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Rahyang Rizal*, Sulaeman Rahman Nidar, Kurniawan Saefullah, Erman Sumirat

Department of Management and Business, Faculty of Economics and Business, Universitas Padjadjaran, Indonesia.

Email: *rahyang21001@mail.unpad.ac.id*

Email: *sulaeman.rahman@unpad.ac.id*

Email: *kurniawan.saefullah@unpad.ac.id*

Email: *erman@unpad.ac.id*

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RAHYANG RIZAL*,
SULAEMAN RAHMAN NIDAR,
KURNIAWAN SAEFULLAH,
ERMAN SUMIRAT

Department of Management and Business, Faculty of Economics and Business, Universitas Padjadjaran, Indonesia.

E-mail:

*rahyang21001@mail.unpad.ac.id,
sulaeman.rahman@unpad.ac.id,
kurniawan.saefullah@unpad.ac.id,
erman@unpad.ac.id*

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**Corresponding author*

ORCID:

*RR: 0000-0002-3858-2494
SRN: 0000-0002-9780-2012
KS: 0000-0002-3088-1078
ES: 0000-0002-4185-5916*

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The alignment paradox in Islamic banking over a decade of the SDGs: a systematic literature review of corporate sustainability practices (2015-2025)

The adoption of the Sustainable Development Goals (SDGs) has reshaped the role of financial institutions in promoting sustainable development. Islamic banking has attracted growing attention due to its ethical foundations and potential alignment with sustainability principles. This study conducts a Systematic Literature Review (SLR) to examine how Islamic banking contributes to the SDGs during the first decade of their implementation (2015–2025). Using the PRISMA framework, 50 peer-reviewed articles indexed in Scopus Q1-Q3 journals were systematically identified and analyzed. The findings reveal five dominant research themes: Islamic social finance and financial inclusion, green finance and environmental sustainability, corporate governance and sustainability disclosure, Islamic Ethical Finance & Maqasid al-Shariah, and institutional challenges in SDG implementation. The results indicate strong conceptual alignment between Islamic banking principles and sustainability objectives, but also highlight an implementation gap reflected in uneven ESG adoption and limited sustainability reporting across institutions. This study contributes to the literature by synthesizing fragmented research, introducing the concept of the “alignment paradox”, and proposing a conceptual framework linking Islamic banking instruments with SDG outcomes. The findings provide directions for future research and policy development aimed at strengthening the role of Islamic finance in sustainable development.

1. Introduction

The adoption of the 2030 Agenda for Sustainable Development by the United Nations in 2015 marked a major shift in the global development paradigm. The seventeen Sustainable Development Goals (SDGs) provide an integrated framework for addressing complex global challenges, including poverty alleviation, environmental sustainability, inclusive economic growth, and institutional governance. Achieving these goals requires the active participation of multiple stakeholders, including governments, international organizations, private corporations, and financial institutions. In this context, the financial sector plays a critical role in mobilizing capital and directing investment toward sustainable economic activities.

In parallel with the global sustainability agenda, corporate governance frameworks such as the Triple Bottom Line (TBL), Corporate Sustainability Practices (CSP), Corporate Social Responsibility (CSR), and Environmental, Social, and Governance (ESG) have emerged as important mechanisms through which organizations operationalize sustainability objectives. These frameworks do not constitute the origin of the SDGs but rather represent complementary governance approaches that enable firms and financial institutions to translate sustainability principles into measurable organizational practices. Consequently, the relationship between SDGs and these corporate sustainability frameworks should be understood as one of conceptual convergence, where global sustainability objectives intersect with firm-level governance and reporting mechanisms.

Within this broader sustainability landscape, Islamic banking has attracted increasing scholarly attention due to its ethical foundations rooted in Sharia principles, including social justice, risk-sharing, and the prohibition of speculative financial practices. These principles are often interpreted as being inherently consistent with the normative objectives of sustainable development. Instruments commonly associated with Islamic finance, such as profit-sharing contracts, zakat-based social financing, waqf initiatives, and green sukuk, have been identified as potential mechanisms for supporting financial inclusion, poverty reduction, and environmentally sustainable investments.

However, the growing literature on Islamic banking and sustainability also reveals an important analytical tension. While Islamic financial principles appear conceptually aligned with sustainability objectives, empirical studies frequently report mixed or inconclusive evidence regarding the actual implementation of sustainability practices within Islamic banks. Some studies highlight strong commitments to social finance and green investment, whereas others report relatively limited sustainability disclosure, weak ESG performance indicators, or insignificant relationships between sustainability activities and financial efficiency. This tension suggests the presence of what may be described as an “alignment paradox”: a strong normative compatibility between Islamic finance principles and sustainable development objectives that does not always translate into consistent operational outcomes.

Over the past decade, academic research examining the relationship between Islamic banking and the SDGs has expanded rapidly. This growing body of literature spans multiple research domains, including financial inclusion, Islamic social finance instruments, green finance initiatives, ESG governance mechanisms, and sustainability disclosure practices. However, existing studies remain fragmented across disciplines such as Islamic finance, sustainability studies, development economics, and banking regulation. As a result, a comprehensive synthesis of this literature is needed to identify dominant research themes, emerging trends, and critical research gaps.

To address this gap, this study employs a systematic literature review (SLR) approach to synthesize existing research on Islamic banking and its contributions to the SDGs. By integrating findings from multiple research streams, this study aims to clarify the conceptual alignment between Islamic finance principles and sustainable development objectives, identify the key mechanisms through which Islamic banking contributes to the SDGs, and examine the institutional challenges that shape the effectiveness of these contributions. In particular, this study introduces the concept of the alignment paradox as an analytical framework for understanding the gap between the ethical foundations of Islamic banking and its observable sustainability performance.

Accordingly, this study is guided by the following research questions:

- RQ1: How does Islamic banking conceptually align with the principles and objectives of the SDGs?
- RQ2: Through which financial instruments and institutional mechanisms does Islamic banking contribute to the achievement of specific SDGs?
- RQ3: What challenges and emerging opportunities influence the integration of Islamic banking with the SDGs?
- RQ4: Why does an alignment paradox emerge between the ethical foundations of Islamic banking and its observable sustainability performance?

By addressing these questions, this study contributes to the literature in three ways. First, it provides a structured synthesis of existing research on the relationship between Islamic banking and sustainable development. Second, it develops a conceptual framework explaining how Islamic financial principles, institutional mechanisms, and sustainability outcomes interact within the SDG agenda. Third, it identifies critical research gaps and proposes future research directions that can strengthen the integration of Islamic finance with global sustainable development initiatives.

2. Literature Review

2.1 Corporate Sustainability Practices (CSP)

CSP represent an evolution of the concept of CSR (Christofi et al., 2012). CSR is a concept wherein business entities have an obligation to operate ethically and contribute to economic development while simultaneously improving the quality of life of their workforce, their local communities, and society at large (Bowen, 1953). The CSR concept emphasizes a moral responsibility, not merely a strategic choice inherent to business actors. Business policies must be

aligned with social values, ethics, and public interests, rather than focusing solely on economic gain. The application of CSR evolved around the 1970s with the implementation of Corporate Social Investment (CSI), which focused on direct social contributions such as donations, scholarships, and public facilities.

The implementation of CSP is an extension of the TBL concept, which measures corporate performance by combining financial and non-financial aspects using an approach based on economic well-being, environmental quality, and social justice (Elkington, 1998). The CSP concept integrates and aligns corporate operations related to the TBL to achieve sustainable development (Morioka et al., 2016). The TBL framework demonstrates that corporate performance is far broader than the simple economic dimension of efficiently producing goods and services to generate profit (prosperity). The social dimension (people) describes how a company contributes to the welfare of its employees and the communities in which it operates. Furthermore, the environmental dimension (planet) indicates how a company should utilize its resources (including energy, land, and water) and manage waste to avoid causing environmental harm (Hubbard, 2009). The prosperity dimension enables a company to operate sustainably in the short term; however, for long-term objectives, it must fulfill all three dimensions (prosperity, people, and planet) simultaneously (Dyllick & Hockerts, 2002).

The United Nations played a pivotal role in advancing sustainability within the financial sector through the introduction of the ESG framework in the 2004 *Who Cares Wins* report, launched under the United Nations Global Compact initiative. This landmark report brought together insights from more than 20 leading financial institutions across 12 countries, including major banks, asset managers, and brokerage firms, with the objective of exploring how the financial sector could systematically integrate ESG considerations into financial analysis, investment decision-making, and ownership practices. Conceptually, the report served as an operational bridge between TBL framework and the practical requirements of global financial markets. By translating the broad sustainability principles of TBL into the investment community's operational language of ESG factors, the report demonstrated a clear conceptual convergence between the two frameworks. Importantly, it also expanded the original TBL construct by positioning corporate governance not as a separate pillar, but as a foundational enabling mechanism that ensures the effective oversight, management, and integration of environmental and social considerations into corporate strategy and accountability systems.

Over time, these developments have contributed to the widespread adoption of the TBL as a key framework for assessing organizational performance across businesses, governments, and non-profit institutions, while also informing global sustainability agendas such as the SDGs (Hamidi & Worthington, 2023).

2.2 The Sustainable Development Goals (SDGs)

The SDGs, introduced by the United Nations in 2015 through the *2030 Agenda for Sustainable Development*, represent a comprehensive global framework for sustainable development until 2030 (El Faouri and Sibley, 2024; Sever et al., 2025). The SDGs consist of 17 interconnected goals and 169 targets that address major global challenges, including poverty, inequality, climate change, and ecosystem degradation, while emphasizing the universal principle of "leaving no one behind". Conceptually, the SDGs are closely aligned with TBL framework, which posits that sustainable development requires a balanced integration of social, environmental, and economic dimensions (prosperity, people, and planet). This alignment is reflected in the SDGs integrated structure, which simultaneously promotes social inclusion, environmental protection, and economic prosperity, as highlighted in the preamble of the 2030 Agenda. Moreover, the SDGs extend the TBL perspective by incorporating cross-cutting principles such as equity, resilience, and global partnership, thereby reinforcing the interdependence among sustainability dimensions and ensuring that progress in one domain does not undermine outcomes in others. For instance, goals such as SDG 1 (*No Poverty*), SDG 7 (*Affordable and Clean Energy*), and SDG 13 (*Climate Action*) illustrate the importance of multi-sector collaboration in achieving a balanced pathway between economic development and environmental sustainability (Fonseca et al., 2020; Prieto-Jiménez et al., 2021). While the SDGs and TBL share a common emphasis on balancing economic, social, and environmental dimensions, their relationship should not be interpreted as a direct historical or conceptual derivation. Instead, both frameworks reflect a broader convergence of sustainability thinking across global policy and corporate governance domains. In this sense, the SDGs represent a comprehensive, multi-stakeholder development agenda, whereas the TBL provides a firm-level performance framework through which sustainability objectives can be operationalized.

In the context of implementation, the SDGs require the active participation of various stakeholders, including governments, the private sector, and civil society (Cheng et al., 2021). Companies, including banking institutions, play a critical role through sustainable investment, responsible business practices, and financial innovation that support the SDGs. For example, banks can promote SDG 5 (Gender Equality) by providing access to credit for women entrepreneurs or support SDG 12 (Responsible Consumption and Production) through financing environmentally friendly businesses (Fallah Shayan et al., 2022; Yu et al., 2020). Thus, the SDGs are not only a global framework but also a guide for all development actors to create a more inclusive and sustainable future (Ordóñez-Ponce, 2023).

The concept of SDGs in banking refers to the banking sector's efforts to support the 17 SDGs established by the United Nations by 2030. Banks have a crucial role in integrating ESG principles into their operations and products (Rahman et al., 2023). For example, by channeling green financing for renewable energy projects or sustainable infrastructure, banks can contribute to SDGs such as SDG 7 (Affordable and Clean Energy) and SDG 13 (Addressing Climate Change).

Furthermore, financial inclusion (SDGs 1 and 8) is a key focus. Banks play a role in expanding access to financial services for people with low incomes and MSMEs (Micro, Small, and Medium Enterprises) through products such as micro-savings, micro-credit, or digital services (Chang et al., 2021). By reducing financial disparities, banks help alleviate poverty and promote inclusive economic growth. For example, branchless banking programs or digital wallets make it easier for rural communities to connect to the formal financial system.

Sustainable governance (SDG 16) requires banks to implement transparency and accountability practices. This includes anti-corruption policies, ESG risk management, and sustainability reporting. Banks that adopt green banking principles or international standards such as the Equator Principles demonstrate their commitment to sustainable development while minimizing reputational and legal risks (Chang et al., 2021). Multistakeholder collaboration (SDG 17) is key. Banks cannot work alone; they need to partner with governments, international institutions, and the private sector. For example, collaboration with Public-Private Partnerships to finance sustainable infrastructure or blended finance programs that combine public and private funds. This synergy accelerates the achievement of the SDGs while opening up new business opportunities for banks. Challenges to implementing the SDGs in the banking sector include an imbalance between profit and social impact, immature regulations, and a lack of customer awareness (Elansari et al., 2024). However, with innovations such as social bonds, green loans, or digital banking, banks can create long-term value not only for shareholders but also for society and the environment. Thus, banks are not only pillars of the economy but also agents of change for a sustainable future (Fallah Shayan et al., 2022).

2.3 Islamic Banks and Sustainable Development Goals

Islamic banks operate based on the values of justice, balance (*tawazun*), and social responsibility (*maslahah*), which align with the spirit of the SDGs (Jan et al., 2021). For example, the prohibition of *riba* (interest) and speculation (*gharar*) prevents economic exploitation, supporting SDG 1 (Poverty Eradication) and SDG 10 (Reduced Inequality). Furthermore, the profit-sharing concept (*mudharabah* and *musharakah*) encourages inclusive financing for MSMEs and marginalized groups, aligning with SDG 8 (Decent Work and Economic Growth). Islamic banks actively contribute to sustainable financing. Green sukuk (environmentally friendly Islamic bonds) schemes and renewable energy project financing support SDG 7 (Affordable and Clean Energy) and SDG 13 (Addressing Climate Change) (Harahap et al., 2023). The principles of *halal* (halal) and *tayyib* (goodness) also encourage ethical and sustainable business (SDG 12). In addition, through zakat, waqf, and sharia CSR funds, Islamic banks strengthen social programs such as education (SDG 4) and health (SDG 3), demonstrating the integration of Islamic finance with sustainable development (Franzoni and Allali, 2018).

3. Method

A Systematic Literature Review (SLR) is a research method that systematically identifies, evaluates, and synthesizes literature to answer a specific research question. PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) is a standard framework for improving transparency and accuracy in SLRs, primarily in the health sector, but now widely used in economics, finance, and sustainable development studies.

The literature search was conducted across four major academic databases widely used in finance and sustainability research, a focused literature search will be conducted using indexed academic databases such as Scopus, Web of Science, ScienceDirect, and JSTOR, as well as specialized Islamic finance journals. A time limit (2015-2025) was applied to ensure relevance to the SDGs era, encompassing key literature from Islamic banking research. This step ensures the selection of credible and measurable sources for systematic analysis.

From the discussion related to the SDGs, it is understood that the SDGs are related on the TBL concept, which has now evolved into several concepts related to CSR, CSP, and ESG. This study aims to examine the implementation of these concepts in Islamic Banking. Therefore the search was conducted using the following keywords in the title, abstract, and keywords fields. To enhance reproducibility, the search strategy was designed using structured Boolean operators and applied consistently across all databases, ensuring comparability of results and minimizing selection bias using the following four keywords: (1) "Corporate Social Responsibility AND Islamic banking", (2) "Corporate Sustainability Practices AND Islamic Banking", (3) "Environmental Social Governance AND Islamic Banking", and (4) "Sustainable Development Goals AND Islamic Banking".

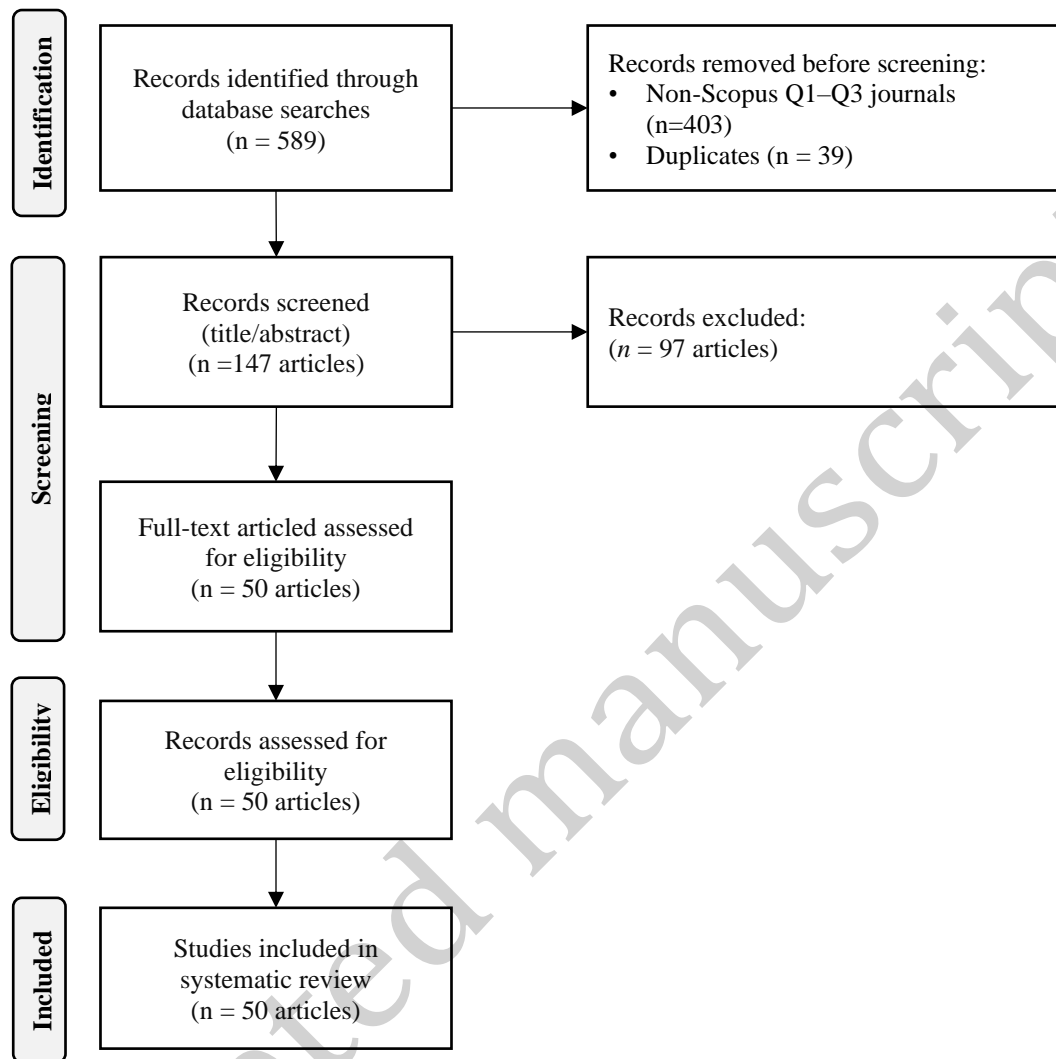


Figure 1. PRISMA Flowchart Article Selection Process.

In this study, inclusion criteria included: (1) peer-reviewed journal articles that explicitly discuss the link between Islamic banking and the SDGs, (2) publications within the 2015–2025 timeframe to ensure relevance to the SDGs era, (3) only journals in English and published in reputable journals with Scopus index ranking of Q1-Q3, and (4) empirical or theoretical studies with clear methodologies. Meanwhile, exclusion criteria included: (1) articles that only discuss SDGs without a link to Islamic banking, (2) non-academic publications (industry reports, working papers without peer review), (3) data duplication, and (4) studies that do not measure the impact or tangible contribution to the SDGs. These criteria were designed to ensure the quality and focus of the analyzed literature.

The PRISMA diagram illustrates the systematic process used to identify, screen, and select relevant studies (see Figure 1). A total of 589 records were initially identified through database searches. After removing duplicate records and articles not indexed in Scopus Q1-Q3 journals, 147 records remained for title and abstract screening. Subsequently, 97 articles were excluded due to lack of relevance to Islamic banking and SDGs. Finally, 50 studies met the eligibility criteria and were included in the systematic literature review.

To enhance the methodological rigor of this systematic literature review, a structured quality assessment and evidence classification approach was applied. The selected studies were categorized into four groups: *i*) quantitative empirical, *ii*) qualitative or case-based studies, *iii*) comparative studies, and *iv*) conceptual or theoretical studies. This classification enables a more nuanced interpretation of findings by distinguishing the evidentiary strength of different research designs. In particular, empirical studies, especially those employing econometric or statistical methods, are considered to provide

stronger evidence on causal relationships and measurable outcomes, while conceptual studies contribute primarily to theoretical development and normative insights.

In addition, study robustness was qualitatively assessed based on methodological transparency, analytical rigor, and relevance to the research questions. Rather than excluding studies based on strict quality thresholds, this review adopts an inclusive approach while applying implicit weighting in the narrative synthesis. Greater emphasis is placed on methodologically rigorous empirical evidence when discussing effectiveness and comparative performance, whereas conceptual contributions are used to support theoretical integration. This approach ensures a balanced, comprehensive, and analytically grounded synthesis while addressing heterogeneity across the reviewed literature.

4. Result

The systematic literature review synthesizes findings from a range of representative studies to map the integration of CSP framework within Islamic banking over the past decade. The analysis identifies five dominant research themes that illuminate the relationship between Islamic banking and the SDGs: (1) Islamic social finance and financial inclusion, (2) green finance and environmental sustainability, (3) corporate governance and sustainability disclosure, (4) Islamic ethical finance and *Maqasid al-Shariah*, which refers to the objectives of the Islamic Law to promote human welfare (*maslahah*) and prevent harm (*mafsadah*), and (5) institutional and regulatory challenges. Each theme provides distinct insights into how Islamic banking institutions contribute to sustainable development objectives. The distribution and analytical focus of these themes are presented in Table 1.

Table 1. Thematic Synthesis of Islamic Banking and SDGs Literature

Research Theme	Key Topics	Author	SDGs Addressed	Main Insights
Islamic Social Finance & Financial Inclusion	Zakat, Waqf, Qard Hasan, MSME financing	Hamidi et al. (2019); Mohamad et al. (2020); Ray and Kamal (2019); Nugraheni and Muhammad (2024); Marzuki et al. (2023); Khémiri et al. (2024)	1, 3, 8, 10, 17	Islamic banking promotes financial inclusion through partnership financing and social finance instruments that support poverty alleviation and entrepreneurship.
Green Finance & Environmental Sustainability	Green sukuk, renewable energy financing, green banking	Sharmeen et al. (2019); Bukhari et al. (2020); Jan et al. (2023); Alkindi and Utami (2025); Muneer et al. (2025).	7, 12, 13	Islamic financial instruments increasingly support sustainable energy investment and environmentally responsible banking practices.
Corporate Governance & Sustainability Disclosure	CSR reporting, ESG integration, governance structures	Bukair and Rahman (2015); Nobanee and Ellili (2016); Sulaiman et al. (2015); Alamer et al. (2015a); Masud and Kabir (2016); Wan Jusoh and Ibrahim (2020); Lui et al. (2021); Gunardi et al. (2022); Alam et al. (2022); Al-Zaqeba et al. (2023); Rouf et al. (2024); Georgiadou and Nickerson (2022); Zheng et al. (2022); Zafar et al. (2022); Zafar and Sulaiman (2020); Awais et al. (2022); Hidayat and Rafiki (2022); Hidayat et al. (2022); Jan et al. (2023); Muhmad et al. (2023); Alghafes et al. (2024); Al Maeni et al. (2024); Puspitasari et al. (2024); Yusuf et al. (2024); Bechihi and Nafti (2025); Tumewang et al. (2025).	4, 5, 8, 9, 10, 11, 12, 13, 16, 17	Governance mechanisms and transparency significantly influence sustainability disclosure and institutional accountability.
Islamic Ethical Finance & <i>Maqasid al-Shariah</i>	Ethical banking principles, justice, social welfare	Khaleel et al. (2022); Hanic and Smolo (2023); Sheikh and Hussain (2025); Ayub et al. (2024)	10, 16	Islamic banking principles provide ethical foundations for sustainable development.

Research Theme	Key Topics	Author	SDGs Addressed	Main Insights
Institutional & Regulatory Challenges	ESG measurement, regulatory frameworks, institutional capacity	Tasnia et al. (2023); Budiman et al. (2022); Georgiadou (2022); Mi'raj and Ulev (2024).	4, 8, 17	Lack of standardized sustainability metrics and regulatory support limits effective SDG implementation.

The methodological distribution of the reviewed literature demonstrates a diverse range of research approaches used to investigate the integration of CSP within Islamic banking over the past decade. As presented in Figure 2, quantitative empirical studies dominate the field, accounting for 22 articles that primarily employ econometric models, panel data analysis, and structural equation modeling to examine the relationship between ESG performance, CSR disclosure, sustainability initiatives, and financial outcomes in Islamic financial institutions. Representative studies such as Alam et al. (2022), Jan et al. (2023), and Rouf et al. (2024) reflect the growing emphasis on empirical validation of sustainability practices. In addition, qualitative and case-based studies (11 articles) provide institutional insights into governance structures and sustainability implementation, while comparative studies (9 articles), including Masud and Kabir (2016) and Nobanee and Ellili (2016), explore differences between Islamic and conventional banking systems in sustainability engagement. Conceptual and theoretical contributions (8 articles), such as Sheikh and Hussain (2025) and Tasnia et al. (2023), further advance the literature by proposing frameworks linking Islamic finance principles with contemporary sustainability agendas, including ESG and the SDGs. This methodological diversity provides a robust foundation for identifying the key research themes that characterize sustainability scholarship in Islamic banking.

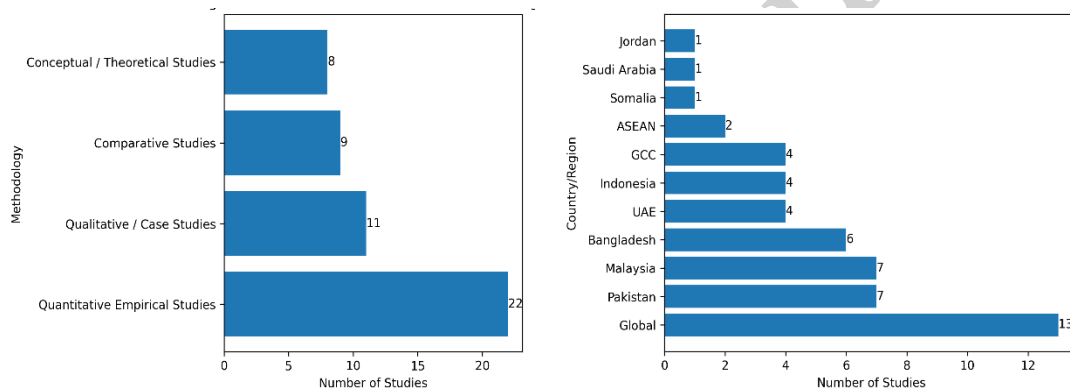


Figure 2. Methodological and Geographical Distribution of Studies on Islamic Banking and SDGs Integration.

The geographical distribution of the reviewed studies indicates a strong concentration in Muslim-majority and emerging economies, with additional contributions from global and regional analyses. As presented in Figure 2, a total of 13 studies adopt a global perspective, while regional-level evidence includes 4 studies from the Gulf Cooperation Council (GCC), comprising Saudi Arabia, the United Arab Emirates, Qatar, Kuwait, Bahrain, and Oman, and 2 studies from the Association of Southeast Asian Nations (ASEAN), which includes Indonesia, Malaysia, Singapore, Thailand, the Philippines, Vietnam, Brunei Darussalam, Cambodia, Laos, and Myanmar. At the country level, Malaysia and Pakistan dominate the literature with 7 studies each, followed by Bangladesh (6 studies), and Indonesia and the United Arab Emirates (4 studies each).

In contrast, empirical evidence remains limited in several jurisdictions, with Jordan, Saudi Arabia, and Somalia each represented by only one study. This uneven geographical distribution suggests that while the integration of CSP and SDGs in Islamic banking has gained significant scholarly attention, it is still concentrated in a few key countries. Consequently, the current body of literature may lack broader global representativeness, highlighting the need for future research to expand into underexplored regions, particularly across Africa and other parts of the Middle East.

5. Discussion

5.1 Islamic banking as an ethical financial mechanism for achieving the Sustainable Development Goals

The existing literature highlights that Islamic banking plays a strategic and multifaceted role in advancing the SDGs, particularly SDG 1 (No Poverty), SDG 7 (Affordable and Clean Energy), and SDG 8 (Decent Work and Economic Growth). The foundational principles of Islamic finance, such as the prohibition of *riba* (interest), avoidance of excessive uncertainty (*gharar*), and the emphasis on halal earnings and social responsibility (*maslahah*), are inherently aligned with the normative values underpinning the SDGs. Within this ethical framework, Islamic banking promotes financial practices that prioritize social justice, equitable wealth distribution, and sustainable economic development. In particular, Islamic social finance instruments such as *zakat*, *infaq*, *sedekah*, and *waqf* (ZISWAF) serve as important mechanisms for poverty alleviation by channelling financial resources to disadvantaged and vulnerable populations, thereby contributing directly to the realization of SDG 1.

Within the context of SDG 8 (Decent Work and Economic Growth), Islamic banking functions as a catalyst for inclusive and equitable economic development. Profit-and-loss sharing financing mechanisms, including *mudharabah* and *musyarakah*, encourage entrepreneurship and support the growth of MSMEs by distributing risk between financial institutions and entrepreneurs (Alamer et al., 2015a; Nugraheni and Muhammad, 2024; Ray and Kamal, 2019; Sharmeen et al., 2019). Such financing models enable businesses with limited collateral to access capital, thereby facilitating job creation and promoting inclusive economic participation. Moreover, the emphasis of Islamic banking on financing productive real-sector activities helps prevent speculative bubbles and supports sustainable economic expansion, which is consistent with the objectives of SDG 8 (Hidayat and Rafiki, 2022; Alamer et al., 2015b).

In relation to SDG 7 (Affordable and Clean Energy), the literature indicates that Islamic banking is increasingly contributing to environmental sustainability through the development of green financing initiatives. Islamic ethical principles that prohibit environmental degradation (*ifsad*) and encourage environmental stewardship (*hifdzul bi'ah*) provide a normative basis for Islamic financial institutions to support investments in renewable energy, energy efficiency, and environmentally sustainable technologies (Bukhari et al., 2020; Handayani et al., 2020; Nobanee and Ellili, 2016). One of the most prominent instruments in this regard is green sukuk, which has been utilized to mobilize capital for large-scale renewable energy infrastructure projects. In addition, Islamic microfinance programs facilitate access to affordable clean energy technologies, such as solar home systems, for low-income households. These initiatives demonstrate that Islamic banking not only provides financial resources but also promotes environmentally responsible and socially equitable energy development (Masud and Kabir, 2016; Alamer et al., 2015b; Wan Jusoh and Ibrahim, 2020).

Furthermore, Islamic banks increasingly integrate ZISWAF-based financial services within their institutional frameworks to strengthen their contributions to poverty reduction and inclusive economic development. Many Islamic banks facilitate the collection and distribution of *zakat* through digital banking platforms, while professional *amil* institutions manage the allocation of these funds. Beyond traditional charitable distribution, ZISWAF funds are increasingly utilized as productive capital through mentoring programs and interest-free microfinance initiatives targeting marginalized communities (Nugraheni and Muhammad, 2024). Complementing these initiatives, MSME financing schemes based on *mudharabah* or *musharakah* contracts enable small entrepreneurs to access capital through profit-sharing arrangements, thereby reducing dependence on high-interest financing and promoting sustainable income generation, job creation, and poverty alleviation.

In line with the objectives of SDG 7, Islamic banks have also expanded their involvement in sustainable energy financing through the issuance of green sukuk and the provision of Sharia-compliant green financing facilities (Alkindi and Utami, 2025). Corporate and sovereign green sukuk issued through Islamic financial institutions enable the mobilization of capital from socially responsible investors to finance environmentally sustainable projects, including solar energy systems, geothermal power plants, and clean water infrastructure. At the retail level, Islamic banks increasingly offer green financing products that allow individuals to install rooftop solar panels or purchase electric vehicles through Sharia-compliant financing structures. Such initiatives enhance the accessibility and affordability of clean energy while supporting the broader transition toward a low-carbon economy (Bechihi and Nafti, 2025; Khémiri et al., 2024).

Over the past decade, Islamic banking has evolved from a primarily theoretical ethical finance framework into a practical mechanism supporting the achievement of the SDGs. Innovative financial instruments, such as green sukuk, impact financing, and sustainability-linked investments, are increasingly integrating ESG principles with Sharia compliance. This dual alignment reinforces the role of Islamic banking as a distinctive model of ethical and sustainable finance. Empirical evidence suggests that Islamic financial institutions have allocated significant resources toward renewable energy development (SDG 7), MSME financing and employment generation (SDG 8), and poverty alleviation initiatives (SDG 1). Moreover, collaborative partnerships with international organizations, including the Islamic Development Bank and the United Nations Development Programme (UNDP), further strengthen the institutional capacity of Islamic finance to contribute to sustainable development.

Recent studies also highlight the growing role of digitalization and financial technology in amplifying the impact of Islamic finance. Technologies such as blockchain-based platforms for ZISWAF distribution and fintech-based financial inclusion initiatives in rural areas have improved transparency, efficiency, and accessibility of Islamic financial services.

Nevertheless, several challenges remain, including institutional capacity gaps, regulatory fragmentation across jurisdictions, and the need for more robust impact measurement frameworks. Addressing these challenges will be crucial for enhancing the effectiveness of Islamic banking as an ethical financial system capable of supporting global sustainable development in the post-crisis economic landscape.

This finding reinforces the notion that the alignment between Islamic banking and the SDGs should not be assumed as an automatic outcome of ethical principles, but rather understood as a contingent process shaped by institutional capacity, regulatory frameworks, and measurement practices.

5.2 Principles and Instruments in Islamic Banking Aligned with the SDGs

Islamic banking is founded on fundamental principles that are inherently connected to the essence of Sustainable Development, which encompasses SDG 16 (Peace, Justice, and Strong Institutions) and SDG 17 (Partnerships for Achieving the Goals). The initial principle is fairness (*adl*). This is evident in the ban on *riba* (interest), deemed exploitative and unjust, along with the establishment of profit-sharing arrangements that guarantee an equitable distribution of risks and benefits between investors and business owners (Alghafes et al., 2024; Puspitasari et al., 2024). This economic fairness serves as the basis for creating inclusive and peaceful communities (SDG 16), as significant economic disparity frequently leads to conflict and social unrest.

The second principle is engagement in the actual economy (materiality). Islamic banks cannot invest in unproductive speculative transactions (*gharar*) and must connect their financing to real assets or operational activities (Ayub et al., 2024; Sheikh & Hussain, 2025). This principle promotes the growth of productive industries, generates genuine economic worth, and diminishes financial bubbles. From the viewpoint of SDG 16, this approach enhances good governance and robust institutions by fostering transparency and stability in the financial system, while also addressing the corruption that frequently infiltrates unclear transactions (Mi'raj and Ulev, 2024; Yusuf et al., 2024).

The Islamic financial tools most closely associated with the SDGs are Zakat, Infaq, Sedekah, and Waqf (ZISWAF). This tool serves as the driving force behind Islamic social finance. Zakat, mandated for capable Muslims, serves as a structured and organized method for redistributing wealth to reduce poverty. From the viewpoint of SDG 16, the professional and transparent administration of zakat by Islamic banks enhances public confidence in institutions and fosters social justice. At the same time, waqf, as an endowed fund, has the potential to support public goods like education, healthcare, and sustainable research (Hanic and Smolo, 2023; Rouf et al., 2024).

Linked to SDG 17 (Partnership), Islamic banking inherently fosters partnerships via its financial programs. The base term "sharia" signifies a way, suggesting a shared path toward virtue. *Mudharabah* (profit-sharing) and *musharakah* (business partnership) schemes exemplify a tangible type of partnership between capital providers (*shahibul mal*) and business operators (*mudharib*). Islamic banks function not merely as creditors, but also as partners who share both risks and rewards (Mahmuda and Muktedir-Al-Mukit, 2023; Tasnia et al., 2023). This philosophy aligns with the essence of SDG 17, which highlights renewing global collaborations for sustainable development.

More generally, Islamic finance promotes inclusive collaborations by issuing Sukuk (Islamic bonds), such as Green Sukuk and Sustainability Sukuk. The issuance of sukuk entails intricate collaborations among governments, regulatory bodies, issuers, Islamic banks serving as guarantors, as well as local and global investors. Projects financed through sukuk are typically extensive and enduring public infrastructure ventures (Al-Zaqeba et al., 2023; Madah Marzuki et al., 2023). Consequently, Islamic banking acts not only as a financial intermediary but also as a facilitator that unites different stakeholders (multistakeholder partnerships) to attain common development objectives, which is the core of SDG 17.

In practice, to promote SDG 16 (Peace, Justice, and Strong Institutions), Islamic banks implement the values of transparency and fairness across all their activities (Georgiadou and Nickerson, 2022; Muhmad et al., 2023; Zafar et al., 2022). For instance, in *mudharabah* or *musharakah* financing options, banks must transparently and clearly communicate the profit-sharing ratio, anticipated profits, and possible risks to their clients from the beginning, preventing asymmetric and deceptive information. Additionally, numerous Islamic banks operate Zakat Management Units that serve as contemporary, audited institutions for zakat collection. They establish robust governance to allocate zakat funds to genuinely deserving beneficiaries, focusing not only on basic needs but also on economic empowerment initiatives and educational scholarships. Such practices foster public confidence and reinforce equitable social institutions (Alam et al., 2022; Budiman et al., 2022; Gunardi et al., 2022). In order to realize SDG 17 (Partnerships to Achieve the Goals), Islamic banking actively acts as a strategic partner for the government and the private sector. A best practice is to act as an underwriter (issuing agent) for Government Sukuk, including Green Sukuk, whose funds are specifically allocated to finance environmentally friendly projects. Islamic banks also form partnerships with international financial institutions and multilateral organizations (such as the Islamic Development Bank/IsDB and UNDP) to channel blended finance to priority SDG sectors (Hidayat et al., 2022; Khaleel et al., 2022). At the retail level, Islamic banks partner with cooperatives

and MSME associations to provide financing and technical assistance, creating a collaborative ecosystem that strengthens the capacity of small businesses and encourages inclusive growth (Bukhari et al., 2020; S. E. Hidayat & Rafiki, 2022; Zheng et al., 2022).

Research over the past decade confirms the practical alignment of Islamic banking principles with SDGs 16 and 17 through institutionalization and financial innovation. Studies show that incorporating *adl* (justice) and *maslahah* (general welfare) within Islamic banking governance mitigates information asymmetry and fosters inclusive financing. The Ethics and Sharia Committee plays a key role in ensuring compliance and promoting ESG accountability, thus supporting SDG 16. ZISWAF tools, such as cash waqf and productive zakat, have evolved into digital and audited mechanisms, thereby strengthening transparency and public trust, which are essential for peace and resilient institutions. Additionally, Islamic banking contributes to SDG 17 by forming partnerships and utilizing hybrid financial instruments, as evidenced by green and sustainability sukuk attracting new global funding. Blended finance models are emerging, combining Islamic funds with impact investments, while collaborations with fintechs enhance digital MSME financing, driving inclusive growth and providing a framework for ethical finance in developing countries.

5.3 Islamic Banking Contributions to the Sustainable Development Goals

The findings of the systematic literature review indicate that Islamic banking plays a significant role in advancing several key SDGs. The literature highlights four major areas of contribution: (1) Islamic microfinance and social finance for poverty alleviation (SDGs 1 and 8), (2) green finance and renewable energy financing (SDG 7), (3) ESG-based governance and ethical banking practices (SDG 16), and (4) global partnerships and multi-stakeholder collaboration (SDG 17).

Islamic Microfinance and Social Finance for Poverty Alleviation (SDGs 1 and 8). Islamic banking plays a crucial role in enhancing financial inclusion by providing micro- and ultra-micro financing schemes specifically designed for underserved communities such as farmers, fishermen, and small merchants in rural areas. Unlike conventional financial institutions that often require strict collateral and complex procedures, Islamic banks offer financing instruments based on Sharia-compliant contracts such as *mudharabah* (profit-sharing) and *murabahah* (cost-plus financing) with simplified requirements. These financial products enable marginalized groups to access capital while simultaneously promoting entrepreneurship and local economic development. In addition to commercial microfinance, Islamic banking integrates social finance instruments such as Zakat, Infaq, Sedekah, and Waqf (ZISWAF) into its operational framework. The strategic allocation of these social funds enables Islamic banks to provide entrepreneurial capital, training programs, and business assistance to low-income communities. For instance, programs such as BSI Maslahat implemented by Bank Syariah Indonesia, a State-Owned Enterprises (SOE) Islamic bank in Indonesia, facilitate the distribution of zakat and cash waqf for vocational training and microenterprise financing. These initiatives contribute directly to poverty alleviation and job creation, thereby supporting SDG 1 (No Poverty) and SDG 8 (Decent Work and Economic Growth) (Bukair and Abdul Rahman, 2015; Handayani et al., 2020; Hidayat and Rafiki, 2022; Tumewang et al., 2025; Zafar and Sulaiman, 2020).

Green Sukuk and Renewable Energy Financing (SDG 7). Islamic banking also contributes significantly to environmental sustainability through green financing initiatives and the issuance of green sukuk. Green sukuk serve as Sharia-compliant financial instruments designed to mobilize capital for environmentally sustainable projects, particularly in renewable energy development. Indonesian Islamic banks, including Bank Syariah Indonesia, have played a strategic role as lead arrangers in government-issued green sukuk programs aimed at financing renewable energy infrastructure such as wind power plants and solar energy facilities. At the retail level, several Islamic banks in Indonesia, including Bank BCA Syariah, a National Private Bank, and Bank NTB Syariah, a Regional Government-Owned Bank, provide green financing schemes that enable households and small businesses to invest in renewable energy technologies such as rooftop solar panels, electric vehicles, and energy-efficient equipment. By offering affordable financing structures aligned with Islamic principles, these initiatives enhance the accessibility of clean energy technologies while supporting the transition toward a low-carbon economy. Consequently, Islamic banking plays an important role in advancing SDG 7 (Affordable and Clean Energy) through sustainable investment and environmentally responsible financing practices (Alamer et al., 2015a; Bukhari et al., 2020; Muneer et al., 2025; Sulaiman et al., 2015).

ESG-Based Governance and Ethical Banking Practices (SDG 16). In the domain of institutional governance, Islamic banks increasingly adopt ESG principles as part of their sustainable finance strategies. Regulatory frameworks established by financial authorities, such as Indonesia's Financial Services Authority (*Otoritas Jasa Keuangan/OJK*), encourage banks to integrate ESG considerations into risk assessment, financing decisions, and corporate governance practices. As a result, many Islamic banks publish sustainability reports that disclose the environmental and social impacts of their financing portfolios. Furthermore, Islamic banks establish internal governance mechanisms such as Sharia Supervisory Boards and Ethics Committees that oversee compliance with both Sharia principles and sustainability standards. These institutional arrangements strengthen transparency, accountability, and ethical conduct within financial institutions.

Emerging technological innovations, including blockchain-based systems, are also being explored to enhance transparency in the management of social funds such as ZISWAF and green sukuk. These governance practices contribute to building public trust and reinforcing institutional integrity, thereby supporting SDG 16 (Peace, Justice, and Strong Institutions) (Alamer et al., 2015b; Masud and Kabir, 2016; Nobanee and Ellili, 2016; Ray and Kamal, 2019; Senan et al., 2021; Zheng et al., 2022).

Global Partnerships and Multi-Stakeholder Collaboration (SDG 17). Another important dimension of Islamic banking's contribution to sustainable development lies in its collaborative partnerships with international organizations and development institutions. Islamic banks increasingly engage with global entities such as the Islamic Development Bank (IsDB) and the United Nations Development Programme (UNDP) to develop blended finance models that combine public, private, and philanthropic funding for sustainable development initiatives. Beyond financial collaboration, Islamic banks also act as knowledge intermediaries by promoting financial literacy and providing training programs related to Sharia-compliant finance and sustainable business practices for MSMEs. These initiatives strengthen the capacity of local communities and entrepreneurs to participate in sustainable economic activities. Through these multi-stakeholder partnerships, Islamic banking expands its developmental impact while supporting SDG 17 (Partnerships for the Goals). Collectively, these collaborative efforts contribute to building a more inclusive, transparent, and sustainable global financial ecosystem (Hamidi et al., 2019; Lui et al., 2021; Sharmeen et al., 2019; Wan Jusoh and Ibrahim, 2020).

5.4 Integrating Islamic Banking with the SDGs: Challenges, Strategic Opportunities, and Emerging Practices

Islamic banking encounters various major challenges in incorporating the SDGs into its business framework. The initial hurdle is the difficulty of measuring impact and achieving standardization. Islamic banks find it challenging to measure the social and environmental effects (like poverty alleviation or reduction in carbon emissions) of their funding in a uniform and comparable way. This makes optimal fund distribution and precise reporting to stakeholders more challenging (Budiman et al., 2022; Hidayat et al., 2022). The second challenge is the capacity deficit. Not every Islamic bank possesses the human resources to evaluate environmental risks (ESG) and determine the viability of intricate sustainable projects, like renewable energy. The third challenge is insufficient regulation. One of the research findings from Indonesia indicates that even though the Financial Services Authority has released a roadmap for sustainable finance, a frequent misalignment exists between the technical banking regulations and the unique requirements of sustainable Islamic financing, hindering product innovation (Gunardi et al., 2022).

Despite these challenges, a distinct opportunity arises for Islamic banking. The main opportunity exists in the ideal philosophical congruence between Sharia values and the SDGs. The foundations for constructing ESG and sustainability strategies are naturally established by the principles of justice (*adl*), welfare (*maslahah*), and the prohibition of harm ('dharar') (Awais et al., 2022; Gunardi et al., 2022). This establishes a strong competitive edge for drawing in a growing number of ethically aware investors and consumers. The second opportunity involves the mobilization of social resources via ZISWAF. Conventional banks have not yet fully utilized this instrument. For instance, cash waqf funds can serve as patient capital to support long-term sustainable infrastructure like solar power plants for isolated communities, aligning with SDG 7 (Muhmad et al., 2023).

The upcoming strategic opportunity lies in taking the lead in green sukuk and blended finance. Islamic banks have the potential to create inventive financial frameworks that merge commercial capital with impact investments from international investors looking for projects that yield quantifiable social and environmental benefits. Islamic banks can establish a strong niche market by aligning interests among sharia principles, profit, and impact (Georgiadou and Nickerson, 2022). Closing the capacity gap via training and partnerships with Islamic fintechs also creates chances for developing more affordable and digital microfinance solutions, thus speeding up financial inclusion and effectively achieving the SDGs.

In the last ten years, Islamic banking practices aimed at supporting the SDGs have seen a notable transformation, shifting from simple discussion to tangible, structured implementation. In the financial inclusion space (SDGs 1 and 8), Islamic banks have been proactively introducing digital platforms and partnering with Islamic fintechs to access the unbanked and underbanked populations (Al-Zaqeba et al., 2023; Zafar et al., 2022). An illustrative instance is the creation of the BSI Mobile app by Bank Syariah Indonesia, which consolidates microfinance, zakat, and social investment services into one platform. Moreover, partnerships with Islamic Rural Banks and Islamic cooperatives have been enhanced to provide funding to MSMEs in rural regions. Another developing practice is employing data analytics to evaluate the viability of funding for micro-enterprises lacking conventional collateral, thus broadening inclusive financial access (Marzuki et al., 2023; Tasnia et al., 2023).

In the areas of clean energy (SDG 7) and governance (SDG 16), innovative practices have emerged through the development of sustainable financial instruments and strong governance implementation. The issuance of green sukuk by corporations and sovereign entities (like Indonesia's Green Sukuk) backed by Islamic banks marks a significant achievement, as the funds are dedicated solely to financing renewable energy, energy efficiency, and green building

initiatives (Jan et al., 2023; Mahmuda and Muktadir-Al-Mukit, 2023). Islamic banks are starting to implement a comprehensive ESG framework that aligns with Sharia principles, producing certified sustainability reports, and forming dedicated committees to monitor the execution of sustainability practices. Blockchain technology is being tested to enhance transparency in the history of green financing and the allocation of ZISWAF funds, promoting accountability and reducing the chances of greenwashing (Hanic and Smolo, 2023; Hassan et al., 2023).

5.5 The Alignment Paradox of Islamic Banking in Advancing the SDGs

Islamic banking is frequently portrayed in the literature as inherently aligned with the SDGs due to the normative foundations of Sharia principles. Core concepts such as justice (*adl*), the prohibition of exploitative practices (*riba*), risk-sharing, and the pursuit of public welfare (*maslahah*) provide a strong ethical orientation toward socially responsible economic activities. In theory, these principles encourage financing directed toward the real economy, promote financial inclusion, and support development initiatives that generate social and environmental benefits (Rouf et al., 2024). Islamic social finance instruments such as ZISWAF further reinforce this orientation by enabling redistributive mechanisms aimed at poverty alleviation (SDG 1) and the empowerment of MSMEs, thereby supporting inclusive economic growth (SDG 8) (Al Maeeni et al., 2024).

However, the findings synthesized in this review reveal a significant conceptual tension between the normative alignment of Islamic banking with sustainability principles and the empirical evidence of its implementation. Several empirical studies indicate that Islamic banks do not consistently outperform conventional banks in terms of sustainability disclosure, environmental responsibility communication, or measurable ESG performance. In certain contexts, Islamic banks demonstrate lower levels of sustainability reporting or weaker environmental transparency compared to conventional institutions. Other studies also find that ESG engagement does not necessarily translate into higher efficiency or improved financial performance within Islamic banking institutions. These findings suggest the presence of an “alignment paradox”, in which strong ethical congruence at the level of principles does not consistently translate into effective sustainability practices or measurable outcomes.

This paradox can be partly explained by institutional and structural constraints within the Islamic banking sector. Compared with conventional banks, many Islamic banks operate with smaller asset bases, more limited international networks, and fewer specialized human resources capable of managing complex sustainable investment projects. In addition, regulatory frameworks supporting sustainable Islamic finance remain uneven across jurisdictions. Challenges related to green sukuk standardization, the integration of ESG reporting with Sharia governance structures, and the development of impact measurement methodologies limit the ability of Islamic banks to operationalize their ethical principles within globally recognized sustainability frameworks (Nugraheni and Muhammad, 2024). Consequently, the translation of normative Sharia values into operational sustainability strategies often remains partial or fragmented.

Despite these limitations, Islamic banks possess distinctive institutional features that may strengthen their potential contribution to sustainable development. Governance mechanisms such as the Sharia Supervisory Board or Sharia and Ethics Committee provide a form of dual oversight that combines religious compliance with ethical accountability. This governance structure enhances moral legitimacy and may facilitate the mobilization of socially motivated funds from communities seeking to align financial activities with religious values and social impact (Alkindi and Utami, 2025). In recent years, Islamic banks have also begun to expand Sharia-compliant sustainable finance instruments, particularly through the development of green sukuk and environmentally oriented financing programs. Governments and corporations in countries such as Indonesia and Malaysia have issued green sukuk to fund renewable energy infrastructure, low-carbon transportation, and energy efficiency projects (Ayub et al., 2024; Sheikh and Hussain, 2025). At the retail level, green microfinance initiatives and digital integration of ZISWAF platforms have further expanded financial access for underserved communities and MSMEs.

In contrast, conventional banks often demonstrate stronger implementation capacity in advancing the SDGs due to their larger operational scale, broader access to global capital markets, and more established ESG governance frameworks. Conventional financial institutions play a central role in financing large-scale sustainable infrastructure projects, including solar and wind energy facilities that directly support SDG 7 (Affordable and Clean Energy). Their sustainability governance systems are also more standardized globally, often aligned with initiatives such as the Principles for Responsible Banking, and their sustainability reports are frequently subject to external verification, allowing investors and regulators to assess performance more systematically (Khémiri et al., 2024). Furthermore, digital banking technologies and fintech-based financial services have enabled conventional banks to expand financial inclusion through mobile banking and microcredit platforms.

Nevertheless, the sustainability practices of conventional banks are not without criticism. Several studies highlight a persistent tension between shareholder value maximization and long-term sustainability commitments. While conventional banks increasingly develop green financial portfolios and sustainability-linked financing instruments, they may simultaneously continue financing environmentally harmful industries such as fossil fuel extraction. This dual

practice raises concerns regarding greenwashing and questions the credibility of sustainability commitments within the conventional banking sector (Alghafes et al., 2024; Bechihi and Nafti, 2025).

Taken together, the evidence reviewed in this study suggests that the comparative roles of Islamic and conventional banks in advancing the SDGs cannot be understood through a simple normative hierarchy. Islamic banks demonstrate strong ethical foundations and social finance mechanisms that are particularly relevant for inclusive development and community-based welfare initiatives. Conventional banks, by contrast, often exhibit stronger implementation capacity due to their scale, technological infrastructure, and integration within global financial markets. The alignment paradox identified in this review therefore reflects the complex interaction between ethical principles, institutional capacity, regulatory frameworks, and sustainability measurement systems. Addressing this paradox requires stronger regulatory support, the development of standardized sustainability metrics compatible with Sharia governance, and deeper integration between Islamic financial ethics and global ESG reporting frameworks.

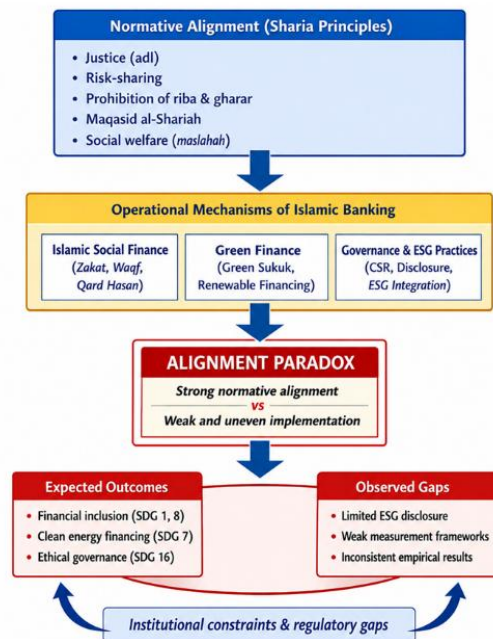


Figure 3. Alignment Paradox in Islamic Banking and SDGs.

Figure 3 illustrates the “alignment paradox” of Islamic banking in advancing SDGs, where strong normative compatibility between Sharia principles and sustainability objectives does not consistently translate into measurable sustainability outcomes. The model highlights the mediating role of institutional mechanisms and the influence of regulatory and measurement constraints in shaping SDGs-related performance.

6. Conclusion

This study provides a comprehensive synthesis of the evolving literature on the relationship between Islamic banking and the SDGs over the first decade of their implementation (2015–2025). By systematically analyzing 50 peer-reviewed studies, the findings reveal that Islamic banking occupies a unique position within the global sustainability landscape, characterized by a strong normative alignment with the ethical foundations of sustainable development.

However, the results also highlight a critical tension that defines the current state of the field. While Islamic financial principles, such as social justice, risk-sharing, and the prohibition of exploitative practices, are conceptually consistent with the SDGs, their translation into measurable sustainability outcomes remains uneven and context-dependent. This study conceptualizes this tension as the “alignment paradox,” which reflects the gap between ethical intent and institutional implementation.

The analysis identifies five dominant research themes, namely Islamic social finance, green finance, governance and disclosure, ethical foundations, and institutional challenges, that collectively shape the contribution of Islamic banking to the SDGs. These themes demonstrate that Islamic banking has made meaningful progress in areas such as financial

inclusion and sustainable financing, yet continues to face structural limitations, including weak ESG integration, lack of standardized impact measurement, and regulatory fragmentation across jurisdictions.

Theoretically, this study contributes by reframing the relationship between Islamic finance and sustainability through the lens of conceptual convergence rather than linear evolution, and by introducing the alignment paradox as an integrative analytical framework. Methodologically, it strengthens the SLR approach by incorporating thematic synthesis and evidence classification to enhance interpretative rigor.

From a practical perspective, the findings underscore that the contribution of Islamic banking to the SDGs should not be assumed as an automatic consequence of its ethical foundations. Instead, it depends on the development of robust institutional mechanisms, standardized sustainability metrics, and supportive regulatory environments that enable the effective operationalization of Sharia-based principles.

Future research should prioritize the development of standardized SDG impact measurement frameworks, expand empirical analysis across underrepresented regions, and adopt more rigorous comparative designs between Islamic and conventional banking systems. Additionally, incorporating formal quality appraisal methods in systematic reviews will further enhance the robustness and reliability of evidence synthesis in this field.

In conclusion, Islamic banking holds significant potential as a model of ethical and sustainable finance, but realizing this potential requires bridging the gap between normative alignment and practical implementation. Addressing this alignment paradox represents a critical agenda for both academic research and policy development in the pursuit of sustainable global finance.

7. Limitations and Future Research Directions

While this study offers a comprehensive and structured synthesis of the relationship between Islamic banking and the SDGs, several boundary conditions provide important avenues for further scholarly advancement.

First, this study adopts a Systematic Literature Review (SLR) approach, which inherently builds upon existing academic contributions. This approach enables a rigorous consolidation of accumulated knowledge and facilitates the identification of overarching patterns and theoretical convergence. At the same time, it opens opportunities for future research to complement these insights with primary empirical investigations, particularly through firm-level or multi-country datasets that can further validate and extend the observed relationships.

Second, the review primarily focuses on peer-reviewed journal articles indexed in major academic databases to ensure analytical rigor and scientific credibility. While this strengthens the robustness of the synthesis, future studies may benefit from integrating insights from high-quality industry reports, policy frameworks, and practitioner-oriented publications. Such sources are particularly valuable in capturing rapidly evolving developments in Islamic sustainable finance, including fintech-driven innovations, blended finance mechanisms, and emerging ESG integration practices.

Third, the reviewed studies span diverse geographical and institutional contexts, including Southeast Asia, the Middle East, and South Asia. This diversity enriches the analytical perspective and enhances the external relevance of the findings. Nevertheless, it also highlights the importance of context-sensitive interpretations, as variations in regulatory environments, institutional maturity, and market structures may shape the extent to which Islamic banking contributes to SDG outcomes. Future research could therefore adopt comparative or multi-level approaches to better capture these contextual dynamics.

Fourth, the synthesis reveals an important opportunity for advancing measurement frameworks in Islamic sustainable finance. Existing studies frequently rely on conventional ESG indicators, which provide a useful starting point for analysis. However, the distinctive characteristics of Islamic finance, particularly the integration of Sharia governance and social finance instruments such as ZISWAF, suggest the need for more tailored and integrative measurement approaches. Advancing such frameworks represents a promising direction for future research to strengthen both theoretical precision and empirical relevance.

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