

Toward a Maqasid-Based ESG Framework: Reconceptualizing Sharia Investment Screening for Sustainable Finance

ABSTRACT – The growth of Sharia-compliant investment reflects increasing Muslim awareness toward aligning financial decisions with Islamic principles. However, current screening mechanisms predominantly focus on formal halal-haram criteria without adequately addressing sustainability dimensions, while Environmental, Social, and Governance (ESG) frameworks have emerged globally as key instruments for evaluating corporate sustainability and ethical conduct. This article aims to develop a conceptual analysis examining how ESG criteria can be integrated into Sharia investment screening through the theoretical lenses of *fiqh muamalah* and *maqashid sharia*. Employing a qualitative methodology with a normative-juridical literature review approach, this study analyzes classical *fiqh* literature, *maqashid* theory, Indonesian Sharia capital market regulations, and contemporary ESG research. The findings reveal that ESG principles share substantial conceptual alignment with *fiqh muamalah* fundamentals, including the prohibition of *riba* (usury), *gharar* (uncertainty), and *maysir* (gambling), as well as the imperatives for justice and transparency; furthermore, ESG supports the realization of *maqashid sharia* encompassing the protection of religion (*hifz al-din*), life (*hifz al-nafs*), intellect (*hifz al-'aql*), lineage (*hifz al-nasl*), and wealth (*hifz al-mal*). The study concludes that ESG should function as a secondary filter applied only after Sharia admissibility is established, cannot override categorical prohibitions such as *riba*, *gharar*, and *maysir*, and must be operationalized through *Maqasid*-based indicators without employing cross-domain composite scores that might offset *daruri* (essential) violations, while acknowledging implementation challenges related to measurement standards, greenwashing risks, and regulatory limitations.

ABSTRAK - Menuju Kerangka ESG Berbasis Maqasid: Rekonseptualisasi Penyaringan Investasi Syariah untuk Keuangan Berkelanjutan. Pesatnya pertumbuhan investasi syariah mencerminkan meningkatnya kesadaran umat Islam dalam menyelaraskan keputusan finansial dengan prinsip-prinsip Islam; akan tetapi, mekanisme penyaringan yang berlaku saat ini masih didominasi kriteria halal-haram secara formal tanpa mengakomodasi dimensi keberlanjutan secara memadai, sementara kerangka Environmental, Social, and Governance (ESG) telah berkembang menjadi instrumen global dalam menilai keberlanjutan dan etika korporasi. Artikel ini bertujuan mengembangkan analisis konseptual mengenai integrasi kriteria ESG ke dalam penyaringan investasi syariah melalui perspektif *fiqh muamalah* dan *maqashid syariah*. Penelitian ini menggunakan metode kualitatif berbasis tinjauan pustaka yuridis-normatif dengan mengkaji literatur *fiqh* klasik, teori *maqashid*, regulasi pasar modal syariah Indonesia, serta riset kontemporer tentang ESG. Hasil penelitian menunjukkan bahwa prinsip ESG memiliki titik temu substansial dengan dasar-dasar *fiqh muamalah*, meliputi larangan *riba*, *gharar*, dan *maysir*, serta kewajiban menegakkan keadilan dan transparansi; lebih jauh, ESG turut mendukung terwujudnya *maqashid syariah* yang mencakup perlindungan agama (*hifz al-din*), jiwa (*hifz al-nafs*), akal (*hifz al-'aql*), keturunan (*hifz al-nasl*), dan harta (*hifz al-mal*). Penelitian ini menyimpulkan bahwa ESG semestinya berperan sebagai filter sekunder yang diterapkan setelah keabsahan syariah terpenuhi, tidak dapat menggugurkan larangan kategoris seperti *riba*, *gharar*, dan *maysir*, serta harus dioperasionalkan melalui indikator berbasis *maqasid* tanpa menggunakan skor komposit lintas domain yang berpotensi mengesampingkan pelanggaran *daruri*—dengan tetap mengakui tantangan implementasi berupa standar pengukuran, risiko *greenwashing*, dan keterbatasan regulasi.

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INTRODUCTION

Islamic investment has witnessed significant development over the past few decades, driven by the growing propensity among Muslims to allocate capital in accordance with Sharia principles. This demand has catalyzed the establishment of Islamic capital markets and the proliferation of Sharia-compliant mutual funds and sukuk (Ascarya, 2021). Concurrently, global financial dynamics have been reshaped by the emergence of Environmental, Social, and Governance (ESG) concepts. While ESG integration offers a pathway to ethical finance, it introduces specific challenges within an Islamic framework.

A primary concern is the potential for an ‘ends-over-means’ drift, where ESG performance is utilized to justify interest-bearing leverage or investment in prohibited sectors. Furthermore, the epistemic delegation of screening to secular ratings agencies often lacks a *Shariah isnad* (chain of authority). These challenges necessitate a robust, two-layer architecture that establishes Shariah compliance as a non-negotiable precondition for any subsequent sustainability appraisal (Frierson & Lewis, 2020). Such an approach aligns with the core tenets of *fiqh muamalah* and *maqashid sharia*, which prioritize justice, public benefit, and the preservation of human and environmental welfare (Kamali, 2011).

Historically, the foundational principles of Islamic investment have been articulated through *fiqh muamalah*. This jurisprudence emphasizes the lawfulness of business activities, contractual clarity, and the strict prohibition of *gharar* (uncertainty), *maysir* (speculation), and *riba* (usury) (Antonio, 2001). In the contemporary era, these principles have been formalized through Islamic capital market regulations and fatwas issued by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), which provide guidelines for Sharia-compliant stocks and instruments. However, the modern investment landscape faces new complexities related to climate change, social inequality, and corporate governance. Although ESG is framed in the literature as a secular indicator of sustainability and business ethics, this paper interprets it conceptually through the lens of *fiqh muamalah* and *maqashid sharia* (Rahman & Alias, 2022).

Theologically, the components of ESG find strong resonance within Islamic tradition. From an Environmental perspective, Islam mandates stewardship (*hifz al-bi'ah*), positioning humans as stewards (*khalifah*) responsible for the earth (Nasr, 2010). Consequently, ecological destruction and overexploitation are viewed as contradictions to *maqashid sharia* because they undermine long-term human welfare. Regarding the Social dimension, Islam champions justice, social welfare, and the protection of community rights (Chapra, 2000), rendering labor exploitation and discriminatory practices incompatible with *muamalah*. Finally, the Governance dimension parallels Islamic requirements for transparency, accountability, and fairness (*'adl*) in business management (Dusuki & Bouheraoua, 2011), as Islam demands honesty (*sidq*) and trustworthiness (*amanah*) in all transactions.

Despite these conceptual alignments, the operationalization of ESG in Sharia investment remains fraught with challenges. First, there is an ontological divergence: ESG originates from a secular Western framework (Eccles & Klimenko, 2019), whereas Sharia investment is rooted in divine normative principles. Second, a standardized methodology for integrating ESG into Sharia screening is currently absent (Sairally, 2015); some institutions treat ESG as merely

complementary, while others view it as intrinsic to *maqashid*. Third, the measurement of ESG relies heavily on qualitative, non-standardized metrics, exposing the industry to risks of greenwashing (Berg et al., 2022).

The urgency of resolving these integration issues is particularly acute in the Indonesian context. As the nation with the world's largest Muslim population, Indonesia possesses immense potential for Islamic capital market growth (Otoritas Jasa Keuangan, 2022). This potential is evidenced by the development of indices such as the Jakarta Islamic Index (JII) and the Indonesian Sharia Stock Index (ISSI). However, current screening mechanisms remain predominantly negative, focusing on financial ratios (e.g., debt thresholds) and the exclusion of non-halal industries, without explicitly incorporating positive ESG dimensions (Rohmah & Kurniawan, 2021). Given rising global sustainability awareness, there is a pressing need for Indonesian Sharia investors to move beyond mere halal compliance toward contributions to long-term public welfare.

A critical gap exists in the current literature. Previous research on the nexus of ESG and Islamic investment has largely focused on empirical assessments of financial performance. Conversely, there is a paucity of studies exploring the conceptual and jurisprudential compatibility between ESG and the specific principles of *fiqh muamalah* or *maqashid sharia*. Existing works often treat ESG as an extrinsic ethical standard rather than an integrated component of Islamic screening. This has resulted in theoretical ambiguity regarding how ESG can operate within a Sharia framework without compromising categorical prohibitions against *riba*, *gharar*, and *maysir*.

To address this gap, this study proposes an integrative model that positions ESG as a secondary filter following Sharia admissibility. This model aligns sustainability indicators with *maqashid*-based objectives to enhance the normative and ethical legitimacy of Islamic investment. From the perspective of *fiqh muamalah*, integrating ESG reinforces the principles of justice ('*adl*), mutual assistance (*ta'āwun*), and the prohibition of harm (*fasad*) (Kamri et al., 2014). *Fiqh* asserts that transactions must not generate profit at the expense of others or the environment; thus, ESG serves as a practical evaluation tool for these values. Furthermore, from the perspective of *maqashid sharia*, ESG is intrinsically linked to the five essential objectives of Sharia (*al-daruriyyat al-khams*) (Auda, 2008a), as summarized in Table 1.

Consequently, the integration of ESG into Islamic investment is not merely an adaptation of Western concepts but a process of harmonization that strengthens the realization of *maqashid sharia* (Dusuki & Abdullah, 2007). ESG functions as a bridge between global sustainability standards and the Muslim community's requirement for religious compliance.

Based on this background and the identified research gap, this article addresses the following conceptual questions through literature-based argumentation:

1. How can a two-layer 'Shariah-first, ESG-second' protocol be operationalized, specifically regarding the mapping of ESG indicators to *Usul/Maqashid* bases and the enforcement of non-compensability rules for *daruri* interests?
2. In what ways is ESG relevant to the specific principles of *fiqh muamalah*?
3. To what extent does ESG contribute to the realization of *maqashid sharia* within the context of investment?

Table 1. Conceptual mapping between Maqashid Shariah and ESG

Objectives of <i>Maqashid Shariah</i>	Relevance to ESG	Explanation
<i>Hifz al-din</i> (Protection of Religion)	Sharia investment ethics	ESG-based investment prevents involvement in prohibited businesses (e.g., usury, gambling, alcohol), thereby safeguarding religious integrity.
<i>Hifz al-nafs</i> (Protection of Life)	Environmental and health protection	ESG emphasizes environmental sustainability and workplace safety, protecting human life from ecological damage and harmful business practices.
<i>Hifz al-'aql</i> (Protection of Intellect)	Healthy and educational business practices	ESG discourages investment in sectors that impair intellect, such as narcotics and alcohol, while promoting innovations that support knowledge and intellectual development.
<i>Hifz al-nasl</i> (Protection of Lineage)	Sustainability for future generations	ESG promotes environmentally friendly practices and social responsibility to ensure a decent quality of life for future generations.
<i>Hifz al-māl</i> (Protection of Wealth)	Fair investment governance	ESG ensures transparency, justice, and accountability in investment, thereby protecting communal assets and wealth.

This article aims to provide a conceptual contribution toward the development of a comprehensive Sharia investment screening instrument, affirming that ESG is consistent with Islamic values of sustainability and public welfare. While ESG is often viewed through the lens of conventional economics, this study offers a normative yet applicable Islamic framework (Hassan & Aliyu, 2018). This approach is essential for expanding the horizons of Islamic finance research and providing a conceptual foundation for policy development in Indonesia's Islamic capital market. Ultimately, integrating ESG can enhance the global competitiveness of Indonesia's Islamic market while ensuring that investment activities truly reflect the values of justice, ethics, and public benefit mandated by *fiqh muamalah* and *maqashid sharia*.

LITERATURE REVIEW

Theoretical Framework

The integration of Environmental, Social, and Governance (ESG) principles into Islamic investment screening is anchored in three primary theoretical pillars, creating a nexus between divine law, teleological objectives, and modern sustainability standards. First, *fiqh muamalah* provides the normative juridical foundation for Islamic financial transactions. It emphasizes the strict prohibition of *riba* (usury), *gharar* (excessive uncertainty), and *maysir* (gambling), while simultaneously promoting positive injunctions such as fairness, transparency, and mutual consent (Kamali, 2011). These principles underscore that Islamic investments cannot be evaluated solely on profitability; they must also be scrutinized to ensure justice and the avoidance of harm (*fasad*).

Second, *maqashid sharia* functions as the teleological framework, defining the higher objectives of Sharia: the preservation of religion (*hifz al-din*), life (*hifz al-nafs*), intellect (*hifz al-'aql*), lineage (*hifz al-nasl*), and wealth (*hifz al-māl*) (Auda, 2008b). This study posits that ESG dimensions map directly onto these essential objectives: environmental sustainability ensures the protection of life and lineage; social responsibility safeguards religion and the intellect by

promoting ethical conduct; and strong governance preserves wealth through the enforcement of fairness and accountability.

Third, the ESG paradigm—though originating in conventional finance—prioritizes long-term sustainability through ecological stewardship, social responsibility, and sound governance (Friede et al., 2015). While rooted in secular ethics, the substance of ESG resonates deeply with Islamic moral imperatives. It acts as a “bridging concept” that aligns global investment standards with Islamic ethical values (Dusuki & Abdullah, 2007; Ibrahim, 2018). Consequently, this theoretical framework positions ESG not merely as an external add-on, but as a complementary and harmonizing instrument within Islamic finance. It enables Sharia investment screening to evolve from a strictly formalistic *halal–haram* dichotomy toward a holistic model grounded in ethics, sustainability, and *maslahah ‘ammah* (public welfare).

Empirical Studies

Empirical research has increasingly documented the convergence between ESG criteria and Islamic finance, validating the economic and ethical viability of their integration. A seminal meta-analysis of over 2,000 studies by Friede et al., (2015) established a positive correlation between ESG performance and financial returns, refuting the notion that ethical investing necessitates a sacrifice in profitability.

Within the specific domain of Islamic finance, Hassan and Aliyu (2018) argue that Islamic financial institutions inherently share ESG-aligned principles due to their exclusion of harmful activities and emphasis on social justice. Supporting this, Rahman and Alias (2022) demonstrated that firms listed in Sharia-compliant indices that also possess high ESG scores exhibit greater resilience and credibility among global investors.

However, the regulatory landscape reveals a gap between theory and practice. While Malaysia and the Gulf Cooperation Council (GCC) countries have initiated attempts to incorporate ESG into Sharia-compliant frameworks, standardization challenges persist (Sairally, 2015). In the Indonesian context, Rohmah and Kurniawan (2021) observed that existing Sharia screening mechanisms remain largely confined to financial ratios and sectoral exclusions, with minimal systematic consideration of ESG factors. This gap highlights a significant opportunity for harmonization, where ESG criteria can be utilized to enrich Sharia screening with broader sustainability considerations. Collectively, these findings reinforce the theoretical assertion that ESG integration aligns with Islamic ethical values and enhances the competitiveness, global relevance, and long-term viability of Sharia-compliant investments.

METHODOLOGY

Research Design

This study employs a qualitative research design grounded in a normative-judicial approach to conceptualize the integration of Environmental, Social, and Governance (ESG) principles into Sharia-compliant investment screening. As a conceptual inquiry, the research does not involve empirical field data or statistical testing; rather, it synthesizes theoretical perspectives from *fiqh muamalah* (Islamic jurisprudence on transactions) and *maqashid sharia* (objectives of Islamic

law) to develop an integrative framework. The primary aim is to bridge the theoretical gap between classical Islamic jurisprudence and contemporary sustainability metrics.

Data Sources

The literature selection was purposively curated to encompass five primary categories to ensure a comprehensive analysis: (1) classical and contemporary *fiqh muamalah* literature, which provides foundational legal rulings on commerce and prohibitions; (2) *maqashid sharia* scholarship, ranging from classical scholars such as al-Shatibi (Al_Ikhlās et al., 2021) to contemporary theorists like Auda (2008a), to establish the teleological basis of the study; (3) regulatory frameworks, including official regulations and fatwas issued by Indonesia's Financial Services Authority (OJK), the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), and the Indonesia Stock Exchange (IDX); (4) international standards, particularly guidelines from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) to ensure global relevance; and (5) contemporary ESG scholarship, including peer-reviewed research on ESG applications in investment practices (e.g., Friede et al., 2015).

Analytical Procedure

Data analysis was conducted using interpretive content analysis and conceptual mapping, executed through three distinct stages: identification, classification, and interpretation. In the identification phase, key themes and variables were isolated to determine the core components of ESG and Sharia compliance. Subsequently, these components were classified based on their relevance to specific *maqashid* objectives and *fiqh* principles, followed by an interpretation phase where data were synthesized to articulate convergence points. To ensure the robustness of the conceptual framework, data validity was maintained through source triangulation. This involved cross-referencing theological imperatives found in *fiqh* literature with positive laws in regulatory frameworks and empirical findings in contemporary research, ensuring that the proposed integration is both legally grounded and practically viable.

RESULTS AND DISCUSSION

Integration of ESG in Sharia Investment Screening

The findings reveal a significant conceptual alignment between Environmental, Social, and Governance (ESG) principles and the ethical foundations of Islamic finance. ESG has emerged globally as a critical framework for assessing sustainability and corporate responsibility, emphasizing that investment decisions should incorporate ecological, social, and governance dimensions alongside financial performance (Friede et al., 2015). This holistic approach resonates strongly with Islamic values such as justice (*'adl*), stewardship (*khalifah*), and public welfare (*maslahah*), which collectively underpin the objectives of *maqashid sharia*. Both paradigms advocate for responsible resource allocation and the promotion of societal well-being, suggesting a natural synergy between ESG and Sharia-compliant investment strategies.

However, the analysis of current regulatory frameworks indicates that ESG considerations remain largely absent from formal Sharia screening mechanisms. In Indonesia, for instance, DSN-MUI standards prioritize compliance with prohibitions against *riba* (usury), *gharar*

(excessive uncertainty), and *maysir* (gambling), supplemented by financial ratio thresholds such as debt-to-equity limits (Otoritas Jasa Keuangan, 2019). Similarly, AAOIFI guidelines emphasize the purification of business activities from non-halal elements, focusing on sectoral exclusions and transactional integrity (AAOIFI, 2017). While these measures ensure adherence to Islamic legal norms, they do not explicitly address broader sustainability concerns such as carbon emissions, labor rights, or corporate governance transparency—issues central to ESG frameworks.

This gap highlights an opportunity for transformative integration. Incorporating ESG into Sharia screening would shift the paradigm from a compliance-based model, which primarily avoids prohibited activities, to a value-based model that actively promotes socio-ecological responsibility. Such integration could operationalize *maqashid sharia* by embedding principles of environmental stewardship and social justice into investment decisions, thereby enhancing the ethical depth of Islamic finance. For example, ESG metrics could complement existing financial ratio screens by introducing criteria related to environmental impact, employee welfare, and governance accountability. This would not only align Islamic finance with global sustainability trends but also strengthen its appeal among socially conscious investors seeking faith-based yet progressive investment options.

Moreover, the integration of ESG into Sharia screening could address emerging challenges in the global financial ecosystem, such as climate risk and social inequality, which increasingly influence long-term portfolio performance. Regulatory bodies and financial institutions should incorporate ESG-informed Sharia standards into their frameworks to position Islamic finance as a strategic driver of sustainability, ensuring alignment with national and international commitments to the Sustainable Development Goals (SDGs). However, this transition requires harmonization between Sharia scholars, ESG practitioners, and regulatory bodies to develop standardized frameworks that respect both Islamic jurisprudence and sustainability imperatives.

The results suggest that while conceptual compatibility exists between ESG and Islamic finance, practical implementation remains limited. Advancing this integration represents a strategic pathway for Islamic finance to evolve beyond legal compliance toward a holistic, ethically driven investment model that addresses both spiritual and global sustainability objectives.

Table 2. Comparison of ESG and Sharia Screening Criteria

Dimension	ESG Criteria	Sharia Screening Criteria
Environmental	Carbon footprint, resource efficiency, pollution control, climate risk	No explicit criteria; indirect relevance through stewardship (<i>khalifah</i>) values
Social	Labor rights, diversity, community impact, human rights compliance	Avoidance of unethical sectors (e.g., alcohol, gambling); emphasis on public welfare (<i>maslahah</i>)
Governance	Board independence, anti-corruption, transparency, shareholder rights	Prohibition of <i>riba</i> , <i>gharar</i> , and <i>maysir</i> ; financial ratio thresholds (e.g., debt-to-equity)
Underlying Principle	Sustainability and ethical responsibility	Compliance with Islamic law (<i>Sharia</i>) and objectives of <i>maqashid sharia</i>

ESG in the Perspective of *Fiqh Mu‘āmalah*

In Islamic jurisprudence, the legitimacy of an investment is determined not only by the nature of the traded asset but also by the manner in which wealth is acquired. The Qur’an states:

“O you who have believed, do not consume one another’s wealth unjustly but only [in lawful] business by mutual consent” (al-Nisā’ [4]: 29).

This injunction underscores that investments involving *bāṭil* (unjust) practices—such as environmental degradation or labor exploitation—are fundamentally impermissible. The Environmental and Social dimensions of ESG provide modern metrics to identify and prevent *fasād* (corruption or harm), a prohibition emphasized in the Qur’an: “Corruption has appeared throughout the land and sea because of what the hands of people have earned” (al-Rūm [30]: 41).

Classical *fiqh mu‘āmalah* establishes a normative framework for commercial ethics through prohibitions and obligations, including the avoidance of *riba* (usury), *gharar* (excessive uncertainty), *maysir* (gambling), *tadlīs* (fraud), and *ikhṭikār* (harmful hoarding), while promoting fairness, trust, and transparency. The theory of *maqāṣid al-sharī‘ah* adds a higher-order dimension by explaining the rationale behind these rules: the protection of fundamental human interests and societal welfare (*maṣlaḥah*). ESG can thus be understood as a contemporary operationalization of these protective aims, expressed through measurable environmental stewardship, social responsibility, and robust governance. In effect, ESG translates *maqāṣid* aspirations into observable corporate practices and investment criteria.

For instance, *gharar* refers to excessive ambiguity or lack of information in transactions that may exploit one party (Kamali, 2011). The Governance pillar of ESG directly addresses this concern by mandating transparency, accurate financial reporting, and accountability. Companies with strong governance structures reduce information asymmetry, thereby mitigating *gharar* in investment portfolios. Similarly, *maysir*—the acquisition of wealth through chance or speculative risk-taking—contradicts Islamic principles of productive effort. ESG-compliant investments emphasize rigorous due diligence, long-term risk management, and non-financial analysis, discouraging short-term speculative behavior and reducing gambling-like elements in capital markets.

The prohibition of *riba*, or interest, is rooted in Islamic principles aimed at promoting economic justice and preventing exploitation. Financial practices that prioritize profit over social equity conflict with these objectives. Incorporating ESG standards—emphasizing “profit, people, and planet”—provides a practical mechanism to align Islamic finance with its ethical mandate. Regulators and institutions should leverage ESG to reinforce anti-*riba* values, ensuring that wealth generation supports fairness and sustainability in line with policy goals.

From the perspective of *fiqh mu‘āmalah*, ESG functions as a complementary instrument that ensures Islamic investment meets not only the formal *halal*–*haram* requirements but also the

substantive principles of justice, equity, and sustainability. This alignment positions ESG as a strategic tool for advancing the objectives of Shariah in modern financial systems.

Maqashid Shariah Analysis of ESG

The integration of Environmental, Social, and Governance (ESG) principles into Islamic investment can be comprehensively understood through the lens of *maqashid shariah*, which represents the higher objectives of Islamic law. According to classical scholars such as al-Syathibi, *maqashid shariah* seeks to preserve five essential aspects of human life, known as *al-daruriyyat al-khams*: religion (*hifz al-din*), life (*hifz al-nafs*), intellect (*hifz al-'aql*), lineage (*hifz al-nasl*), and wealth (*hifz al-mal*) (Auda, 2008a). ESG principles, when examined against these objectives, demonstrate a strong alignment that extends beyond technical compliance to substantive ethical outcomes.

First, *hifz al-din* (protection of religion) aligns with ESG policies that restrict investment in industries violating Islamic ethical standards, such as alcohol, gambling, and fraudulent practices, ensuring compliance with moral principles. Second, *hifz al-nafs* (protection of life) is operationalized through ESG's environmental criteria, which mandate ecological stewardship and workplace safety. These measures reduce environmental risks and protect human life, reflecting Qur'an al-Baqarah [2]:205, which warns against harm and corruption on earth.

Third, *hifz al-'aql* (protection of intellect) corresponds to ESG's exclusionary criteria that prohibit investment in industries detrimental to cognitive well-being, such as narcotics and alcohol, while promoting initiatives that advance education, literacy, and innovation. Fourth, *hifz al-nasl* (protection of lineage) aligns with ESG's emphasis on intergenerational equity and sustainability, ensuring that future generations inherit a stable and healthy environment through socially responsible and environmentally sound practices. Finally, *hifz al-mal* (protection of wealth) is reflected in ESG's governance dimension, which prioritizes transparency, accountability, and anti-corruption measures. These mechanisms safeguard wealth from misappropriation and foster equitable resource distribution, consistent with Qur'an al-Hashr [59]:7, which advocates fairness in allocation.

Table 3. Alignment Between ESG Dimensions and *Maqashid Shariah* Objectives

Maqashid Objective	Description	ESG Contribution
<i>Hifz al-din</i>	Protection of religion	Excludes unethical sectors (alcohol, gambling, fraud)
<i>Hifz al-nafs</i>	Protection of life	Environmental sustainability, workplace safety, health standards
<i>Hifz al-'aql</i>	Protection of intellect	Avoids harmful industries (narcotics, alcohol); promotes education and literacy
<i>Hifz al-nasl</i>	Protection of lineage	Intergenerational sustainability through social and environmental responsibility
<i>Hifz al-mal</i>	Protection of wealth	Governance, transparency, anti-corruption, fair wealth distribution

This analysis demonstrates that ESG is not merely a technical screening tool but an operational manifestation of *maqashid shariah* in contemporary investment practice. Incorporating ESG principles into Islamic finance enables a shift from formal compliance toward achieving broader objectives of justice, sustainability, and social welfare. This approach aligns Islamic investment with global sustainability agendas, addressing systemic challenges such as climate risk, social inequity, and governance gaps. Policymakers and regulators should prioritize ESG integration within Sharia-compliant frameworks to strengthen investor confidence, attract impact-driven capital, and advance national and international commitments to the Sustainable Development Goals (SDGs).

Viewed through this framework, ESG is not merely a technical screening mechanism but an operational manifestation of *maqāsid al-sharī'ah* within contemporary investment practice. The integration of ESG principles enables Islamic finance to move beyond formal halal–haram compliance toward fulfilling its higher objectives of justice, sustainability, and social welfare. This integration positions Islamic investment as a holistic system that aligns spiritual and ethical values with global sustainability imperatives, thereby reinforcing its relevance in addressing modern challenges such as climate change, social inequality, and governance failures. Moreover, the adoption of ESG within Sharia-compliant frameworks can strengthen investor confidence, attract socially conscious capital, and support the achievement of the Sustainable Development Goals (SDGs), ultimately amplifying the contribution of Islamic finance to global ethical finance discourse.

Harmonization and Challenges

The potential for harmonizing ESG principles with existing Sharia screening frameworks is considerable, particularly given that traditional Islamic investment standards primarily emphasize the avoidance of prohibited elements such as *riba*, *gharar*, and *maysir*. Incorporating environmental, social, and governance criteria allows Sharia screening to evolve from a narrow focus on prohibition-based compliance toward a broader ethical orientation that addresses sustainability, social justice, and responsible corporate behavior. This expansion significantly enhances the ethical legitimacy of Islamic investments in the global financial arena, positioning Islamic finance as a value-driven system capable of responding to contemporary sustainability imperatives.

Despite these promising points of convergence, the integration of ESG into Sharia-compliant investment practices faces several substantive challenges. One prominent challenge relates to the lack of standardized ESG assessment frameworks within Islamic finance, resulting in inconsistencies in evaluation and reporting practices across jurisdictions. Greenwashing poses an additional concern, as firms may exaggerate or manipulate sustainability disclosures to create a misleading impression of ESG alignment. Regulatory limitations further hinder integration; in Indonesia, for example, Sharia investment regulations remain primarily oriented toward halal–haram compliance and have yet to incorporate ESG indicators in a systematic or comprehensive manner (Otoritas Jasa Keuangan, 2019). In addition, the adoption of ESG frameworks often entails increased operational and reporting costs, which may reduce competitiveness—particularly for firms with limited resources or those operating in emerging markets.

Comparison with Existing Screening Practices

When compared with existing screening practices, the contrast between conventional Sharia screening and ESG-based assessments becomes even more pronounced. DSN–MUI and AAOIFI continue to prioritize formal compliance rooted in *fiqh muamalah*, including sectoral exclusions and financial ratio thresholds designed to minimize exposure to non-halal elements. ESG, by contrast, introduces a forward-looking and sustainability-oriented perspective that encourages firms not only to avoid prohibited activities but also to pursue positive environmental and social outcomes. Integrating ESG into these established Sharia screening systems would therefore render Islamic investment practices more comprehensive and proactive, shifting the focus from merely avoiding harm to actively promoting broader *maslahah* (public welfare). A comparative assessment of DSN–MUI, AAOIFI, and ESG frameworks reveals substantial opportunities for convergence, enabling Islamic investment screening to achieve both religious legitimacy and global ethical relevance. Through such integration, Islamic finance can position itself as a leading model of responsible and value-driven investment in an increasingly sustainability-conscious global economy.

Table 4. Conceptual Comparison of Sharia Screening Models and ESG

Screening Aspect	DSN–MUI (Indonesia)	AAOIFI (Global)	ESG (Environmental, Social, Governance)
Main Focus	Sharia compliance: prohibitions on <i>riba</i> , <i>gharar</i> , <i>maysir</i> , and <i>haram</i> activities	Sharia compliance: halal activities, financial ratios, purification	Sustainability: environmental, social, and governance aspects
Screening Instruments	DSN–MUI Fatwa No. 40/2003; OJK guidelines: interest-based debt \leq 45%, halal sectors	AAOIFI standards: debt \leq 33%, halal sectors, income purification	ESG indicators: emissions, labor practices, human rights, anti-corruption, transparency
Orientation	Halal–haram (formalistic, normative)	Halal–haram (international, normative)	Ethics and sustainability (universal)
Spiritual Dimension	Based on <i>fiqh muamalah</i>	Based on <i>fiqh muamalah</i>	Not explicit, but compatible with <i>maqāsid shariah</i>
Strengths	Contextualized with Indonesian regulations, strong legal certainty	Global standards with broad acceptance	Comprehensive focus on sustainability and ethics
Weaknesses	Does not integrate ESG; limited to formal compliance	Limited to formal halal–haram compliance	Not <i>Sharia</i> -based; requires reinterpretation for Islamic finance
Integration Opportunities	Can integrate ESG to strengthen <i>maslahah</i>	Can incorporate <i>maqāsid shariah</i> and ESG	Can function as a supplementary screening tool

The comparison indicates that DSN–MUI and AAOIFI frameworks remain primarily focused on formal compliance rooted in *fiqh muamalah*, especially the avoidance of *riba*, *gharar*, and *maysir*. ESG, however, offers a broader ethical and sustainability perspective. Integrating ESG into Sharia screening could expand the objectives of Islamic investment from merely avoiding prohibited activities to actively promoting public welfare (*maslahah ‘āmmah*), fully in line with *maqāsid shariah*. This integration would strengthen both religious legitimacy and ethical relevance in global financial markets.

A review of the literature demonstrates strong conceptual alignment between ESG principles and *maqāṣid shariah* in shaping an investment screening approach that encompasses both formal compliance and broader welfare-oriented objectives. This view is consistent with Auda (2008b), who argues that *maqāṣid shariah* should be understood systemically, prioritizing justice, sustainability, and public interest. Similarly, Kamali (2011) underscores the adaptability of *fiqh muamalah* in addressing modern economic and social challenges.

Diagram of ESG–Maqāṣid Shariah Integration

The diagram illustrates how each ESG dimension aligns with the essential objectives of *maqāṣid shariah*. The Environmental dimension is linked to *ḥifẓ al-nafs* and *ḥifẓ al-nasl*, as environmental protection supports human life and future generations. This is consistent with Qur’an 7:56, which prohibits spreading corruption on earth.

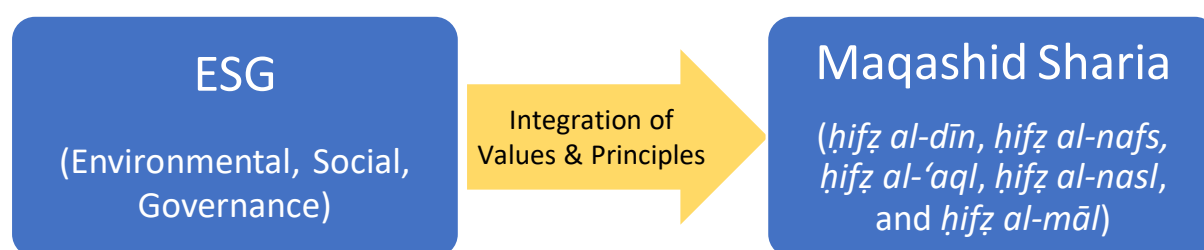


Figure 1. Framework ESG–Maqāṣid Shariah

The Social dimension relates to *ḥifẓ al-dīn* and *ḥifẓ al-‘aql*, as social welfare, justice, and education contribute to the preservation of morality and rationality. This principle is reflected in the hadith affirming that every leader is responsible for those under their care (al-Bukhari; Muslim). The Governance dimension aligns with *ḥifẓ al-māl*, as transparency and strong governance serve to safeguard wealth. Empirical ESG research also confirms that strong governance enhances investor confidence and long-term financial stability (Friede et al., 2015).

Collectively, the integration of ESG and *maqāṣid shariah* offers a comprehensive framework for evaluating Islamic investments in terms of Sharia compliance, sustainability, justice, and public welfare. This conceptual model provides a foundation for modernizing Sharia screening instruments in Indonesia to remain relevant within dynamic global investment landscapes.

Implications for Regulation and Contemporary Research

The findings indicate that integrating ESG principles into Islamic investment practices can significantly strengthen the existing Sharia screening system in Indonesia. Regulatory bodies such as the Financial Services Authority (OJK), the National Sharia Council (DSN-MUI), and the Indonesia Stock Exchange (IDX) could consider incorporating ESG indicators into Sharia-compliant stock indices. This would represent a paradigm shift from a compliance-based approach—focused primarily on prohibiting *riba*, *gharar*, and *maysir*—toward a value-based framework that actively promotes sustainability and ethical responsibility. Such integration would align Islamic finance with global trends in sustainable investment, where ESG has emerged as a central pillar of responsible finance (Friede et al., 2015).

From a normative perspective, ESG integration supports the realization of *maqashid syariah* objectives, particularly in the dimension of *maslahah* (public welfare). This is consistent with al-Ghazali's classical view (1997), which emphasizes that all economic activities should aim to preserve the five essential objectives of Sharia: *hifz al-dīn* (protection of religion), *hifz al-nafs* (protection of life), *hifz al-'aql* (protection of intellect), *hifz al-nasl* (protection of lineage), and *hifz al-māl* (protection of wealth). ESG principles operationalize these objectives by promoting environmental stewardship, social justice, and governance transparency, thereby transforming Islamic investment into a holistic instrument for contemporary *maslahah*.

In terms of research implications, this study contributes to the growing discourse on sustainable Islamic finance by offering a conceptual framework that bridges ESG and *maqashid syariah*. Future research could explore empirical models for integrating ESG metrics into Sharia screening, assess investor perceptions of ESG-compliant Islamic products, and examine the financial performance of ESG-integrated Sharia indices compared to conventional benchmarks. Additionally, interdisciplinary studies involving Islamic jurisprudence, sustainability science, and behavioral finance could provide deeper insights into the operationalization of ethical and environmental values within Islamic capital markets.

Embedding ESG principles within Islamic investment regulation provides a clear policy pathway for creating a financial system that is inclusive, sustainable, and ethically resilient. Regulators and decision-makers should leverage this integration to align Islamic finance with international sustainability commitments and Sharia objectives, ensuring its role as a key driver of responsible investment and SDG achievement.

CONCLUSIONS

This study conceptually argues that Environmental, Social, and Governance (ESG) principles can be integrated as a screening instrument within Islamic investment frameworks. From the perspective of *fiqh muamalah*, ESG supports the avoidance of prohibited elements such as *riba*, *gharar*, and *maysir*, while reinforcing the halal-haram principles that govern Islamic transactions. From the perspective of *maqashid syariah*, ESG demonstrates strong alignment with the five essential objectives of Sharia—*hifz al-dīn* (protection of religion), *hifz al-nafs* (protection of life), *hifz al-'aql* (protection of intellect), *hifz al-nasl* (protection of lineage), and *hifz al-māl* (protection of wealth)—thereby positioning ESG as a mechanism for achieving both ethical and sustainability goals in Islamic finance.

The integration of ESG into Islamic investment practices has significant implications for regulation and policy development. Harmonizing Sharia standards, such as those issued by DSN-MUI and AAOIFI, with global ESG indicators could enhance the ethical relevance and international competitiveness of Islamic finance. Such alignment would enable Islamic investment to move beyond formal compliance toward a value-based model that promotes sustainability and social responsibility. Furthermore, this conceptual framework provides a foundation for empirical research on ESG-integrated Sharia screening, investor behavior, and the performance of ESG-compliant Islamic portfolios relative to conventional benchmarks.

Despite its conceptual contributions, this study acknowledges several limitations. The absence of standardized ESG metrics across jurisdictions, the risk of greenwashing, and inconsistencies in governance indicators pose challenges to practical implementation. Future research should focus on developing unified ESG-Sharia screening models, conducting empirical validation of their effectiveness, and exploring cross-country regulatory harmonization. Additionally, interdisciplinary studies combining Islamic jurisprudence, sustainability science, and financial analytics could offer deeper insights into operationalizing ESG within Islamic capital markets. These efforts are essential to ensure that Islamic finance remains ethically robust, globally relevant, and aligned with the objectives of *maqashid shariah*.

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