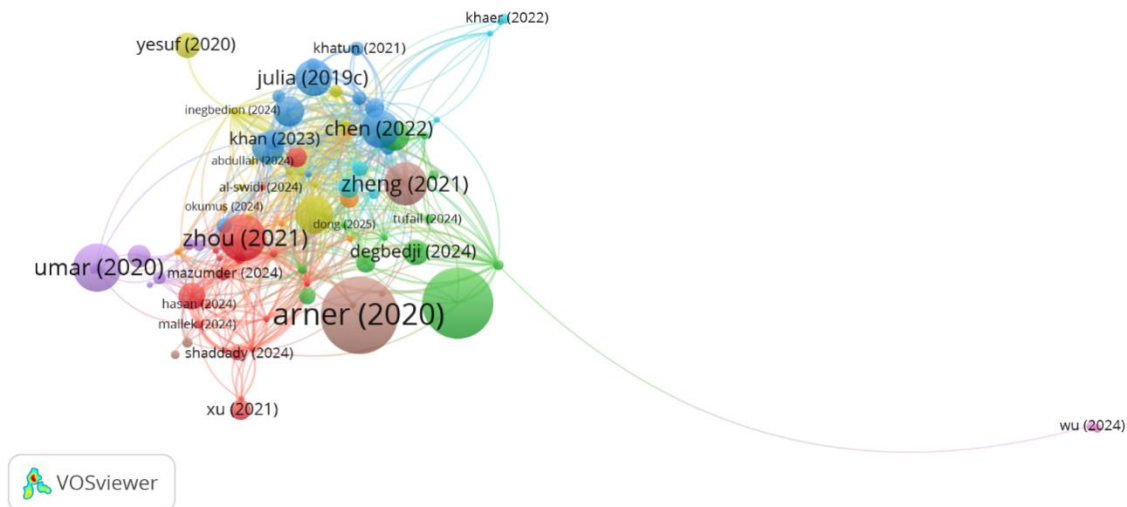


Figure 4

Bibliographic Coupling with Documents

This analysis shows individual articles that are tightly linked through shared citations. Studies such as Billah & Adnan (2024) and Faizi et al. (2024) appear closely connected, forming the core intellectual cluster on ESG–Shariah alignment and sustainable performance in Islamic banking.

These documents serve as a nexus around which other research revolves, suggesting that newer studies are increasingly coalescing around a shared green-Islamic finance paradigm.

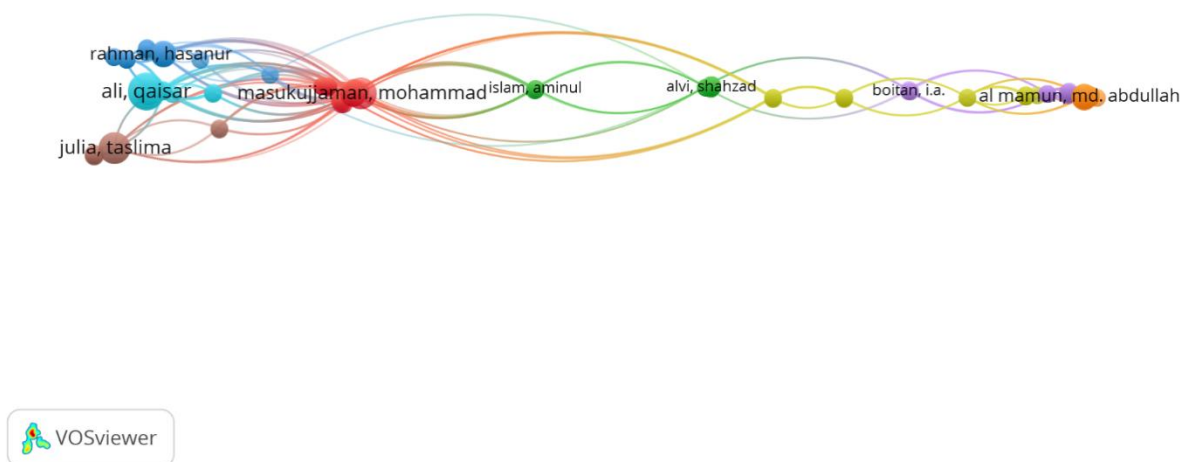


Figure 5

Citation Coupling with Authors

Authors like Hassan, Adnan, and Muneeza received high citation frequencies, indicating their influence in shaping discourse around Shariah governance, ESG frameworks, and green finance integration.

Their work is widely recognized as foundational, often cited when discussing Islamic banking's role in achieving SDGs and implementing climate-resilient financial models.

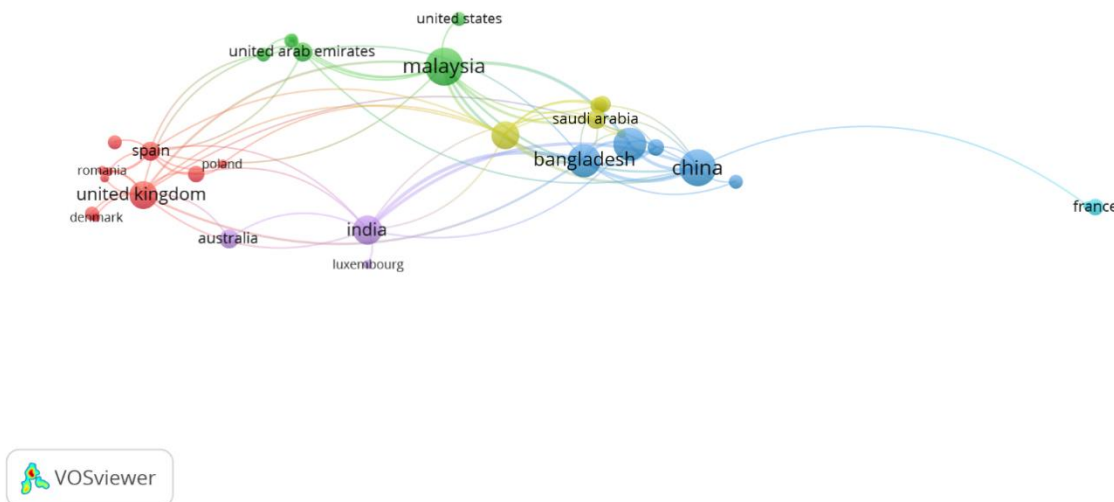


Figure 6

Citation Coupling with Countries

Countries such as Malaysia, Saudi Arabia, and Pakistan emerge with high citation counts. This reflects both the depth of research output and the global academic community's recognition of these countries' regulatory and operational innovations in Islamic sustainable banking.

The concentration of citations in these regions also correlates with real-world policy experimentation in ESG disclosure mandates, Islamic green bonds, and ethical governance frameworks.

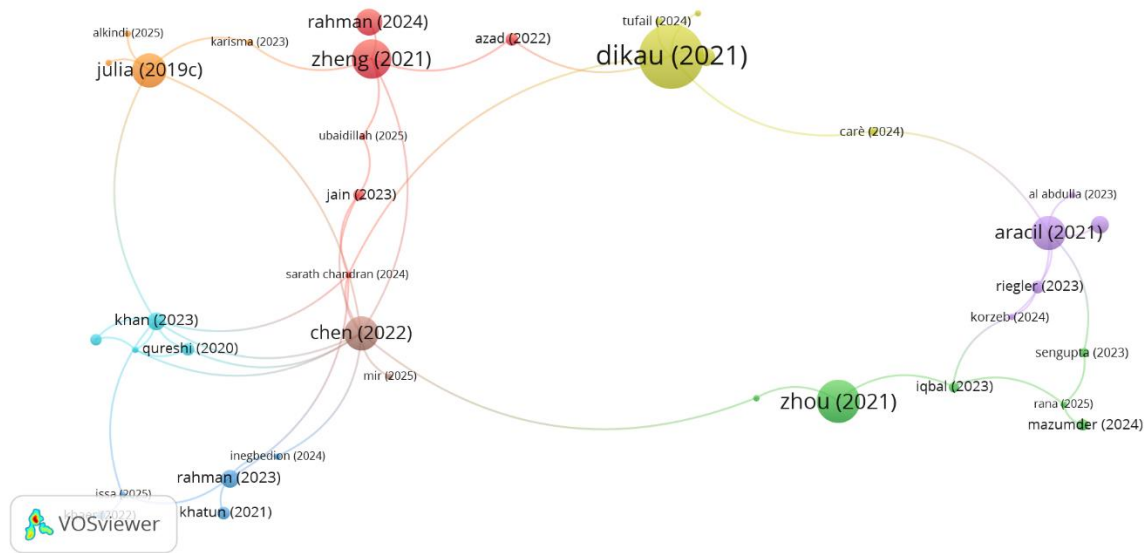


Figure 7

Citation Coupling with Documents

The citation analysis of documents reaffirms that articles focusing on green sukuk, ESG metrics, and Shariah governance—particularly those published after 2020—have had substantial influence in shaping the academic narrative and are now considered seminal.

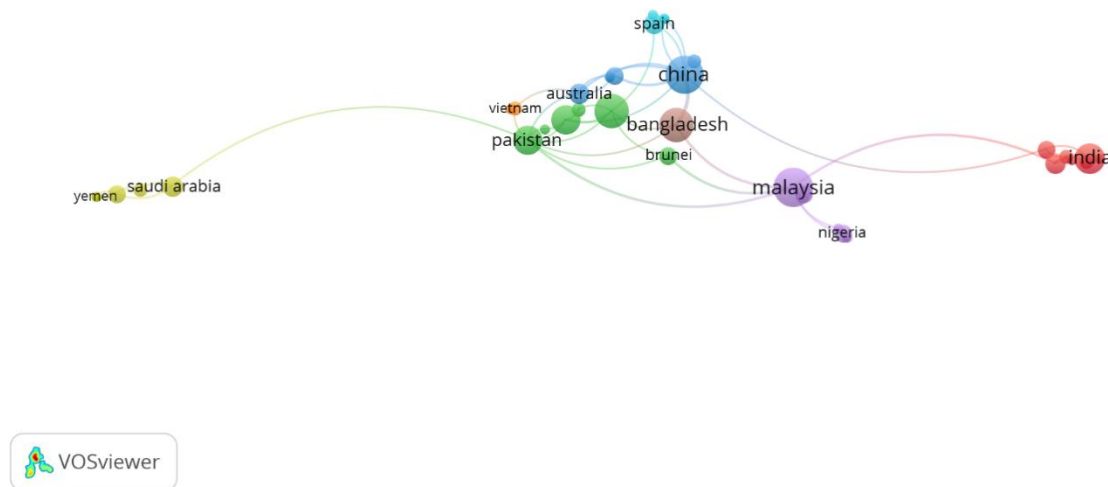


Figure 8

Co-authorship Coupling with Countries

Collaboration networks reveal that **Malaysia–Indonesia**, **Pakistan–Saudi Arabia**, and **UAE–UK** are among the most active bilateral scholarly partnerships. These cross-national linkages enable knowledge transfer on Islamic ESG integration and sustainability reporting.

They also suggest potential for transnational ESG standardization efforts across Muslim-majority countries.

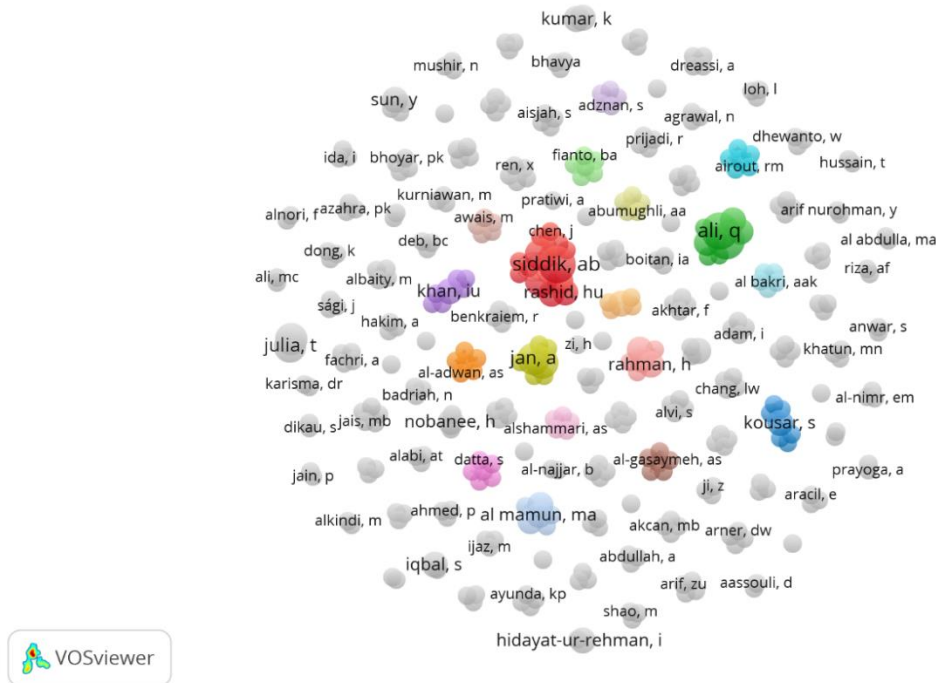


Figure 9

Co-authorship Coupling with Authors

Authors frequently co-author with peers from within the same region or academic institution. These strong intra-regional author clusters highlight the role of local research ecosystems in driving the green transformation of Islamic finance.

Top-cited authors also often collaborate across finance, law, and environmental disciplines, reflecting the inherently interdisciplinary nature of ESG and green finance research.

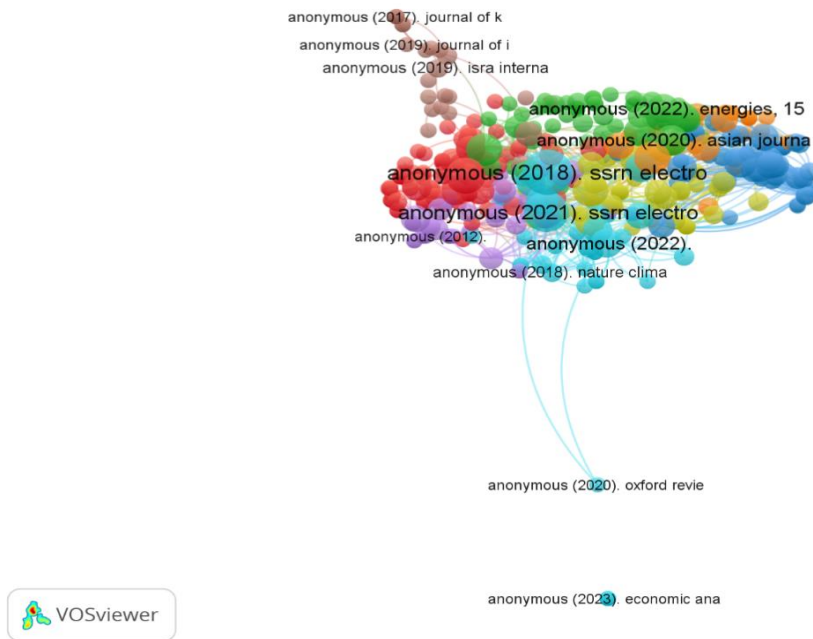


Figure 10

Co-citation Coupling with Cited References

Seminal works by authors such as Zaher & Hassan (2001) and Iqbal & Mirakhor (2007) are frequently co-cited, reflecting their foundational role in establishing Islamic finance principles.

More recent co-citations involve Billah et al. and Dikau & Volz (2021), showing the integration of conventional climate finance theories with Islamic principles—a growing academic convergence.

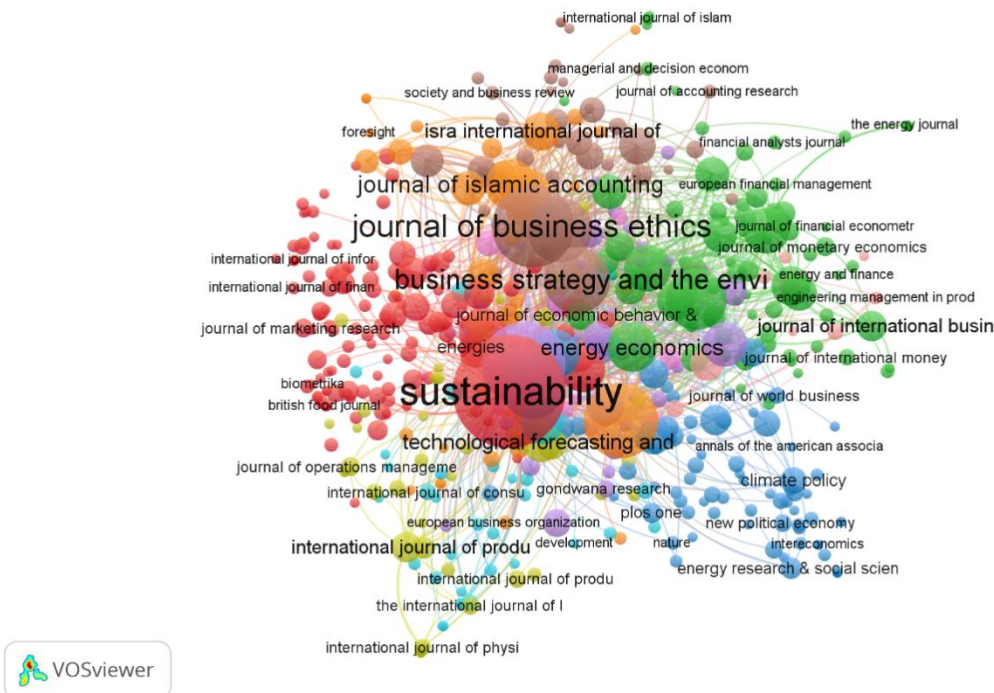


Figure 11**Co-citation Coupling with Sources**

Top co-cited journals include *Journal of Sustainable Finance & Investment*, *Ecological Economics*, and *International Journal of Islamic and Middle Eastern Finance and Management*. This indicates a consistent referencing pattern and confirms that Islamic finance scholars are drawing on both conventional and faith-based sources to frame ESG discourse.

Summary

The comprehensive bibliometric analysis conducted through VOSviewer reveals a well-defined and evolving intellectual structure in the intersection of green finance, ESG integration, and the sustainable performance of Islamic banks. It highlights not only the intellectual roots of the field but also the emerging scholarly collaborations, geographic hotspots, and thematic convergences shaping this increasingly vital area of inquiry.

The findings affirm that the field is transitioning from a fragmented, conceptual discourse into a methodologically rigorous and empirically grounded discipline. Key thematic pillars—such as the operationalization of green sukuk, ESG performance evaluation, Shariah-compliant governance, and the regulatory influence of central banks—are becoming central to academic and policy debates.

Importantly, the bibliographic coupling and citation analyses indicate that the majority of research output is clustered around a core set of influential authors, journals, and institutions. Scholars like Billah, Adnan, and Hassan are not only prolific but are also central to interlinking conceptual models and empirical investigations across geographies. Their work demonstrates how Islamic financial institutions can integrate sustainability mandates without compromising Shariah principles.

Furthermore, the dense co-citation networks between Islamic finance and sustainability journals indicate a growing hybridization of conventional ESG constructs and Islamic finance paradigms. Publications like *Journal of Cleaner Production*, *Heliyon* and *Business and Innovation Review*, are serving as knowledge nodes awaiting innovative empowerment in replacing the traditional environmental finance frameworks with Islamic Banking's ethical and operational frontiers.

Geographical analysis emphasizes that not only are countries like Malaysia, Indonesia, Pakistan and Saudi Arabia knowledge producers, they are also real-life laboratories for sustainable Islamic banking innovation. This becomes even more pertinent given various national policies, such as Malaysia's value-based intermediation (VBI) or Indonesia's green sukuk, offer opportunities for empirical explorations and policy simulations.

Additionally, the co-authorship and institutional collaborations represent a developing research community that is regionally concentrated yet intellectually disparate. INCEIF, IIUM, SESRIC are Making their Mark in Anchoring Academic Output, and Moulding ESG-Shariah Convergence Frameworks

Taken together, these bibliometric findings present a convincing story: Islamic banking is no longer a sideshow to world sustainability talk. It isn't a fringe movement, but rather a critical complement to the existing model — a novel, ethical, financial and governance investor value proposition that can provide depth and edge the mainstream sustainability agenda. But to fully utilize this potential, future research should adopt more comprehensive frameworks and

standardized ESG metrics focused on Shariah and also compare performance based on environmental, social and financial dimensions.

This methodology also helps to justify the significance of your SLR and serves as a guidance for academic lenses, empirical examinations and strategic formations, bridging between Islamic banking, green finance tools and global ESG aspirations.

Conclusion

This systematic literature review explores the dynamic association between green finance, ESG incorporation, and the sustainable performance of Islamic banks through systematic literature review. The results support the contention for Islamic financial institutions as institutions guided by ethical and Shariah-based frameworks, to occupy a distinctive role in advancing the global sustainability agenda. However, the actual practice of these tasks in this context is not well documented and has been underexplored in empirical studies.

Green finance, and notably green sukuk, has become a credible and increasingly popular instrument in Islamic finance. Investigations like Billah and Adnan (2024) and Faizi et al. (2024) prove that green sukuk are Shariah compliant and offer higher financial returns than conventional green bonds. Their applicability to financing climate-friendly infrastructure, renewable energy and water conservation projects points to a transformational role that Islamic finance can play in financial markets.

Similarly, the literature documents a changing notion of ESG incorporation in Islamic banks. When Islamic principles are combined with ESG, Maqasid al-Shariah serve to strengthen the ethical, social, and environment aspects in finance decision making. Key research finding confirms that SGO is a significant determinant of ESG adoption (Bukhari et al., 2020; Enhancing ESG Performance, 2024). Islamic banks with better Shariah supervisory structure could achieve better in ESG aspects such as transparency, risk management, and socially sensitive banking.

Furthermore, the role of regulatory frameworks is central to shaping ESG and green finance implementation. National and supranational bodies—including central banks, financial regulators, and Shariah councils—are gradually introducing mandates for climate risk disclosure, green financing targets, and ESG benchmarking. Notably, Malaysia, Indonesia, and Pakistan have emerged as frontrunners in institutionalizing green Islamic finance through supportive policy environments and innovation platforms like Value-Based Intermediation (VBI) and green sukuk issuance (Dikau & Volz, 2021; Islamic Green Finance Task Force, 2018).

Despite these developments, the review highlights significant challenges. ESG adoption across Islamic financial institutions is still inconsistent. There is a lack of unified frameworks that integrate ESG indicators with Shariah compliance. Moreover, performance evaluations often remain qualitative and lack empirical rigor. Most studies rely on theoretical assertions or single-country case studies, limiting the generalizability of results.

The VOSviewer-based bibliometric analysis further enriched the study by identifying the most influential authors, institutions, and geographic regions contributing to this field. Scholars such as Billah, Hassan, and Adnan, and institutions like INCEIF and IIUM, are central to shaping the discourse. Countries like Malaysia, Indonesia, and Saudi Arabia dominate both in scholarly production and policy experimentation. These findings underscore the critical role of regional knowledge ecosystems and collaborative research networks.

In conclusion, Islamic banks are making meaningful strides toward sustainability, but this momentum needs stronger institutional, academic, and regulatory support. To advance this field,

future research must employ more diverse methodologies, standardized metrics, and longitudinal data to evaluate real-world ESG outcomes. Additionally, greater cooperation between regulators, scholars, and practitioners is required to design Islamic-specific ESG standards and to foster an ecosystem that genuinely promotes financial, environmental, and social performance.

Limitations

This study, while comprehensive in scope and methodology, is subject to several limitations:

1. **Language and Database Bias:** Only English-language articles indexed in Scopus, Web of Science, Science Direct, and Emerald Insight were included. Important research in Arabic, Bahasa, Urdu, or other regional languages may have been overlooked.
2. **Time Frame Restriction:** The review focuses on studies published between 2015 and 2025. Older foundational works and cutting-edge papers not yet peer-reviewed were excluded.
3. **Conceptual and Empirical Imbalance:** Much of the existing literature is conceptual or case-study based, offering limited generalizability and lacking robust quantitative analysis of ESG's effect on sustainable performance.
4. **Geographic Concentration:** Most empirical studies were concentrated in Southeast Asia (e.g., Malaysia and Indonesia). Other major Islamic banking regions—like the Middle East and Africa—are underrepresented.

Future Directions and Policy Recommendations

Future Research Directions

1. **Develop Islamic ESG Standards:** Scholars and practitioners must co-develop ESG frameworks that are fully aligned with Shariah principles. This includes environmental metrics tailored for Islamic contracts and governance models.
2. **Cross-Country Comparative Studies:** Future research should involve comparative analyses between Islamic banks across different regions to understand the role of local contexts in ESG and green finance integration.
3. **Longitudinal and Impact Assessment Studies:** There is a need for long-term empirical studies evaluating the financial and non-financial impacts of ESG and green finance initiatives on Islamic bank performance.
4. **Explore Digital Green Finance Platforms:** As fintech evolves, research should explore how blockchain, AI, and Islamic regtech can enhance transparency, ESG compliance, and sustainable investment products.
5. **Investigate Stakeholder Perception:** Understanding how consumers, investors, and regulators perceive ESG and green finance in Islamic banking could guide better policy and product development.

Policy Recommendations

1. **Establish Unified ESG Reporting for Islamic Banks:** Regulators should mandate ESG reporting standards specific to Islamic banks, integrating Maqasid al-Shariah with global ESG metrics.
2. **Promote Green Sukuk and Incentives:** Governments should encourage green sukuk issuance through tax incentives, guarantees, or subsidies—ensuring alignment with national sustainability goals.
3. **Capacity Building for Shariah Boards:** Training programs should equip Shariah scholars with ESG knowledge to evaluate financial innovations for environmental and social alignment.

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