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SUSTAINABLE GOVERNANCE IN ISLAMIC FINANCE: THE ROLE OF GREEN ECONOMY IN SHAPING MALAYSIA, BRUNEI DARUSSALAM, AND INDONESIA'S BANKING SYSTEMS

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Abstract: *This study explores the integration of Sustainable Governance (SG), Corporate Social Responsibility (CSR), and Maqasid Shariah within Islamic banking practices in Malaysia, Indonesia, and Brunei Darussalam. By examining each nation's approach to aligning financial practices with Environmental, Social, and Governance (ESG) principles, the paper highlights the role of Islamic banks in promoting sustainability. In Malaysia, the Value-Based Intermediation (VBI) framework integrates CSR into Islamic banking, advancing community welfare and sustainable development. Indonesia's innovative Green Sukuk positions it as a leader in green Islamic finance, channeling funds towards environmentally-friendly projects. Brunei, though in the nascent stages of CSR adoption, shows potential in ethical investments aligned with Maqasid Shariah. Across these nations, Maqasid Shariah principles guide Islamic banking in balancing profitability with social justice and environmental stewardship. The integration of CSR within Islamic finance underscores each country's commitment to sustainable development, positioning Islamic banking as a crucial player in global sustainability efforts.*

Keywords: *Economic Inclusion, Ethical finance, Maqasid shariah, Sustainable Governance*

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Introduction

In recent years, the global financial landscape has witnessed a growing emphasis on Sustainable Governance (SG) as an integral framework in both conventional and Islamic finance. SG refers to the alignment of financial operations with principles that foster long-term environmental, social, and economic sustainability. As concerns over climate change, resource depletion, and socio-economic inequality intensify, Islamic financial institutions increasingly align their operations with the green economy to meet moral and regulatory obligations. Malaysia, Brunei Darussalam, and Indonesia- countries with significant Islamic finance ecosystems uniquely positioned to lead the integration of sustainable practices in the banking sector. Their financial systems, rooted in shariah principles, inherently prioritize fairness, transparency, and socio-economic welfare, which align with the broader goals of Environmental, Social, and Governance (ESG) frameworks.

The role of regulatory frameworks, especially those centered on ESG principles, is paramount in driving the transformation of Islamic banking systems towards sustainable governance. ESG frameworks offer a structured approach to evaluating financial activities based on environmental stewardship, social responsibility, and governance quality. Islamic financial institutions, guided by the maqasid al – shariah (Objectives of Shariah), naturally align with many ESG goals, such as environmental care, social justice, and ethical governance. However, the challenge lies in balancing these values with profitability and operational efficiency. By adopting ESG criteria, Islamic banks in Malaysia, Brunei Darussalam, and Indonesia are not only addressing the growing demand for responsible finance but also mitigating risks associated with climate change and unsustainable business practices.

The shift towards sustainable governance in Islamic finance is further propelled by national and international regulatory frameworks. Policies promoting green finance, such as Malaysia's Value Based Intermediation (VBI) initiative, Indonesia's Green Sukuk program, and Brunei Darussalam 's efforts to enhance sustainable investments, reflect the countries commitment to aligning banking systems with Sustainable Development Goals (SDGs). These frameworks encourage banks t prioritize investments that promote environmental sustainability while maintaining compliance with shariah principles. For example, Malaysia's VBI frameworks urges Islamic banks to adopts practices that enhance positive environmental and social outcomes while delivering financial returns. Indonesia's issuance of Green Sukuk has positioned the country as a pioneer in environmentally friendly Islamic financial products, fostering a culture of sustainable investment among Islamic financial institutions.

This paper explores the critical role that sustainable governance plays in Islamic finance, emphasizing the influence of green economic trends in shaping the investment policies and operational strategies of Islamic banks. The emergence of the green economy centered on low-carbon initiatives, resource efficiency, and social inclusion has transformed the way financial institutions operate and invest. Islamic banks in Malaysia, Brunei Darussala, and Indonesia are progressively adopting sustainable governance frameworks integrating values ethical and responsible investments.

The focus of this paper is to analyze how the green economy influences the policy decisions and operational frameworks of Islamic banks across the three countries. Malaysia, Indonesia, and Brunei Darussalam, each have distinct but interrelated experiences in adopting sustainable governance and green finance. This study will examine how Islamic banks in these nations are leveraging sustainable governance to manage risks, enhance reputations, and access new growth opportunities. Furthermore, the role of government policies, industry collaboration, and international standards in shaping the trajectory of sustainable governance in Islamic banking will be discussed.

This introduction sets the stage for a comprehensive analysis of the intersection between sustainable governance, Islamic finance, and the green economy. Contribute to the ongoing discourse on sustainable finance by highlighting the potential of Islamic financial institutions to become leaders in the transition towards a sustainable and inclusive global economy (Appiah et al., 2024). Through a detailed exploration of Malaysia, Indonesia, and Brunei Darussalam's experiences, this paper offers insights into the challenges and opportunities that arise in integrating green economic principles with Islamic banking operations, thereby providing the blueprint for other countries seeking to adopt similar strategies.

Background

In recent years, the concept of SG has become a central focus within the global financial landscape, including Islamic banking. Islamic banks face both challenges and opportunities in integrating green economic principles to achieve environmental, social, and economic sustainability. This approach aligns with the maqasid al-shariah which emphasizes justice, social welfare, and environmental responsibility. However, balancing these values with profitability and operational efficiency remains a key challenge. Malaysia, Indonesia, and Brunei Darussalam, with their significant Islamic finance ecosystems, are uniquely positioned to lead the integration of sustainability within their banking systems. These countries have shown strong commitments to green economy initiatives, reflected through programs such as Malaysia's Value Based Intermediation (VBI), Indonesia's Green Sukuk, and Brunei Darussalam's push for sustainable investments.

According to Bank Negara Malaysia, "The VBI framework has encouraged Islamic banks to focus on investments that promote social and environmental well-being, while remaining compliant with Shariah principles. Indonesia's Green Sukuk, launched in 2018, has raised over USD 5 billion to fund eco-friendly projects, making Indonesia a pioneer in sustainable Islamic finance products. Meanwhile, Brunei Darussalam has strengthened its policy framework to encourage sustainable investments and has promoted ESG principles in its banking sector. These efforts align with global frameworks such as the Sustainable Development Goals (SDGs) and the Paris Agreement, which highlight the financial sector's role in addressing climate change and fostering social welfare. However, the successful integration of these frameworks present several challenges. One of the primary hurdles is ensuring that Islamic banks remain competitive and profitable while adhering to ESG criteria. Furthermore, regulatory limitations and differing interpretations of shariah across countries create inconsistencies in policy implementation.

Despite these challenges, adopting SG offers long-term benefits for Islamic banks, including enhanced reputation, access to international markets, and better risk management related to climate change and unsustainable practices. This study will explore the role of national policies, industry collaborations, and international standards in shaping the sustainable governance trajectory within the Islamic banking sector in Malaysia, Indonesia, and Brunei Darussalam . It aims to provide insights into how these banks are leveraging sustainable governance to manage risks, enhance growth opportunities and align with the evolving global demand for ethical investments.

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Objective

This study aims to critically explore the integration of SG frameworks within Islamic banking systems in Malaysia, Indonesia, and Brunei Darussalam . It seeks to examine how the principles of the green economy, such as low-carbon initiatives, resource efficiency, and social inclusion, shape the policies and operational strategies of Islamic banks. The research will assess the alignment of Environmental, Social, and Governance (ESG) principles with the objectives of maqasid shariah, investigating how Islamic banks balance environmental sustainability and social responsibility with profitability and shariah compliance.

Additionally, the study will analyse the role of national and international regulatory frameworks such as Malaysia's VBI initiative, Indonesia's Green Sukuk program, and Brunei Darussalam 's sustainable finance efforts in promoting sustainable governance. It will also evaluate the influence of these frameworks on Islamic banks ability to manage risks, enhance reputation, and access new growth opportunities. At the same time, the paper will explore the operational challenges faced by Islamic financial institutions when adopting ESG practices and identify the benefits of integrating green economic principles.

Finally, the study aims to provide policy recommendations and develop a strategic roadmap for enhancing sustainable governance. By analyzing the experiences of these three countries, the paper will offer insights and a potential blueprint for other nations seeking to adopt sustainable governance practices in Islamic finance. Through the exploration, the study hopes to contribute to the broader discourse on sustainable finance, positioning Islamic financial institutions as leaders in the transition toward an inclusive and sustainable global economy.

Literature REVIEW

Prior Research

This paper examines the model of Islamic banking, focusing on Corporate Governance (CG) and Corporate Social Responsibility (CSR). It highlights the role of participatory depositors in the governance structure and explores the connection between Islamic religious principles and the implementation of CSR practices. The study emphasizes the concept of Profit and Loss Sharing (PLS) in Islamic banks, which prohibits interest (riba) and instead promotes shared profit ad risks between the bank, depositors, and clients. The paper discusses two main types of Shariah-compliant contracts: participatory contracts, such as musharakah (joint ventures) and Mudarabah (investment partnerships), and non-participatory contracts, including murabahah (cost-plus financing), ijarah (leasing), and istishna (manufacturing finance). It also explores the potential for Moroccan banks, like Attijariwafa Bank, to introduce Shariah-compliant financial products in Italy, driven by demand from Muslim communities.

Furthermore, the study reviews Morocco's recent legislative reforms under Law No. 103. 12 (2014), which introduced the concept of "Participative Banks" and granted the Higher Council of Ulema oversight of religious compliance. The paper argues that greater involvement of participatory depositors in the governance process would enhance transparency and trust within the Islamic banking system. Additionally, it considers the potential for Islamic finance to grow in Italy through Moroccan banks' strategic efforts (Asma Ait Allali, 2016), highlighting the importance of aligning governance practices with both religious principles and international standards for long-term success.

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The issue explored in the paper focuses on the governance and operational challenges faced by Islamic banking, particularly when introduced in non-Muslim contexts, such as Italy, through Moroccan banks. The paper identifies key difficulties in aligning the principles of Islamic finance with conventional financial systems, such as ensuring compliance with shariah principles, fostering trust among stakeholders, and maintaining CSR. A significant issue highlighted is the need to involve participatory depositors – who share profits and losses – in governance structures to enhance transparency, accountability, and trust in the bank. Additionally, the paper discusses how the introduction of Moroccan "Participative Banks", under Law 103.12, reflects efforts to integrate Islamic financial products in Morocco and potentially expand this model into European markets like Italy. However, the success of this expansion depends on regulatory adaptations, managerial strategies, and the acceptance of Islamic finance by the local market.

The paper proposes several solutions to address corporate governance challenges in Islamic banks, particularly focusing on participative banks in Morocco. One key recommendation is the active involvement of participatory depositors – those who share in the profits and risks – in the governance structure through representation in governance committees. This inclusion fosters transparency, aligns the bank's strategies with stakeholder interests and builds trust. Additionally, the establishment of governance committees dedicated to safeguarding stakeholder interests beyond shareholders is suggested, following the guidelines of the Islamic Financial Services Board (IFSB). These committees would ensure that administrative, financial, and investment practices adhere to Islamic principles. Furthermore, the paper emphasizes the importance of Shari'ah compliance monitoring through dedicated Shari'ah boards to guarantee all products and operations conform to religious standards. In Morocco, the Oulema Higher Council plays a central role in certifying the compliance of financial products, ensuring consistency in religious interpretations (Christine Ennew et al., 2024). These measures aim to enhance transparency, foster stakeholder trust, and promote sustainable development in Islamic banking.

The paper titled "Corporate Governance of Islamic Banks: A Sustainable Model to Protect the Participatory Depositor?" addresses a critical issue within Islamic banking: the protection of participatory depositors. These depositors contribute their funds to Islamic banks under the Profit and Loss Sharing (PLS) principle, whereby they share in the bank's profits but also bear the risk of financial loss. Unlike shareholders, however, participatory depositors lack voting rights and are generally not involved in the bank's investment decision-making process. This creates a governance gap, where depositors take on financial risks without having the ability to influence or oversee how their investments are managed (Franzoni & Ait, 2024).

The issue is compounded by the unique nature of Islamic financial contracts, which prohibit interest (riba) and uncertainty (gharar) while emphasizing risk-sharing. Participatory depositors, who are exposed to these risks, often do not have mechanisms to safeguard their interests, raising questions about the adequacy of corporate governance frameworks in protecting them. This is especially relevant in Islamic financial contracts such as mudarabah and musharakah, where depositors may suffer losses due to decisions made by the bank, which they have little power to monitor or control.

The paper explores potential solutions to this issue through a comparative analysis of corporate governance models in Malaysia and Morocco, two countries with differing levels of development in their Islamic finance sectors. In Malaysia, the regulatory framework places a

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strong emphasis on protecting participatory depositors by creating specific governance mechanisms. These include the establishment of a Board Investment Committee (BIC), which supervises the management of investment accounts, and the appointment of a Representative Board to protect the bank's interests in financed projects (Franzoni & Ait, 2024b). This board consists of non-executive members tasked with overseeing the performance of investments and ensuring that the principles of Islamic finance are upheld. Additionally, Malaysia's Islamic Financial Services Act (IFSA) of 2013 mandates stringent guidelines for the management of participatory investment accounts, including risk management and transparency measures aimed at protecting depositors' interests.

In contrast, Morocco, still in the early stages of developing its Islamic finance sector, focuses on financial safeguards rather than direct governance participation. Moroccan regulations provide for the creation of reserves to protect participatory depositors from potential losses, as well as a guarantee fund to cover reimbursable deposits in case of bank insolvency. However, unlike in Malaysia, participatory depositors in Morocco are not given a direct role in the governance or monitoring of the projects financed by the bank. Instead, the emphasis is on providing financial protections rather than involving depositors in the decision-making process.

The paper concludes that while both countries have made efforts to protect participatory depositors, Malaysia's approach is more robust, as it integrates both financial protections and governance mechanisms that allow for greater oversight and involvement. In both cases, there is still room for improvement, particularly in providing depositors with more active roles in the corporate governance of Islamic banks to ensure a sustainable balance between risk and reward.

In hence, both papers share a common focus on corporate governance in Islamic banks, specifically addressing the role and protection of participatory depositors who invest based on the PLS principle. They both aim to evaluate how these depositors are safeguarded and whether they have a meaningful role in managing their investments. Both studies emphasize that Shariah principles, such as the prohibition of riba (interest), gharar (uncertainty), and maysir (speculation), shape Islamic banks' governance models and define the rights and risks of participatory depositors. Both papers also recommend greater depositor involvement in investment decisions to enhance transparency and accountability.

However, there are notable differences in their geographic focus and recommendations. The first paper provides a comparative analysis of Malaysia and Morocco, examining how each country's regulatory framework protects participatory depositors. Malaysia is presented as having a more developed system, with mechanisms such as the Board Investment Committee and depositor representation in investment management, whereas Morocco is still in the early stages of Islamic banking development, relying on reserves and internal governance mechanisms for depositor protection. In contrast, the second paper focuses on the introduction of Islamic banking in Italy through Moroccan banks, discussing how Shariah-compliant products can be offered to European markets. It highlights how Moroccan banks could play a key role in promoting Islamic finance in Europe while aligning with international governance standards. Ultimately, while both papers emphasize the need for strong governance to protect participatory depositors, the first focuses on a comparative approach between two Islamic finance hubs, and the second explores the potential for integrating Islamic banking into European financial markets.

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In consequence, the two papers are highly relevant to the theme of sustainable governance in Islamic finance, as discussed in the paper focusing on Malaysia, Brunei Darussalam, and Indonesia. Both papers emphasize the importance of corporate governance and stakeholder inclusion, particularly the role of participatory depositors in Islamic banks. This aligns with sustainable governance principles, which focus on transparency, trust-building, and stakeholder engagement key components in fostering long-term financial and environmental sustainability. Similarly, Malaysia's VBI framework echoes these ideals by prioritizing investments that promote both social well-being and environmental responsibility. The focus on Profit and Loss Sharing (PLS) contracts, such as musharakah and mudarabah, reflects the green economy's goals by ensuring risk-sharing among stakeholders, promoting investments that balance profitability with social impact. These mechanisms align closely with initiatives like Malaysia's Green Sukuk, which integrates Islamic finance contracts with eco-friendly projects. Furthermore, both papers highlight the role of Shari'ah supervisory boards in maintaining compliance with Islamic principles, ensuring that governance structures align with environmental and social objectives under the maqasid al-shariah. Additionally, the regulatory challenges mentioned in the papers such as varying interpretations of Shari'ah across countries parallel the difficulties faced by Malaysia, Brunei Darussalam, and Indonesia in harmonizing ESG frameworks with Islamic finance. These examples demonstrate how national policies can evolve to integrate sustainability within Islamic banking systems, providing valuable lessons for countries aiming to align their banking sectors with both Shari'ah principles and global sustainability goals.

Related Theories

Stakeholder Theory

Stakeholder theory emphasizes the importance of addressing the diverse expectations of stakeholders, integrating socio-economic and environmental concerns into business strategies to foster mutually beneficial relationships (Aziz & Haron, 2021; Awa et al., 2024). Stakeholder theory emphasizes that businesses must create value for a broad group of stakeholders, including customers, employees, regulators, and the community, not just shareholders. In the context of Islamic banking, this aligns well with the maqasid al shariah, which promotes fairness, transparency, and social welfare. Islamic banks must focus not only on generating profits but also on improving the welfare of society, aligning with stakeholder expectations for ethical and sustainable practices. The theory integrates naturally into ESG frameworks, demanding responsible behavior and consideration of societal impacts in banking operations.

Environmental, Social, Governance (ESG) Theory

ESG theory emphasizes the integration of environmental, social, and governance factors into corporate strategies to enhance sustainability, reduce insolvency risk, and improve long-term financial performance (Silva & Pilar, 2024). ESG frameworks provide a structured approach to evaluating non-financial risks, focusing on environmental stewardship, social responsibility, and governance quality. Islamic banks are inherently inclined to adopt these frameworks because of their alignment with Islamic principles, such as environmental care, social justice, and ethical governance. However, the challenge lies in balancing profitability with these sustainable goals, making ESG a critical framework for sustainable governance in Islamic finance.

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Green Economy Theory

Green economy theory harmonizes economic development with environmental sustainability, promoting renewable technologies and policies that reduce carbon emissions while enhancing social welfare and ecological preservation (Mochammad et al., 2024). This theory centres around the idea of promoting environmentally friendly and sustainable growth by integrating low-carbon initiatives, resource efficiency, and social inclusion. Islamic banks in countries like Malaysia, Indonesia, and Brunei Darussalam have started adopting green finance practices, such as Malaysia's VBI and Indonesia's Green Sukuk, reflecting the growing role of the green economy in shaping banking strategies.

Corporate Governance Theory In Islamic Finance

Corporate governance in Islamic finance emphasizes the protection of participatory depositors (Noordin & Kassim, 2019), who invest based on PLS principles, ensuring risk-sharing and adherence to shariah principles like the prohibition of riba (interest) and gharar (uncertainty). This theory is crucial for fostering transparency and trust within the governance structures of Islamic banks, particularly when balancing stakeholder engagement with sustainable governance.

Analysis

Green Economy And Islamic Banking

The integration of the green economy into Islamic banking represents a convergence of ethical finance and environmental sustainability (Mohd Zain et al., 2024). Islamic banks, guided by the principles of maqasid al shariah, naturally align with green economy objectives, such as reducing carbon emissions, promoting resource efficiency, and fostering social inclusion. In recent years, Islamic banks in countries like Malaysia and Indonesia have taken significant strides toward incorporating green finance into their operational frameworks. Malaysia's VBI framework is a key example of how Islamic banks can support the green economy by emphasizing investments that generate both financial returns and positive social and environmental outcomes. VBI encourages Islamic financial institutions to prioritize eco-friendly and socially responsible projects, reinforcing the ethical foundation of Islamic finance while contributing to Sustainable Development Goals (SDGs).

Similarly, Indonesia's Green Sukuk an Islamic financial instrument has positioned the country as a leader in financing environmentally friendly projects through Shariah compliant means. Launched in 2018, Indonesia's Green Sukuk raised billions of dollars to fund projects aimed at reducing environmental degradation and mitigating climate change. This approach highlights the potential for Islamic financial products to support green economic initiatives by aligning investment practices with ethical and ecological principles. These developments show that Islamic banks are uniquely positioned to contribute to the global green economy (Mohd Ma'Sum Billah et al., 2024), leveraging their commitment to ethical finance to support environmental sustainability while upholding shariah principles. The challenge, however, remains in scaling these initiatives and harmonizing regulatory frameworks to ensure broader adoption across different markets.

In Brunei Darussalam , the integration of the green economy into Islamic banking is still in its developmental stages, but the country has shown a growing commitment to sustainable finance and ESG principles. Brunei Darussalam 's Islamic finance sector, much like those of Malaysia and Indonesia, is grounded in maqasid al shariah, which aligns naturally with the objectives of

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environmental stewardship and social responsibility. While Brunei Darussalam may not yet have large-scale green finance initiatives like Malaysia's VBI or Indonesia's Green Sukuk, the government has made strategic efforts to promote sustainable investments within its financial ecosystem. Brunei Darussalam has been working to strengthen its policy frameworks to encourage ESG-aligned practices, especially within its Islamic banking sector. This includes promoting investments that are not only Shariah compliant but also environmentally and socially responsible. The country is also focused on positioning its Islamic finance sector to align with global SDGs and the Paris Agreement, aiming to ensure that its financial institutions contribute to the fight against climate change. Brunei Darussalam 's challenge is similar to that of balancing profitability and operational efficiency while meeting the increasing demand for ethical and sustainable financial products. As the country continues to develop its ESG framework, the Islamic finance sector in Brunei Darussalam is expected to play a more significant role in supporting the green economy through investments that prioritize environmental and social well-being, in line with Islamic ethical values.

Comperative Analysis Regulatory Frameworks

A comparative analysis of the regulatory framework in Malaysia, Indonesia, and Brunei Darussalam highlights different approaches to integrating sustainability into their Islamic banking system, though the three are committed to aligning with Shariah principles and ESG standards.

Malaysia has taken a leading role through its VBI framework, which provides comprehensive guidelines for Islamic banks to align their operation with sustainable practices. VBI encourages financial institutions to prioritize investments that generate positive social and environmental impacts while maintaining profitability. The regulatory investment in Malaysia, governed by Bank Negara Malaysia (BNM), offers clear guidance and stringent requirements for Islamic banks to integrate ESG principles, ensuring that environmental and social considerations are embedded within financial decision-making. Malaysia's regulatory framework is highly structured, making it a global model for sustainable Islamic finance.

Indonesia, on the other hand, has been pioneering Green Sukuk as a key regulatory innovation for financing eco-friendly projects through Islamic bonds. This approach reflects the country's efforts to align its financial sector with global sustainability standards while leveraging Islamic finance to address environmental challenges, particularly climate change. The issuance of Green Sukuk, backed by regulatory support from the Indonesian government and Otoritas Jasa Keuangan (OJK), positons Indonesia as a leader in green finance within Islamic banking. However, Indonesia's regulatory framework faces challenges in harmonizing Shariah compliance with ESG standards across diverse sectors, requiring ongoing adjustments.

In Brunei Darussalam , while the regulatory framework is still evolving, the government has been gradually promoting sustainable finance by encouraging Islamic banks to incorporate ESG principles into their operations. However, compared to Malaysia and Indonesia, Brunei Darussalam approach has been more conservative and incremental. The regulatory environment is still developing, focusing on establishing a foundation for sustainable investment and ethical governance. Autoriti Monetari Brunei Darussalam (AMBD) oversees these efforts, but the country has yet to introduce comprehensive frameworks like Malaysia's VBI or large-scale instruments like Indonesia's Green Sukuk. Brunei Darussalam 's regulatory challenge lies in building a robust infrastructure that balances Shariah principles with sustainability while fostering growth in sustainable Islamic finance.

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Overall, while Malaysia leads with a well-defined, integrated regulatory framework, Indonesia focuses on innovative green finance solutions, and Brunei Darussalam is in the early stages of embedding sustainability within its Islamic financial system. Each country's regulatory approach reflects its unique economic and environmental priorities, offering insights into the diverse pathways Islamic finance can take in promoting sustainability.

Corporate Governance and Csr in Islamic Banking

Corporate governance and Corporate Social Responsibility (CSR) in Islamic banking are crucial in ensuring that banks adhere to both Shariah principles and modern governance standards, while also fulfilling their social and ethical responsibilities. In Malaysia, corporate governance in Islamic banks is strongly regulated, with frameworks like the Islamic Financial Services Act (IFSA) 2013 and Bank Negara Malaysia (BNM)'s guidelines emphasizing transparency, accountability, and the protection of stakeholders' interests. Malaysia's Value-Based Intermediation (VBI) initiative further integrates CSR into the banking system by encouraging banks to prioritize social and environmental impacts in their investments, aligning with Islamic ethical values. Islamic banks in Malaysia often have well-structured Shariah supervisory boards to ensure compliance with Islamic principles, as well as governance mechanisms that involve stakeholders, including participatory depositors, to maintain a balance between profitability and social responsibility.

In Indonesia, corporate governance in Islamic banking is also evolving, with regulatory oversight provided by the Otoritas Jasa Keuangan (OJK). Indonesia's focus on sustainability is reflected in its Green Sukuk program, which blends Islamic finance with environmentally responsible investments. Corporate governance frameworks in Indonesia are designed to ensure that Islamic banks operate in accordance with both maqasid al-Shariah (the objectives of Shariah) and modern governance standards (Wasim & Zafar, 2024). However, challenges remain in consistently implementing these governance practices across all Islamic banks, particularly in smaller institutions. CSR in Indonesian Islamic banking is increasingly focused on supporting projects that promote social inclusion and environmental sustainability, in line with national goals for sustainable development. This reflects a growing commitment to integrating CSR into the core business strategies of Islamic banks.

In Brunei Darussalam , corporate governance in Islamic banks is still developing, though there is increasing attention on aligning governance practices with Shariah principles and global governance standards. Brunei Darussalam's Autoriti Monetari Brunei Darussalam (AMBD) is working to enhance the corporate governance framework to ensure that Islamic banks maintain high levels of transparency, risk management, and stakeholder protection. However, compared to Malaysia and Indonesia, Brunei Darussalam's focus on CSR in Islamic banking is less pronounced. The country is gradually increasing its emphasis on CSR, particularly in promoting ethical investments and ensuring that Islamic banks contribute to social welfare, but it lacks the structured programs seen in Malaysia's VBI or Indonesia's Green Sukuk initiatives.

In summary, while Malaysia leads with robust governance structures and a clear integration of CSR through VBI, Indonesia is focused on green finance and aligning its governance with sustainability goals, and Brunei Darussalam is in the early stages of developing corporate governance frameworks with a growing but less formalized approach to CSR in Islamic banking. Each country is progressively working to ensure that corporate governance and CSR reflect both Islamic values and modern ethical standards.

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Challenges And Opportunities

The challenges and opportunities for integrating sustainable governance in Islamic banking vary between Malaysia, Indonesia, and Brunei Darussalam , reflecting their unique financial landscapes and regulatory environments.

In Malaysia, one of the primary challenges lies in ensuring the consistent implementation of the Value-Based Intermediation (VBI) framework across all Islamic banks. While larger banks have successfully adopted VBI, smaller institutions may struggle with the costs and complexities of embedding environmental, social, and governance (ESG) principles into their operations. Additionally, balancing profitability with the ethical requirements of VBI can be difficult, as banks must ensure that their investments meet both Shariah compliance and sustainability goals. However, Malaysia also presents significant opportunities. Its strong regulatory framework and proactive government policies make it a regional leader in Islamic sustainable finance. With the VBI framework, Malaysia's Islamic banks have the opportunity to access new growth markets focused on ethical investments, attract international investors looking for ESG-compliant opportunities, and enhance their global reputation as ethical financial institutions.

In Indonesia, the key challenge is the scalability of green finance initiatives, particularly the Green Sukuk. While the Green Sukuk has been a successful innovation, Indonesia's diverse financial institutions, particularly smaller Islamic banks, may face difficulties in adopting similar green financial instruments due to limited resources and expertise. Regulatory fragmentation, especially when it comes to integrating Shariah compliance with ESG standards, also poses a challenge, as interpretations of Shariah principles can vary. Despite these hurdles, Indonesia has tremendous opportunities. Its pioneering Green Sukuk initiative has positioned the country as a global leader in green Islamic finance. There is significant potential for growth in the green economy, as Indonesia's vast natural resources and commitment to sustainable development create opportunities for Islamic banks to invest in renewable energy, conservation, and eco-friendly projects, while attracting international investors focused on sustainability.

Brunei Darussalam faces challenges related to its relatively nascent stage of integrating sustainable governance into Islamic banking. The country's Islamic banks are still in the process of fully incorporating ESG principles, and there is a need for more comprehensive regulatory frameworks to support these initiatives. Brunei Darussalam's smaller financial market size also limits the scalability and innovation seen in Malaysia and Indonesia. However, there are opportunities for Brunei Darussalam as well. The country has the potential to leverage its strong Islamic finance foundation to become a niche player in sustainable finance, especially by focusing on Shariah-compliant green investments. By learning from the experiences of Malaysia and Indonesia, Brunei Darussalam can accelerate its adoption of green finance principles, particularly in sectors like renewable energy and sustainable infrastructure, helping to diversify its economy and align with global sustainability trends.

In summary, while Malaysia faces challenges in broad adoption and profitability balance, it stands to gain from global leadership in sustainable Islamic finance. Indonesia must overcome regulatory and scalability issues but holds vast potential due to its Green Sukuk innovation and resource-rich economy. Brunei Darussalam, though at an earlier stage, has the opportunity to carve out a niche in green Islamic finance by adopting best practices from its regional peers.

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Discussion

The study emphasizes the critical role of sustainable governance (SG) in the Islamic banking sectors of Malaysia, Indonesia, and Brunei Darussalam, focusing on their efforts to integrate shariah principles with global sustainability frameworks like the Environmental, Social, and Governance (ESG) standards. Each country adopts distinct strategies, balancing economic growth, sustainability, and shariah compliance to strengthen their financial sectors while meeting global green finance trends. Together, these approaches reflect how Stakeholder Theory, ESG frameworks, Green Economy Theory, and Corporate Governance (CG) principles align with Islamic finance to foster inclusive economic development and environmental sustainability.

Malaysia: Leadership through VBI and Macroeconomic Performance

In 2023, Malaysia's GDP stood at RM 1.8 trillion (~USD 399.65 billion), with services and manufacturing driving growth amid a moderate 1.6% expansion. Central to Malaysia's sustainable finance initiatives is the Value-Based Intermediation (VBI) framework, which integrates social and environmental considerations into Islamic banking while ensuring shariah compliance. VBI encourages banks to invest in renewable energy, affordable housing, and community welfare projects, positioning Malaysia as a regional leader in green finance. However, smaller Islamic banks face challenges in adopting VBI due to operational costs and the complexity of aligning with ESG goals (Martens, 2024). Bank Negara Malaysia (BNM) plays a pivotal regulatory role, ensuring that banks balance profitability with sustainability, demonstrating the application of Corporate Governance Theory by promoting transparency and accountability. From a macroeconomic perspective, Malaysia's transition to sustainable finance reflects Green Economy Theory, focusing on low-carbon development and resource efficiency. The services sector Malaysia's largest GDP contributor has benefited from green financing initiatives, reflecting the government's broader commitment to sustainable economic growth. Stakeholder Theory is also evident in Malaysia's VBI, as banks align their operations with public welfare and community expectations. The adoption of ESG frameworks not only improves risk management but also enhances Malaysia's reputation among international investors seeking ethical financial products.

Indonesia: Green Sukuk and Economic Growth Alignment

Indonesia achieved USD 1.37 trillion in GDP in 2023, driven by 5.05% growth despite global economic uncertainties. The Green Sukuk, introduced in 2018, exemplifies Indonesia's leadership in green finance, raising over USD 5 billion to fund eco-friendly infrastructure and renewable energy projects. This innovative financial product aligns Islamic financial principles with sustainability, promoting economic inclusion and climate resilience. Indonesia's economic growth reflects Green Economy Theory, as investments in renewable energy and carbon mitigation projects contribute to long-term environmental sustainability. Despite its success, scaling Green Sukuk to smaller Islamic banks remains challenging due to limited resources and expertise. Additionally, diverse interpretations of shariah principles across sectors complicate the alignment of ESG standards within the financial sector. Otoritas Jasa Keuangan (OJK), Indonesia's financial services authority, oversees these efforts, ensuring that banks maintain shariah compliance and sustainability goals in line with CG Theory. By adopting Stakeholder Theory, Indonesia's Islamic banks focus on accountability to both investors and the public, fostering trust through transparency.

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Brunei Darussalam: Niche Innovation in Sustainable Finance

Brunei Darussalam's financial sector is still developing, the country is gradually integrating ESG principles into Islamic banking operations, aligning with global frameworks like the SDGs and Paris Agreement. Brunei aims to develop niche shariah-compliant financial products, leveraging insights from Malaysia and Indonesia to foster sustainable governance. The country's smaller market presents both constraints and opportunities: while limited financial scale restricts the breadth of innovation, it allows Brunei to specialize in targeted green finance products. In applying Green Economy Theory, Brunei seeks to support low-carbon growth and sustainable development through targeted investments, such as renewable energy projects. However, achieving regulatory consistency remains a challenge, as Brunei works to strengthen governance structures and align them with global ESG standards. This reflects the importance of CG Theory in ensuring risk management and accountability, particularly as Brunei builds stakeholder trust in its financial institutions.

Across Malaysia, Indonesia, and Brunei Darussalam, sustainable governance frameworks align with key economic theories to foster resilient and inclusive financial ecosystems. Stakeholder Theory underpins their Islamic banking practices, ensuring that public welfare, investors, employees, and communities remain central to financial decisions. ESG frameworks guide risk management and ethical business practices, aligning Islamic banking with global sustainability goals. Green Economy Theory supports the transition toward low-carbon development, resource efficiency, and climate resilience, enabling these countries to promote sustainable growth through shariah-compliant investments. Lastly, Corporate Governance Theory in Islamic Finance ensures transparency, accountability, and stakeholder engagement, fostering trust and long-term financial stability. Malaysia, Indonesia, and Brunei Darussalam are building a comprehensive blueprint for sustainable governance through innovation, regulatory support, and collaboration. While each country faces unique challenges such as scaling VBI in Malaysia, scaling Green Sukuk in Indonesia, and market constraints in Brunei, they are well-positioned to become regional leaders in sustainable Islamic finance. Through these efforts, they align their ethical financial practices with global sustainability goals, promoting a financial ecosystem that supports long-term societal and environmental well-being.

Findings

Maqasid Shariah In Malaysia, Indonesia, And Brunei Darussalam: A Comprehensive Analysis

Maqasid Shariah, which literally means "the objectives or goals of Shariah," refers to the fundamental principles in Islamic law aimed at achieving the welfare and benefit of both individuals and society as a whole. In the context of Islamic finance, Maqasid Shariah seeks to ensure justice, social welfare, and environmental responsibility in economic and financial activities. These principles encompass fundamental goals such as the protection of religion (hifz al-din), life (hifz al-nafs), intellect (hifz al-aql), progeny (hifz al-nasl), and wealth (hifz al-mal). In Islamic finance practices, these principles serve as guidelines for financial institutions to ensure that all activities are in line with Shariah objectives and provide benefits to all stakeholders.

In Malaysia, Indonesia, and Brunei Darussalam, the application of Maqasid Shariah in the Islamic banking system is a key focus in achieving sustainable finance. These three countries, as part of the Islamic world, have made efforts to integrate Maqasid Shariah principles into their

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banking and financial policies, emphasizing the balance between economic growth and social and environmental responsibility.

Maqasid Shariah in Malaysia

Malaysia has long been a leader in the global Islamic finance sector. The country has deeply implemented Maqasid Shariah through various initiatives and policies, particularly in Value-Based Intermediation (VBI). VBI is a framework developed by Bank Negara Malaysia (BNM) aimed at encouraging Islamic financial institutions in Malaysia to focus on investments that generate positive social and environmental impacts while maintaining Shariah compliance.

VBI reflects the integration of Maqasid Shariah in Islamic banking practices in Malaysia. This framework emphasizes the importance of achieving Shariah objectives in the form of social and environmental welfare, alongside financial profit. For example, through VBI, Islamic banks in Malaysia are encouraged to fund projects that support sustainable infrastructure development, renewable energy, and affordable housing for underserved communities. VBI also promotes transparency and accountability within the Islamic banking system, which aligns with Maqasid Shariah. By investing in projects that prioritize social and environmental sustainability, Islamic banks in Malaysia play a crucial role in promoting the broader welfare of society (Dwi Irawan et al., 2023). This aligns with the principles of hifz al-mal (protection of wealth) and hifz al-nafs (protection of life), as sustainable investments help protect natural resources and support the well-being of communities.

The Malaysian government, through Bank Negara Malaysia (BNM), has issued various guidelines supporting the application of Maqasid Shariah in the financial sector. Islamic banks in Malaysia are required to consider the social impacts of their investments and avoid projects that may harm the environment or society. For instance, banks are encouraged to avoid investments in industries deemed harmful, such as high-carbon industries or those that exploit resources unsustainably. Additionally, the concept of hifz al-din (protection of religion) is applied by ensuring that all financial transactions adhere to Shariah principles, such as the prohibition of riba (interest), gharar (uncertainty), and maysir (speculation). In this context, Malaysia focuses not only on financial aspects but also on moral and ethical integrity in banking operations.

Maqasid Shariah in Indonesia

Indonesia, as the largest Muslim-majority country in the world, has also taken significant steps in applying Maqasid Shariah within its Islamic banking system. One of the most notable initiatives is the issuance of Green Sukuk, a financial instrument designed to fund environmentally friendly projects in line with Shariah principles.

The Green Sukuk, launched in 2018, is one of Indonesia’s efforts to integrate Maqasid Shariah with sustainability objectives. The Green Sukuk enables the Indonesian government to fund projects aimed at mitigating the effects of climate change, such as green infrastructure development and renewable energy projects. The issuance of Green Sukuk reflects Indonesia's commitment to hifz al-mal and hifz al-nafs, as these projects not only protect natural resources but also enhance community welfare by creating jobs and reducing pollution. Thus, Green Sukuk serves as a tangible example of how Maqasid Shariah can be applied to balance economic growth with environmental responsibility. As a developing country, Indonesia faces significant challenges in managing its natural resources. Therefore, the application of Green

Sukuk allows the country to take proactive steps in achieving sustainable development goals without compromising Shariah principles.

In Indonesia's Islamic financial system, Otoritas Jasa Keuangan (OJK) plays a crucial role in ensuring that financial institutions adhere to Shariah principles and Maqasid Shariah. OJK oversees the implementation of Shariah-compliant financial products, including Green Sukuk, to ensure that all transactions are conducted in accordance with Islamic values such as justice, transparency, and social responsibility. OJK also collaborates with the National Shariah Board (DSN-MUI) to develop standards and guidelines that ensure Indonesian Islamic banks follow Maqasid Shariah in their operations. For example, banks are required to report the social impact of their investments and ensure that they do not invest in projects that harm the community or the environment.

Maqasid Shariah in Brunei Darussalam

Brunei Darussalam, although having a smaller Islamic financial sector compared to Malaysia and Indonesia, is also committed to applying Maqasid Shariah in its banking operations. As a resource-rich country with a large Muslim population, Brunei is working to develop an Islamic financial framework that supports sustainable development.

In Brunei, the Autoriti Monetari Brunei Darussalam (AMBD) is responsible for overseeing the Islamic financial sector and ensuring that Maqasid Shariah principles are followed by financial institutions. Although Brunei has not yet implemented large-scale initiatives like Malaysia's VBI or Indonesia's Green Sukuk, the country has taken important steps to promote responsible investments in line with Shariah principles. AMBD has encouraged Islamic banks in Brunei to invest in projects that promote social welfare and protect the environment, consistent with Maqasid Shariah. For instance, Brunei is focusing on developing renewable energy projects and eco-friendly infrastructure, with the long-term goal of reducing dependence on fossil fuels and improving societal well-being through sustainable development.

One of the biggest challenges facing Brunei in implementing Maqasid Shariah is scalability and innovation within the Islamic financial sector. With a smaller market, Brunei has limitations in terms of developing innovative and sustainable financial instruments like Indonesia's Green Sukuk. However, Brunei has the opportunity to become a niche player in Islamic finance by focusing on specific sectors such as renewable energy and green infrastructure that align with Maqasid Shariah. Brunei also faces challenges in building a robust regulatory infrastructure to support the full implementation of Maqasid Shariah in its financial sector. The country is gradually working towards creating a framework that balances Shariah principles with sustainability.

Corporate Social Responsibility (CSR) in Malaysia, Indonesia, and Brunei Darussalam: A Comprehensive Analysis

Corporate Social Responsibility (CSR) has become an integral part of global business practices, where companies are expected not only to focus on profitability but also to contribute positively to society and the environment. In Islamic finance, the concept of CSR aligns naturally with the principles of Shariah, which emphasize social justice, fairness, and the welfare of the community. The incorporation of CSR in Islamic banking is a reflection of the broader objectives of Maqasid Shariah, which seek to promote societal well-being, environmental sustainability, and economic justice (Zafar & Sulaiman, 2020). In this context, Malaysia, Indonesia, and Brunei Darussalam, three nations with significant Islamic finance sectors are

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working to integrate CSR within their Islamic banking systems, with each country at different stages of development.

CSR in Malaysia: A Leading Model through VBI

Malaysia has positioned itself as a leader in Islamic finance globally, and CSR has become a core element of its Islamic banking practices. Malaysia's approach to CSR is deeply embedded in the Value-Based Intermediation (VBI) framework, which was introduced by Bank Negara Malaysia (BNM) to encourage Islamic financial institutions to adopt practices that promote positive social and environmental outcomes while maintaining Shariah compliance. VBI is not just a regulatory framework but also a philosophy that encourages Islamic banks to operate beyond profitability and contribute to the broader goals of sustainable development, social welfare, and ethical finance.

The VBI framework in Malaysia serves as a comprehensive approach to CSR in the Islamic banking sector. This initiative requires Islamic banks to integrate CSR into their core operations by focusing on areas such as environmental sustainability, financial inclusion, and community development. Through VBI, Islamic banks are encouraged to allocate funds to projects that benefit society, such as renewable energy, affordable housing, and infrastructure that improves the quality of life for underserved communities. This reflects a commitment to the principles of Maqasid Shariah, particularly the protection of life (hifz al-nafs), protection of wealth (hifz al-mal), and protection of the environment (hifz al-bi'ah). A key feature of VBI is that it pushes Islamic banks to make decisions that balance financial returns with social impact. For example, banks are incentivized to invest in sustainable energy projects, such as solar power and wind farms, which contribute to the reduction of carbon emissions. By funding these projects, Malaysian Islamic banks are not only ensuring profitability but also playing an active role in mitigating environmental challenges, aligning with global sustainability goals such as the Sustainable Development Goals (SDGs) and the Paris Agreement. This strategic alignment between Islamic banking operations and global environmental standards is what makes VBI a pioneering framework in the integration of CSR into Islamic finance.

The Islamic Financial Services Act (IFSA) 2013 and Bank Negara Malaysia's guidelines provide the regulatory backbone for CSR implementation in Malaysia's Islamic banking sector. These regulations ensure that Islamic banks remain transparent and accountable in their CSR activities. They require banks to disclose how their investments and operations are contributing to societal welfare, thus promoting a high level of corporate governance. This governance framework is crucial in maintaining public trust in Islamic financial institutions and ensuring that their CSR efforts are genuine and effective. Additionally, Shariah Advisory Councils in Malaysia play an important role in overseeing the Shariah compliance of CSR initiatives. These councils ensure that all CSR activities conducted by Islamic banks adhere to Islamic ethical values and do not contradict the principles of Shariah. For instance, Islamic banks are prohibited from investing in industries that harm society, such as gambling or alcohol production. Instead, they are encouraged to direct their investments towards sectors that promote ethical behavior and social well-being.

While Malaysia's CSR framework in Islamic banking is robust, there are challenges that smaller Islamic banks face in fully adopting the VBI framework. For smaller banks, the costs associated with implementing CSR initiatives, such as investing in environmental projects or conducting social impact assessments, can be significant. These banks may struggle to balance profitability with their CSR obligations, especially in highly competitive financial markets. However, the

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opportunities for Islamic banks in Malaysia to lead in CSR and sustainable finance are vast. By adhering to the VBI framework, Islamic banks can attract international investors who are increasingly looking for ESG-compliant (Environmental, Social, and Governance) investment opportunities. The integration of CSR into Islamic banking also enhances the reputation of Malaysia's financial sector as a global leader in ethical finance, positioning it as a key player in the global transition towards sustainable development.

CSR in Indonesia: Focusing on Sustainability through Green Sukuk

Indonesia, the world's most populous Muslim-majority country, has also been making strides in integrating CSR into its Islamic banking sector, with a particular focus on environmental sustainability. One of the most significant innovations in Indonesia's CSR efforts is the issuance of Green Sukuk, a Shariah-compliant bond aimed at financing environmentally friendly projects. This initiative reflects Indonesia's commitment to incorporating CSR into Islamic finance, particularly in addressing environmental challenges such as climate change and deforestation.

The introduction of Green Sukuk in 2018 marked Indonesia's leadership in sustainable Islamic finance. This financial instrument allows the government to raise funds specifically for projects that have positive environmental impacts, such as renewable energy, reforestation, and sustainable transportation (Kismawadi & Rafay, 2024). By issuing Green Sukuk, Indonesia has created a mechanism that aligns the goals of Maqasid Shariah with the principles of CSR, ensuring that investments contribute to the preservation of the environment (hifz al-bi'ah) and the protection of future generations (hifz al-nasl) (Susanto, 2017). Green Sukuk has raised over USD 5 billion for eco-friendly projects in Indonesia, positioning the country as a global leader in green Islamic finance. This initiative demonstrates how CSR can be integrated into financial instruments to create a win-win situation: investors receive returns from their investments, while the funds are used to finance projects that benefit society and the environment. This innovative approach has also helped Indonesia to align its financial sector with global sustainability frameworks, including the Sustainable Development Goals (SDGs).

The Otoritas Jasa Keuangan (OJK), Indonesia's financial regulatory authority, plays a crucial role in overseeing the implementation of CSR in the Islamic banking sector. OJK ensures that Islamic banks adhere to Shariah principles while incorporating CSR into their operations. This includes ensuring that investments made through Green Sukuk and other financial instruments comply with both Islamic ethics and environmental sustainability standards. Additionally, the National Shariah Board (DSN-MUI) provides guidance on the Shariah compliance of CSR initiatives in Islamic finance. The board ensures that all CSR activities conducted by Islamic banks align with Maqasid Shariah, particularly in protecting the environment and promoting social welfare. For example, Islamic banks are encouraged to invest in projects that reduce carbon emissions, improve public infrastructure, and promote access to clean water and sanitation in underserved communities.

Despite the success of Green Sukuk, Indonesia faces challenges in scaling up CSR across the entire Islamic banking sector. Smaller Islamic banks may lack the resources and expertise to implement large-scale CSR initiatives, particularly those that require significant investments in environmental sustainability. Additionally, Indonesia's diverse banking landscape means that there are varying levels of CSR integration across different institutions. Moreover, the regulatory environment in Indonesia, while supportive of CSR, is still evolving. There is a need for clearer guidelines on how Islamic banks can measure and report the social and

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environmental impacts of their investments. Strengthening the regulatory framework for CSR in Islamic banking would ensure greater consistency and transparency across the sector, making it easier for Islamic banks to integrate CSR into their core operations.

CSR in Brunei Darussalam: Early Stages of Development

Brunei Darussalam, while smaller in terms of both population and the scale of its Islamic finance sector, has also recognized the importance of CSR in Islamic banking. As a resource-rich country with a significant Muslim population, Brunei is gradually integrating CSR into its financial system, focusing on ethical investments and community welfare.

The Autoriti Monetari Brunei Darussalam (AMBD) oversees the development of Islamic finance in the country and has begun to encourage Islamic banks to adopt CSR practices. However, Brunei's approach to CSR is still in its early stages compared to Malaysia and Indonesia. The regulatory framework is being gradually developed to promote ethical investments that align with both Shariah principles and the goals of sustainable development. While Brunei has not yet introduced large-scale CSR initiatives such as VBI or Green Sukuk, there is a growing emphasis on ensuring that Islamic banks contribute to social welfare. For example, banks are encouraged to fund community development projects, such as affordable housing and education programs, which align with the goals of Maqasid Shariah. These initiatives are still relatively small in scale but represent Brunei's growing commitment to integrating CSR into Islamic banking.

One of the primary challenges facing Brunei in implementing CSR in Islamic banking is the limited size of its financial sector. With fewer Islamic financial institutions compared to Malaysia and Indonesia, the scalability of CSR initiatives remains a challenge. However, Brunei has the opportunity to learn from the experiences of its neighbors and adopt best practices in CSR and sustainable finance. Brunei also has the potential to carve out a niche in CSR by focusing on sectors that are crucial to its long-term economic and social development, such as renewable energy and education. By aligning its Islamic finance sector with the principles of Maqasid Shariah and global CSR standards, Brunei can enhance the role of Islamic banks in promoting social and environmental welfare.

Conclusion

This paper has examined the integration of Sustainable Governance (SG), Corporate Social Responsibility (CSR), and Maqasid Shariah into Islamic banking practices in Malaysia, Indonesia, and Brunei Darussalam. Through a detailed analysis of each country's efforts to align their financial sectors with environmental, social, and governance (ESG) principles, the study highlights how Islamic banks are adapting to the growing global emphasis on sustainability. In Malaysia, the Value-Based Intermediation (VBI) framework serves as a comprehensive model that integrates CSR into the core operations of Islamic banks. By focusing on social and environmental impacts, Malaysia's Islamic banks play a crucial role in promoting community welfare and sustainable development. This reflects the country's leadership in ethical finance, as VBI encourages investments in projects such as renewable energy and affordable housing, aligning with both Islamic principles and global sustainability goals.

Indonesia has positioned itself as a pioneer in green Islamic finance through the issuance of Green Sukuk, which funds environmentally friendly projects in line with Shariah principles. Green Sukuk has raised billions of dollars for sustainable projects, emphasizing Indonesia's commitment to addressing environmental challenges such as climate change and deforestation.

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This innovative approach to CSR highlights the potential of Islamic finance to support environmental sustainability while promoting economic inclusion. In Brunei Darussalam, CSR is still in its early stages of development, but the country is gradually incorporating ethical investments into its Islamic banking system. The Autoriti Monetari Brunei Darussalam (AMBD) has been encouraging banks to invest in community welfare projects and sustainable infrastructure, aligning with Maqasid Shariah principles. While Brunei has yet to adopt large-scale CSR initiatives like Malaysia and Indonesia, the country has the potential to focus on niche sectors such as renewable energy and education, positioning itself as a player in green Islamic finance.

Across all three countries, Maqasid Shariah serves as a guiding principle in shaping Islamic banking practices, emphasizing justice, social welfare, and environmental responsibility. The integration of CSR into Islamic finance across these nations demonstrates their commitment to balancing profitability with ethical and sustainable goals. Each country faces unique challenges, such as scalability and regulatory development, but the opportunities for growth in sustainable Islamic finance are vast, particularly as global demand for ESG-compliant investments continues to rise. In conclusion, Malaysia, Indonesia, and Brunei Darussalam have made significant strides in integrating sustainable governance, CSR, and Maqasid Shariah into their Islamic banking systems. These efforts not only contribute to the broader goals of sustainable development but also position Islamic finance as a key driver in promoting long-term societal and environmental well-being.

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