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Integrating ESG and Maqashid Syariah Principles in the Islamic FinTech Ecosystem: Developing a Framework for Sustainable Digital Finance

Ismawati¹, Diah Wahyuningsih²

Department of Development Economics, Faculty of Economics and Business, Universitas Trunojoyo
Madura, Bangkalan, Indonesia

230231100076@student.trunojoyo.ac.id

ABSTRACT

This study aims to develop a conceptual framework that integrates the principles of *Environmental, Social, and Governance (ESG)* with the values of *maqashid syariah* within the Islamic digital financial ecosystem (*Islamic financial technology*). This integration is intended to bridge global sustainability values with the ethical foundations of Islam, thereby strengthening the theoretical basis for the development of sustainable Islamic digital finance. The research employs a qualitative and conceptual approach using an *integrative literature-based analysis* method. Data were obtained from open-access academic journals, policy reports, and official publications issued by institutions such as the Financial Services Authority (OJK) and Bank Indonesia between 2020 and 2025. All literature was analyzed using *content analysis* and *theoretical synthesis* techniques to formulate a conceptual model called the *ESG–Maqashid Syariah Integration Framework (ESMIF)* as a new model in Islamic digital finance. The findings reveal a strong relationship between the dimensions of ESG and the objectives of *maqashid syariah*. The ESMIF model illustrates how digital transformation through Islamic fintech can operationalize environmental, social, and governance values in a sustainable manner while maintaining compliance with Sharia principles. The model also highlights the strategic role of fintech as a *digital enabler* in enhancing transparency, accountability, and inclusivity within the Islamic financial system. This study provides a theoretical contribution by offering an integrative model that combines global ESG principles and Islamic legal objectives through digital innovation, serving as a new framework for policymakers and practitioners in developing a green, ethical, and sustainable Islamic financial system in the digital era.

Keywords: *Digitalization, ESG, Green Economy, Islamic Fintech, Maqashid Syariah, Sustainable Finance*

INTRODUCTION

Digital transformation and environmental sustainability have become two strategic agendas in the development of both global and national financial systems. In Indonesia, the fintech industry has grown exponentially, with the number of active fintech companies increasing from only 51 in 2011 to 334 in 2022 (Kumar et al., 2023). In addition, the use of digital payments has also surged, as reflected in Indonesia's e-money transaction value, which reached IDR 399.6 trillion in 2022 an increase of approximately 30.84% compared to the previous year. (Commerce, 2024). This condition indicates that access to and activities within digital finance have become key factors in financial inclusion and modernization in Indonesia.

Furthermore, the digitalization of finance in Indonesia has been driven by the increasing penetration of the internet and mobile devices, as well as regulatory support from institutions such as the Financial Services Authority (OJK) and Bank Indonesia (BI). For example, reports indicate that as of January 2024, digital banking transactions increased by 17.2% year-on-year, while the QRIS (Quick Response Code Indonesian Standard) system experienced

growth of nearly 150% compared to the previous period (Oxfordbusinessgroup, 2024). Through this pathway, digitalization offers significant opportunities to expand financial inclusion, including for communities that previously lacked access to formal banking services.

However, despite the rapid growth of fintech and digital finance, the penetration of Islamic finance remains relatively low. According to data from the Financial Services Authority (OJK) in 2023, Islamic financial literacy in Indonesia was only 39.11%, while Islamic financial inclusion remained at 12.88%. (Feb.ugm, 2024). This fact indicates that the potential of the Islamic economy in supporting inclusion and sustainability has not been fully utilized. It is also noted that empirical studies show Islamic financial inclusion has a significant positive effect on the Human Development Index (HDI) at the provincial level in Indonesia (Mohamad et al., 2025).

In the realm of sustainability, the *Environmental, Social, and Governance (ESG)* framework has become a benchmark for both conventional and Islamic financial institutions in measuring sustainability performance. A study in the banking sectors of Indonesia and Malaysia found that ESG performance has a significant positive impact on bank stability, and that the social pillar exerts a greater influence on Islamic banks (Irsyad et al., 2025). Meanwhile, Islamic finance literature has also begun to adopt the concept of *Maqashid al-Shariah* the objectives of Islamic law, namely *hifz al-din* (protection of religion), *hifz al-nafs* (protection of life), *hifz al-'aql* (protection of intellect), *hifz al-nasl* (protection of lineage), and *hifz al-mal* (protection of wealth) as an ethical and normative framework for evaluating the sustainability of Islamic finance.

Although both Islamic financial digitalization and the principles of ESG and *maqashid syariah* have become individual focuses of research, there remains a significant research gap — namely, the lack of studies that systematically integrate these three aspects: digitalization (Islamic fintech), the ESG framework, and *maqashid syariah* into a single coherent conceptual model. Previous studies have largely examined Islamic fintech from the perspectives of financial inclusion or digital innovation, or analyzed ESG within Islamic finance, but rarely have they developed a model that simultaneously connects sustainability values, Sharia ethical principles, and digital transformation.

Based on the identification of this research gap, this study offers novelty through the development of a conceptual framework called the *ESG–Maqashid Syariah Integration Framework (ESMIF)*, which combines global sustainability values (ESG) with Sharia objectives (*maqashid syariah*) within the context of Islamic fintech as a medium for financial digitalization. This model is expected to serve as both a theoretical and practical foundation for Islamic financial institutions, Islamic fintechs, and policymakers to develop *green digital finance* that prioritizes not only profit but also social, environmental, and ethical sustainability.

However, there remains a gap in the literature regarding how ESG principles can be integrated with *maqashid syariah* objectives within the context of Islamic digital finance. Most previous studies have examined the application of either ESG principles or *maqashid syariah* separately in Islamic finance, with very few addressing the conceptual linkage between the two—particularly through the role of Islamic fintech as a driver of digital innovation. Therefore, this study proposes a conceptual model that integrates ESG and *maqashid syariah* to realize a sustainable and ethical Islamic digital financial system.

The objectives of this research are: (1) to identify the alignment between ESG principles and *maqashid syariah* values; (2) to analyze the role of digitalization in operationalizing sustainability values within Islamic fintech; and (3) to formulate a conceptual model that can serve as a reference for developing sustainable Islamic finance in Indonesia.

METHOD

a) Type of Research

This study employs a qualitative approach based on a literature review (*integrative literature-based analysis*). This approach was chosen to synthesize various theoretical findings from the literature on Islamic finance, sustainability, and digital fintech in order to construct a comprehensive conceptual framework. Approximately 35 literature sources from reputable international journals such as *Sustainability (MDPI)*, *Frontiers in Environmental Science*, and the *Journal of Islamic Accounting and Business Research* were analyzed using thematic analysis techniques to identify the relationships among ESG principles, *Maqashid Syariah*, and digital innovation (Snyder, 2019).

b) Research Location

This research was not conducted in a specific physical location as it is conceptual in nature. The entire analysis process was carried out through desk research by reviewing academic literature, policy reports, and institutional documents relevant to the topics of sustainability, ESG, and Islamic digital finance. The focus of the analysis is directed toward the Indonesian context to provide practical relevance for the development of national Islamic finance.

c) Data Sources

The data used in this study consist of secondary data obtained from various open-access sources, such as academic journals, reports from Islamic financial institutions (Bank Indonesia, OJK, DSN-MUI), and international publications from organizations such as the Islamic Development Bank (IsDB) and the Global Islamic Finance Report (GIFR). The selected literature was drawn from publications between 2020 and 2025 to reflect the most recent developments related to the integration of ESG, *maqashid syariah*, and the digitalization of Islamic finance.

d) Data Collection Techniques

The data collection was carried out through a *systematic literature review (SLR)* and *content analysis*. The first step involved identifying key terms such as “ESG in Islamic finance,” “maqashid syariah in digital finance,” “Islamic fintech sustainability,” and “integration of ESG and Shariah objectives.” Subsequently, a process of article selection and categorization was conducted based on their relevance and contribution to the research topic. Each source was analyzed to identify thematic relationships among the concepts of ESG, *maqashid syariah*, and the digitalization of Islamic finance (Wardiman et al., 2024).

e) Data Analysis Techniques

Data analysis was conducted using a *theoretical synthesis* approach by integrating the results of the literature review into a conceptual model. This process consisted of four main stages: (1) identifying the core concepts of ESG and *maqashid syariah*; (2) mapping the alignment of values between the two frameworks; (3) analyzing the role of Islamic financial digitalization in linking both frameworks; and (4) formulating the conceptual model of the *ESG–Maqashid Syariah Integration Framework (ESMIF)*. This approach aims to produce a theoretical model that can be used to strengthen the foundation of sustainability within the Islamic fintech ecosystem (Maarif et al., 2025).

RESULT AND DISCUSSION

a) Findings

This study produced key findings revealing a strong conceptual relationship between the principles of *Environmental, Social, and Governance (ESG)* and *maqashid syariah* within the context of Islamic digital finance. Based on a literature analysis of 35 scholarly

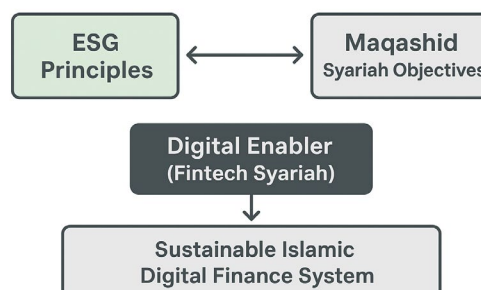
publications, regulatory reports, and institutional documents (OJK, BI, IsDB, DSN-MUI), it was found that both frameworks share a common objective of promoting an equitable, ethical, and sustainable economic system. More specifically, the *Environmental (E)* dimension of ESG emphasizes the importance of environmental management, energy efficiency, and carbon emission reduction. These values align with the principles of *hifz al-nafs* (protection of life) and *hifz al-mal* (protection of wealth) in *maqashid syariah*, which require the just and responsible management of natural resources (Maarif et al., 2025). The *Social (S)* dimension of ESG emphasizes aspects of social justice, community welfare, and corporate responsibility toward employees and society. This is consistent with *hifz al-nasl* (protection of lineage) and *hifz al-'aql* (enhancement of intellect), which lead to the strengthening of education, innovation, and social well-being (Wardiman et al., 2024). Meanwhile, the *Governance (G)* dimension in ESG requires institutional transparency, integrity, and accountability. This value aligns with *hifz al-din* (upholding justice and religious morality), as good governance represents the implementation of trust and responsibility in Islam (Agustin et al., 2023).

Other findings indicate that the digitalization of Islamic finance serves as a strategic factor that enables broader implementation of ESG–*maqashid syariah* integration. Through digital technologies such as blockchain, smart contracts, and digital payment systems, sustainability principles can be applied more efficiently and transparently. For instance, ESG-based Islamic crowdfunding platforms allow the allocation of funds to social and environmental projects without violating Sharia principles. Similarly, digital *zakat* and *waqf* management systems enhance the accountability of Islamic social fund distribution while simultaneously supporting the social dimension of ESG.

Furthermore, the literature mapping results reveal a conceptual gap between ESG and *maqashid syariah* studies within the context of digital finance. Most ESG-related studies still position *maqashid syariah* merely as complementary values rather than as the foundational basis. This research proposes a new approach by positioning *maqashid syariah* as the philosophical foundation of ESG within Islamic digital finance, rather than merely as a moral equivalent.

Based on this synthesis, the study develops a conceptual model called the *ESG–Maqashid Syariah Integration Framework (ESMIF)*. This model serves as a theoretical framework illustrating how the three ESG dimensions can be integrated with the five primary objectives of *maqashid syariah* through the support of digital technology.

Figure 1. ESG–Maqashid Syariah Integration Framework (ESMIF)



As illustrated in Figure 1, the ESMIF model positions Islamic fintech as a bridge between ESG principles and *maqashid syariah* to form a sustainable Islamic digital financial system.

b) Discussion

The ESMIF model demonstrates a synergistic relationship between global sustainability principles and Islamic values in realizing sustainable Islamic digital finance. This integration consists of three key dimensions: values, mechanisms, and policy implications. First, in terms of values, ESG and *maqashid syariah* share a common ethical foundation—social justice, balance, and intergenerational responsibility. While ESG focuses on environmental preservation and corporate governance, *maqashid syariah* provides a spiritual and moral dimension to these processes. Thus, this integration strengthens the legitimacy of Islamic finance on the global stage by uniting *universal ethics* (ESG) with *divine ethics* (*maqashid syariah*) (Fahmi, 2025).

Second, in terms of mechanisms, digitalization serves as the bridge that facilitates the implementation of ESG and *maqashid syariah* values. Financial technologies such as fintech, big data analytics, and blockchain can enhance transparency, efficiency, and risk mitigation in Islamic economic activities. For instance, the application of smart contracts in *murabahah* or *ijarah* contracts can automatically ensure Sharia compliance, while ESG data analytics can be used to evaluate the social and environmental impacts of Islamic financial projects.

Third, in terms of policy implications, the ESMIF model can serve as a reference for regulators such as OJK and Bank Indonesia in formulating *green Islamic finance* policies in the digital era. The integration of ESG and *maqashid syariah* through digitalization also supports the achievement of the Sustainable Development Goals (SDGs), particularly Goal 8 (*Decent Work and Economic Growth*), Goal 9 (*Industry, Innovation, and Infrastructure*), and Goal 12 (*Responsible Consumption and Production*).

The ESMIF model can be illustrated through three main layers:

1. **First layer (core values):** unites the five principles of *maqashid syariah* as the moral and spiritual foundation.
2. **Second layer (ESG pillars):** positions the three ESG dimensions aligned with *maqashid syariah* as the operational guidelines.
3. **Third layer (digital enabler):** highlights the role of digital technology in implementing the integration of ESG–*maqashid* values through Islamic fintech platforms.

This analysis extends the findings of Maarif et al. (2025), which focused solely on measuring *maqashid* and ESG performance in Islamic financial institutions. The present study provides a new contribution in the form of an integrative model that can be utilized for the development of sustainable Islamic digital financial instruments, such as blockchain-based *green sukuk*, ESG *zakat* platforms, and halal impact investments.

Thus, the findings of this research affirm that sustainability in Islamic finance cannot be separated from digitalization and *maqashid syariah* values. ESG is not a foreign concept to Islam; rather, it is a modern representation of the sustainability principles long embedded in Sharia teachings. This integration is expected to serve as a new direction for policy development and innovation in Islamic finance both in Indonesia and globally.

CONCLUSION

This study aims to develop a conceptual framework that integrates the principles of *Environmental, Social, and Governance (ESG)* with the values of *maqashid syariah* within the Islamic digital financial ecosystem. The research focuses on bridging global sustainability concepts and Islamic ethics through the role of digital transformation, particularly in the Islamic financial technology (fintech) sector. Based on an *integrative literature-based analysis* approach, this study identifies a substantial alignment between the three pillars of ESG and the five primary objectives of *maqashid syariah*, in which the environmental, social, and governance dimensions correspond with the principles of protecting life, intellect, lineage, wealth, and religion in *maqashid syariah*.

These findings led to the development of a conceptual model called the *ESG–Maqashid Syariah Integration Framework (ESMIF)*, which illustrates the synergistic relationship between global sustainability values and Islamic moral principles, with Islamic fintech serving as a *digital enabler* in operationalizing sustainability in an efficient and Sharia-compliant manner. Practically, this model can serve as a reference for regulators, Islamic financial institutions, and fintech industry players in developing sustainable financial instruments, as well as for authorities such as OJK and Bank Indonesia in formulating *green Islamic digital finance* policies aligned with the Sustainable Development Goals (SDGs).

The model also provides guidance for the industry in designing Sharia-based digital financial products such as *green sukuk*, *digital zakat*, and *ethical investment platforms* that integrate sustainability values, technological innovation, and Sharia compliance. Although this study provides significant theoretical contributions, it remains conceptual and has not yet been empirically tested. Therefore, future research is recommended to empirically test the ESMIF model using methods such as the Delphi approach, Structural Equation Modeling (SEM), or Partial Least Squares (PLS) to measure the validity of the relationships between ESG dimensions and *maqashid syariah*. Future studies may also expand this model by incorporating aspects of digital consumer behavior, green fiscal policy, and Islamic social finance innovations such as *zakat*, *waqf*, and social *sukuk* to make the sustainability framework within the Islamic digital economy more comprehensive.

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