

DEVELOPING ISLAMIC SUSTAINABLE FINANCE FRAMEWORK FOR ISLAMIC BANKS: TAWHIDI STRING RELATION (TSR) APPROACH

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Abstract: *The critique of Islamic banks has shifted from emphasis on contracts (aqd) to the role of Islamic banks in creating a real economy to improve the well-being of society and the environment as a whole. Unfortunately, Islamic banks lack a mechanism to meet those objectives. Therefore, some countries oblige Islamic banks to adopt a sustainable finance model based on the Environmental, Social, and Governance (ESG) framework despite its origins in conventional financial systems. Nevertheless, based on previous studies, most Muslim scholars believe the ESG is an imperfect framework for Islamic banks. They suggest Islamic banks develop a suitable framework to ensure investments and other financial services realize maqasid al-Shariah, especially concerning ESG aspects. Therefore, this paper aims to identify sustainable finance issues from an Islamic perspective and then develop an Islamic sustainable finance framework for Islamic banks using the Tawhidi String Relation (TSR) approach. The study adopts a qualitative research methodology. A comprehensive literature review and content analysis are used to identify the issue and to develop the framework. The study's significant result is the development of a new Islamic Sustainable Finance framework or ISF. This study identified al-'Alwani's theory of Maqasid al-'Ulya al-Hakimah, combined with the explanation (sharah) of his student, Malkawi, as the most suitable framework for Islamic banks to achieve sustainability. It consists of five components: (1) Tawhid, (2) Tazkiya of the human self, (3) Tazkiya of wealth, (4) Tazkiya of society, (5) Development (umran) of the earth. This framework addresses all parts of human well-being. Operationalizing the five components of the proposed framework will achieve the transition from the theoretical framework to practical application.*

Keywords: *Sustainable Finance, ESG, Tawhid, Tazkiya, 'Umran*

Introduction

The ultimate objective of Islamic banks is to realize *maqasid al-Shariah* (objectives of Shariah). Unfortunately, the industry has not yet developed proper mechanisms to ensure their activities fulfil *maqasid al-Shariah*. Moreover, previous studies concluded that Islamic banks had failed to accomplish their social goals, showing the gap between their stated goals and the actual actions (Ma'ruf et al., 2021; N. Zaman & Asutay, 2009; N. Zaman & Jan, 2012). Therefore, some studies recommended integrating a sustainable finance framework into the Islamic financial system to improve *maqashid Shariah's* achievement, especially social and environmental aspects. Sustainable finance emerged as a new paradigm that brought ethical values to the market. It considers Environmental, Social, and Governance (ESG) factors while making business or investment decisions.

BNM's (Bank Negara Malaysia) serious attention to this issue is demonstrated by introducing the VBI concept (Value-Based Intermediation), a special approach for IFIs (Islamic Financial Institutions) to achieve *maqasid* Syariah while producing a sustainable impact on society, the economy, and the environment (BNM Strategy Paper, 2018). It integrates the sustainable finance or ESG framework into the Islamic financial system (Miskam & Abdullah, 2021). Other than that, several countries that are global leaders in the Islamic financial industry have established policies regarding implementing a sustainable finance framework (ESG). The policies are mandatory for both the conventional financial industries and IFIs. IFIs should apply the concept to their financial activities even though this concept is developed by conventional finance.

Nevertheless, several significant issues related to the sustainable finance framework (ESG) arise from an Islamic point of view. As a result, several Muslim scholars concluded that ESG is an imperfect model for IFIs, as there is a "missing link" in the framework, namely, Islamic or Shariah principles. They suggest that integrating sustainable finance with Islamic finance may be one solution. On the other hand, some also argue that Islamic finance, with its Shariah compliance aspect, promises a more sustainable model for the financial industry. The last group suggests that the Islamic finance system needs to build a new alternative sustainable finance framework based on Islamic sources. It continues to be the subject of several debates among Islamic finance academia and practitioners.

Therefore, to contribute to the ongoing debate, this study aims:

1. To identify sustainable finance or ESG issues from an Islamic perspective.
2. To develop an Islamic sustainable finance framework for Islamic banks using the Tawhidi String Relation (TSR) approach

However, the purpose of this research is not to reject the existing models or to Islamize sustainable finance. Instead, the objective is to provide an alternative sustainable finance model for Islamic banks, give the existing models another depth, and offer another layer.

Literature Review

Islamic Finance and Sustainable Finance

Rosly and Zainal (2009) defined Islamic Finance as a branch of research and professional activity focusing on the Shariah compliance status of economics, banking, takaful, asset and investment management, unit trust, wealth planning activities, and business. Ayub (2007)

defined it as a financial system consistent with Islamic ideals and ethics. Accordingly, Islamic Finance refers to financial operations, goods, and transactions that adhere to Islamic law. It has a complete system of ethical standards and is concerned with socioeconomic justice.

Furthermore, sustainability in finance and economic perspective is interlinked with various terminologies, including Green Finance, Sustainable Finance, Climate Finance, and Green Banking. Green finance either invests in or divests from corporations that exacerbate the climate crisis (positive/integrated) or grants start-up or growth funding to creative businesses that address climate-related challenges (negative/exclusionary). Negative- exclusionary-green finance often centers on shifting investments from high-carbon-intensity enterprises to low-carbon-intensity companies (divestment) or giving money to companies attempting to minimize their overall CO2 emission. Positive-integrated-green financing often invests in firms that supply ecofriendly technology to address the climate challenge, such as solar or carbon capture systems. Companies focused on ecologically sustainable natural resource management, biodiversity conservation, renewable energy, energy efficiency, the circular economy, clean transportation, and pollution prevention and control are also targeted by green investments (Nicholls, 2021).

On the other hand, sustainable finance is defined as any financial services, such as banking, investment, accounting, insurance, trading, and financial reporting, that goes beyond business by ESG factors into a corporation or investment decisions for the long-term financial advantage of clients, stakeholders and the community (Edwards et al., 2019; Krauss et al., 2016; Swiss Sustainable Finance, 2019). In other words, it can be defined as financial decision-making with a long-term focus incorporating ESG factors. Therefore, this study uses the terms sustainable finance and ESG synonymously and interchangeably. ESG concept aims to advance the financial industry to a level “beyond profit”, emphasizing the need for financial institutions to consider environmental and social aspects alongside profitability (Ma’ruf et al., 2021). ESG concept is described in the following figure.

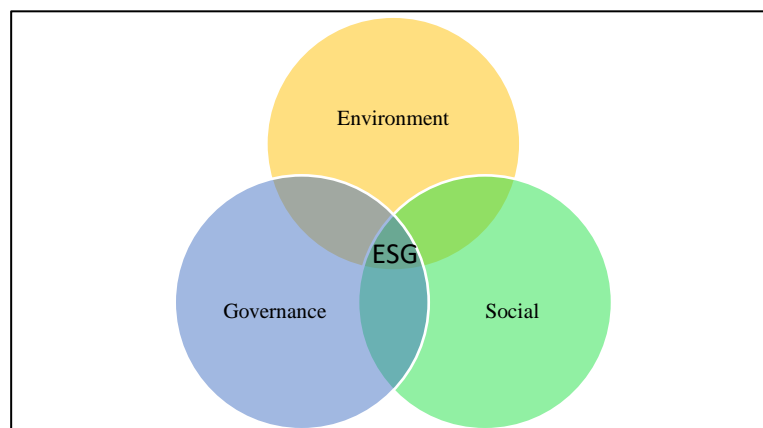


Figure 1 ESG Framework

Source: T. Khan & Tabet (2024)

Sustainable finance is a long-term financial and investment strategy developed from the definition of the word 'sustainable', which means permanent or continuing for a long period (Krauss et al., 2016). From the above discussion, it can be concluded that the essential principles of sustainable finance consist of (1) Incorporation of ESG factors into business and

investment decisions, (2) Long-term financial and investment strategy, (3) Responsible and ethical finance, (4) Priority economic sector development (5). Partnership and coordination (Budiharjo & Ismail, 2020). Therefore, sustainable finance might be considered an umbrella term for other concepts like green finance, climate finance, and green banking. Green and sustainable finance contains many elements of Islamic values. The goals of *maqasid al-Shariah* and the objectives of sustainable finance are closely interconnected, but they have distinct characteristics. Table 1 below describes the similarities and differences among them.

Table 1 Similarities and Differences among Green, Sustainable, and Islamic Finance

Category	Green Finance	Sustainable Finance	Islamic Finance
Similarities	The primary objective of these concepts is a concern both for people and the planet.		
	These concepts maintain the attention of future generations.		
	These systems are long-term focused.		
	The concepts are concerned with ethical values.		
Differences	Financial decisions to fund environmentally friendly projects	Financial decisions that integrates environmental, social, and governance (ESG) aspects	Financial operations, products, and transactions that adhere to Islamic law
	Addressing environmental issues and mitigate climate change	Realizing sustainability	The realization of <i>maqasid al-shariah</i> is the ultimate objectives.
	Screening standards for the environment	Screening standards for human rights, the environment, and governance	Shariah screening methodology

Source: Authors' own based on different sources

The relationship among green, sustainable, and Islamic finance, and Shariah is depicted in the Figure 2 below. The figure highlights that these concepts share commonalities but also have distinct differences. Islamic finance covers elements of both green and sustainable finance; however, it differs in key aspects, such as the prohibition of *riba* (interest), *gharar* (excessive uncertainty), and *ghish* (deception), as well as its emphasis on profit-sharing mechanisms that are not addressed within the sustainable finance framework.

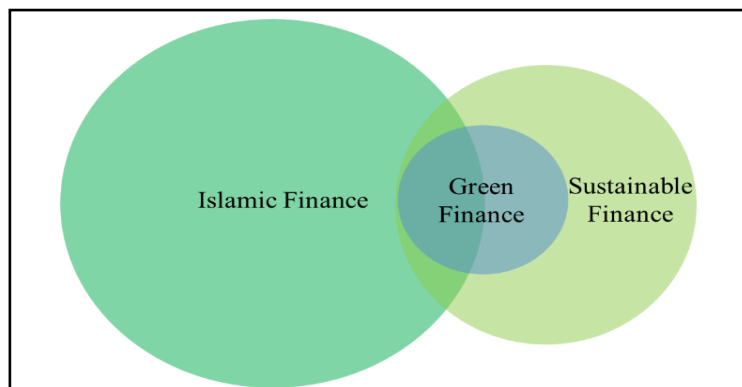


Figure 2: Relationship among Islamic, Green, and Sustainable Finance

Source: Authors (2025)

Islamic Bank's Practices and Sustainability

Islamic banking is a type of financial system or activity that is directed by Islamic economics and is compliant with Islamic law (Shariah). Previous studies concluded that Islamic banks had failed to accomplish their social goals (Aliyu et al., 2017; Ma'ruf et al., 2021; Zaman & Asutay, 2009; Zaman & Jan, 2012). In the Islamic investment, Ma'ruf, Mohamed, and Mohamad (2021) conclude that Islamic finance has neglected the aspects of environmental protection, social impact, and corporate governance. It simply focuses on the standards to prevent investing in non-Shariah compliant products. In other words, Shariah screening is only concerned with whether the output is Shariah-compliant or not.

Other than that, the previous research (Hassan et al., 2021; Izhar & Munkin, 2021; Shamsudin & Mohammed, 2015) showed that Islamic banks fail to fulfil their role in reaching *maqasid al-Shariah*. Islamic financial practice is inconsistent and deviates from the topic of the Islamic economic system. Moreover, the previous studies (Asutay, 2008, 2012; Kamla & Rammal, 2013; Saadiyah Mohamad et al., 2015; Mohammad & Shahwan, 2013; Widiarto & Emrouznejad, 2015; Zaman, 2013; Zaman & Asutay, 2009; Zaman & Jan, 2012) concluded that Islamic banks' influence and contribution to the social sector have been negligible. Environmental risk, social influence and corporate governance have all been overlooked by Islamic finance. The industry is regarded as being technical, legalistic, and concerned about form over content.

However, several analyses showed that Islamic banks' practices toward social objectives have improved, while they still fall well short of the expected standards for *maqasid al-Shariah* standards (Mallin et al., 2014; Mohd Nor & Hashim, 2015; Platonova et al., 2016). Islamic banks have made several efforts on sustainable finance (ESG). Khazanah Nasional Malaysia issued SRI Ihsan sukuk for an education scheme covering 83 trust schools and over 65,000 students across 10 states. Malaysia has issued the first green SRI Tadau sukuk to fund the solar photovoltaic plants with a total capacity of 50 Mwac. As of December 2015, Bank Muamalat Indonesia managed the financing of the electricity, gas, and water sectors and a mini-hydro power plant, with total outstanding accounting for 6.1 % of funding (Adam et al., 2019).

Tawhidi String Relation (TSR)

Developed by Prof. Choudhury, Tawhidi String Relation (TSR) is the epistemic foundation of the Tawhidi methodological worldview. It characterizes the oneness of Allah within the world-system as comprehensive, absolute, and perfect knowledge. In this system, there will be a strong interaction between humans, the Qur'an, the Hadith, and the wisdom of the other *Sunnatullah* (Choudhury, 2011; Rahmi, 2020). The methods and the formalism arising from Tawhidi methodology are complex and analytical in nature. Therefore, mathematical formalism becomes inevitably necessary to rigorously study the structural nature of that methodology. In the TSR, all subsystems in a system are linked with a pattern of circular causation to achieve well-being. The concept of TSR can be described in a sequence as follows:

$$\Omega \rightarrow_F \{\Phi\} \rightarrow_{f^*} \{\Phi^*\} \rightarrow_{f_1} \{\theta_1\} \rightarrow_{f_2} \{X(\{\theta_1\})\} \rightarrow_{f_3} \text{New}(\theta_2) \rightarrow \text{continuity} \rightarrow \Omega = H \quad (1)$$

- Ω : The Quranic domain of complete knowledge
 F : The spontaneous and pervasive unveiling of divine oneness in 'everything' through the divine law
 Φ : Hadith as transmission mapping of the Qur'anic law of Unity
 f^* : Medium of presenting the divine law in living experience
 Φ^* : Interpretation by the participatory learned community
 θ_1 : Worldly knowledge of unity derived from the fundamental epistemology for specific problem and issues to investigate
 $X(\{\theta_1\})$: The knowledge-induced socio-scientific variables
 $W(\theta_1, X(\theta_1))$: Wellbeing criterion of attained levels of unity of knowledge in the Tawhidi unified world-system relating to specific problems and variables

TSR approach is considered the most suitable approach for this research. TSR has advantages with the concepts of complexity and endogeneity, participatory among parties, and IIE (Interactive, Integrative, and Evolutionary), where the variables influence each other and give feedback or circle to reach the goals or well-being. These concepts are important for developing any sustainable framework, including a sustainable finance framework, as sustainability fundamentally relies on the interconnectedness of a complementary world system. In this approach, there will be a strong interaction between humans, the Qur'an, the Hadist, and the wisdom of the other *Sunnatullah*. In understanding the Qur'an and Hadist, this approach provides stages for first studying the works or *ijtihad* of the companions of the Prophet and previous Muslim scholars. This step follows the scientific tradition of Muslim scholars.

Research Method

This research is exploratory because it explores a poorly understood problem or phenomenon and generates initial hypotheses about the problems (Neuman, 2014). Such a research design complements qualitative methodology, which offers opportunities for creativity and innovation (Creswell, 2014). The first objective of this study is to identify the issues of sustainable finance framework from an Islamic perspective. This is achieved through a literature survey, including relevant academic journals, books, magazines, and working papers. The study's second objective is to develop a sustainable finance framework for Islamic banks. Therefore, this study used the TSR approach and relied mainly on the two primary sources of Islam, the Quran and Hadits, and a survey of Islamic literature (*turats al-Islami*). *Turats* means legacy or heritage. It relates to all the legacies that are related to Islam. *Turats* also relates to intellectual properties derived from the writings of Muslim scholars and other works written by non-Muslims but considered Islamic. The authors employed the content analysis method to connect, compare, and examine the multiple theories of development model components.

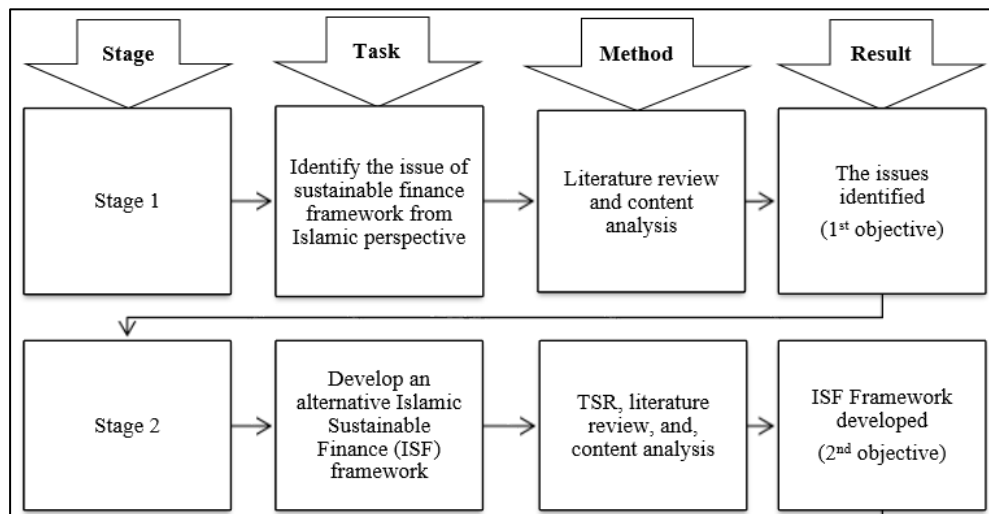


Figure 3: Research Process

Results

Sustainable Finance Issues from Islamic Perspective

Despite the rising ESG trend, there has been significant pushback to the ESG trend. The US Securities and Exchange Commission revealed its 2024 Examination Priorities on 16 October 2023, and for the first time in recent years, ESG was not included (U.S. Securities and Exchange Commission, 2024). Currently, there is a demand for ESG on one side, but on the other, there is resistance. Mokhtar (2023) explains that this issue arises from significant uncertainty (*gharar*) and a lack of transparency in data, measurement, and applying ESG values. Therefore, *the first* and most significant issue in ESG is ESG washing, which arises from significant uncertainty (*gharar*) and a lack of transparency in data and measurement (Budiharjo et al., 2023).

The second issue lies in their religious foundation. Shariah principles are derived from Islam, while certain philosophical foundations (Judaism and Christianity) drive conventional business ethics and ESG (Beekun & Badawi, 2005; Junkus & Berry, 2015; Ma'ruf et al., 2021; Qoyum et al., 2021; von Wallis & Klein, 2015). *The third issue* is that most scholars stated that there are some contradictions to ESG elements from Shariah principles. With the exception of specific essentials, Islamic rules forbid all negative criteria with zero tolerance. For instance, Islam forbids the consumption of alcohol in all circumstances unless it is vital for medical care or when dealing with a situation of life and death. In contrast to Islamic standards, the sustainable finance exclusionary guidelines allow for considerable flexibility in screening these characteristics. For example, the "low tolerance" criteria include liquor, adult content, conventional weaponry, gambling, and nuclear power (Ma'ruf et al., 2021).

From the above discussion, some Muslim scholars believe the ESG is an imperfect framework for Islamic banks (Ma'ruf et al., 2021; Qadir & Zaman, 2019; A. Zaman & Qadir, 2020). Therefore, Kappen, Mitchell, and Chawla (2019) and Qoyum (2020) suggested that Islamic banks need to design a suitable framework to ensure that investments and other financial services fulfil the *maqasid al-Shariah*, especially related to ESG issues.

Developing Islamic Sustainable Finance Framework for Islamic Banks

The following discussions are the TSR exposition in identifying an alternative framework. Tawhid epistemology is denoted by Ω in sequence (1). Ω illustrates the basic principle of divine oneness in the Quran. Φ represents the ontology drawn from Ω in the form of the God's law (Sunnatullah in the Quran) (Choudhury, 2013). Therefore, (Ω, Φ) represents Quran and Hadith. In this study, the two sources are understood as a whole so that the study is conducted comprehensively (*al-istiqlal al-tamm*) (Al-'Alwani, 2001). Φ^* is the interpretation or *ijtihad* of Muslim scholars, which can be used as a sustainable finance framework.

$\{\theta_1\}$ referred to knowledge-flows obtained from the epistemology of unity through the use of *shuratic* discourse incorporated in *tasbih* (consciousness) at the level of obtaining the *usul* and *maqasid* from the Quran, Hadith, and learned discourse. In relation to stage one of the *shuratic* process, the medium or *shuratic* discourse is represented by the symbol f_1 . $\{\theta_1\}$ principally is an "index" that contains the essence of goodness or virtue from all variable data in the system. It avoids details or elements at an initial level of discourse (Choudhury, 2013). Nonetheless, contemporary theorists criticised the traditional *maqasid* or *dharuriyyah al-khamsah* because they were deduced from studying "fiqhi literature" rather than the original sources/scripts. Moreover, according to Auda (2007), the traditional *maqasid* are concerned with individuals rather than societies and humans. That is why *maqasid* evolved over the centuries, especially in the twentieth century.

Therefore, to find θ_1 in this study, it is necessary to revisit *maqasid* or the other framework of Islamic development in light of the Tawhidi methodological worldview. Choudhury (2019) has previously examined *maqasid* using the TSR approach. To him, to reinterpret the *maqasid* in the light of Tawhidi methodological worldview means that *maqasid* in the light of Tawhid obtains strictly its circular path between the variables chosen as an epistemic derivation in terms of the primal ontology of (Ω, S) . The determination of truth (*maslaha*) and falsehood (*mafasid*) is to be based on the Qur'an. *Maqasid* is then noted as the domain of choosing *maslaha* and avoiding *mafasid* according to the rules established based on Tawhidi Law. Choices are by *maqasid* in the light of Tawhidi methodology of unity of knowledge: $x(\theta) = \{x_1, x_2, \dots, x_n\}[\theta]$, θ gives the parametric representation of the unity. *Maqasid* inherits the Tawhid principle from Tawhidi primal ontological premise: $(\Omega, S) \rightarrow \{\theta^*, \theta\}$. But the opposite $\{\theta^*, \theta\} \rightarrow (\Omega, S)$ is not possible.

The status of *maqasid al-Shariah* is thus essential. The choice of truth or good over wrong or bad things, and avoiding harm, lie upon understanding it. Nevertheless, it originates from a more fundamental entity, namely the primal ontological law of Tawhid, which emerges from the Qur'an along with the Qur'anic unity of knowledge paradigm (Auda, 2007). Thus, the scope of *Shariah* is limited, whereas the Tawhidi methodological viewpoint and its associated developments are expansive. Choudhury gives an example of the importance of Tawhid in determining a variable or action in a human's life. A family is certainly allowed by the *Shariah* to eat *halal* foods earned in a *halal* way. But the foods cannot be *halal* if there are starving people around them and they are completely ignorant.

Furthermore, to find θ_1 (framework), this study reviews the prominent Islamic thought on developing the *ummah* (society). Several scholars' *ijtihad* related to the development model are selected in this study. These thoughts are then examined using the TSR approach to find a

suitable framework for this research. The following is a list of selected thoughts and *turats* of Muslim scholars.

Table 2: Selected *Turats* of Muslim Scholars

No	Book Title	Author	Year
1.	<i>Adabu al-Dunya wa al-Din</i>	Al-Mawardi (2013)	974-1058 A.D
2.	<i>Muqaddimah Ibnu Khaldun</i>	Ibnu Khaldun (2003)	1332-1404 A.D
3.	Islamic Approach to Development: Some Policy Implications	Kurshid Ahmad (1994)	1932 A.D
4.	<i>Qadaya Islamiyyah Mu'asirah Maqasid al-Shariah</i>	Toha Jabir 'Alwani (2001)	1935-2016 A.D
5.	<i>Maqasid al-Shariah Biab'adi Jadidah</i>	Abdul Majid An-Najjar (2006)	1945 A.D
6.	Islam and Sustainable Development: New Worldviews	'Audah Rashed Al-Jayyousi (2012)	1961 A.D

Source: Authors (2025)

Based on the TSR approach, the most suitable framework (*maqasid*) is the framework that places Tawhid as its greatest purpose. According to Choudhury (2019), this reconstruction may be termed '*Maqasid al-Shariah at-Tawhid*'. In the context of this research, it also requires *maqasid* or framework that is not limited to human beings and the relationships among them but extends beyond humanity. Therefore, after a comprehensive and intensive review, this study adapts al-'Alwani's theory. Al-'Alwani named his model *al-Maqasid al-'Ulya al-Hakimah* (supreme and prevailing *maqasid*). He believes *al-Maqasid' al-Ulya al-Hakimah* represents the highest *maqasid* and is the roof for the other *maqasid* levels. The concept is expressed under different names in various works, yet in the same concept, such as *al-Maqasid al-Shar'iyah al-'Ulya al-Hakimah* and *al-Maqasid al-Quraniyyah al-Hakimah*. He divided the *maqasid* into three components, namely: Tawhid (the unity of God), *tazkiya* (purification plus growth), and *'umran* (development of the earth) (Al-'Alwani, 2001). The three components complement one another, with *Tawhid* as the foundation for the other components, *tazkiyah* and *umran* (Malkawi, 2013, p. 170).

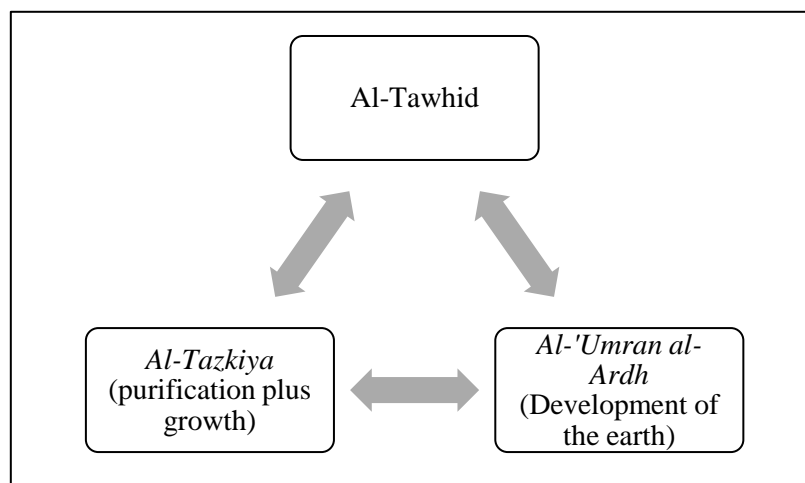


Figure 4: Al-Maqasid al-'Ulya al-Hakimah

Source: Adopted from al-'Alwani (2003)

After that, Malkawi (2013), a student of al-‘Alwani, in his book (*sharh*) entitled “*Manzumah al-Qiyam al-Ulya: at-Tawhid wa al-Tazkiyah wa al-Umran*” explained the concepts of his teacher that the dimensions of *tazkiyah* consist of three elements. They are: a) *Tazkiyatu al-nafs al-insyaniyyah* (human self), b) *Tazkiyatu al-mal* (wealth) c) *Tazkiyatu al-jama’ah wa al-ummah* (society).

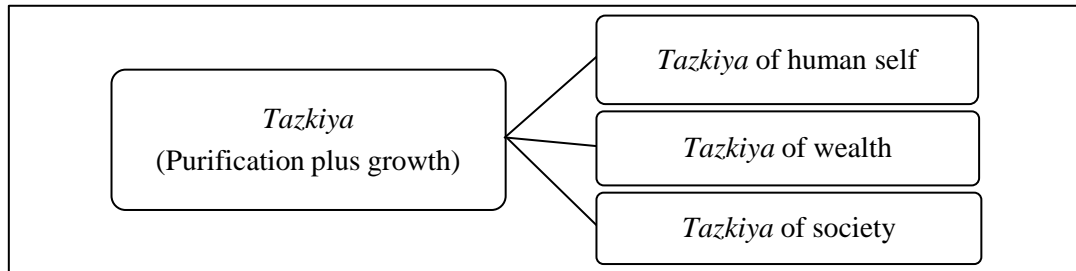


Figure 5 Tazkiya Concept

Source: Al-Malkawi (2013)

Accordingly, the study combined the theory of al-‘Alwani with Malkawi's explanation (*sharh*) to develop an alternative Islamic Sustainable Finance (ISF) framework for Islamic banks consisting of five components. They are (1) Tawhid, (2) *Tazkiyatu an-nafs al-insaniyyah* (human self), (3) *Tazkiyatu al-mal* (wealth), (4) *Tazkiyatu al-jama’ah wa al-ummah* (society), (5) *‘Umran al-ard* (development of the earth). This study continues to employ the language “*tazkiya*” because there is no word that refers to purification plus growth in English as the meaning of *tazkiya*. Furthermore, to Malkawi (2013), all the components in al-‘Alwani’s theory complement one another with a strong interrelationship among them. However, Tawhid is the basis for the other components, *tazkiya* and *‘umran*. Tawhid serves as the foundation for the other elements, aiming to achieve the perfection of *tazkiya* and *umran*. Therefore, the interrelationship among the components can be described as follows in the ‘ring stacking’ illustration (Figure 6).

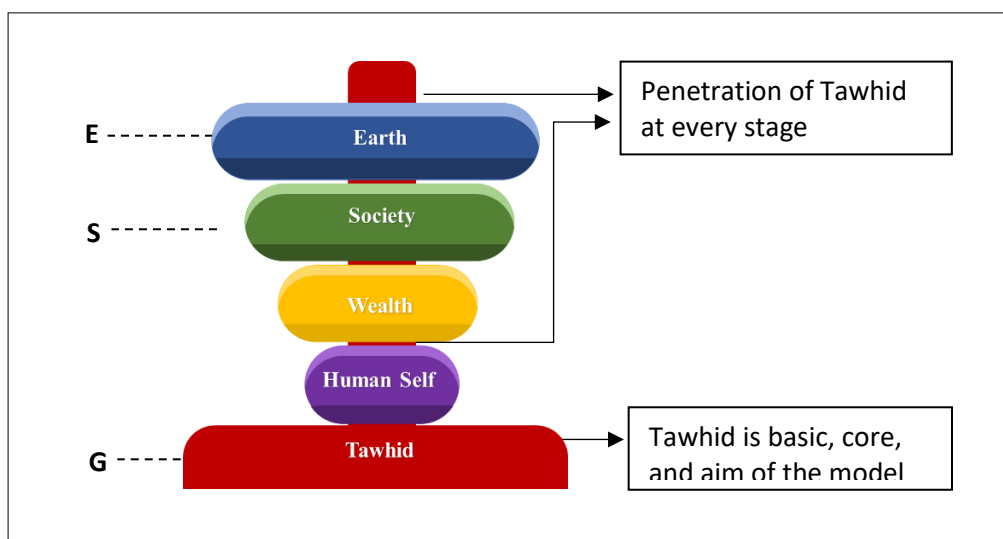


Figure 6: Islamic Sustainable Finance (ISF) Framework

Source: Authors (2025)

Tawhid is the basis and core of the sustainable finance process. Just as it remains constant throughout the vertical rise through development from stage to stage, it also permeates each stage horizontally. Moreover, each stage of the levels is meaningless without Tawhid since they cannot stand without the base. The figure above depicts the importance of Tawhid to the sustainable financing process both vertically and horizontally at each level reached. The individual's growth begins at Tawhid's base (illustrated in red) and progresses upwards. The horizontal actualizations of Tawhid in the shape of human behavior in society interacting with the rest of creation occur concurrently and continually at each stage.

Furthermore, the process of induction of each variables by (θ) can be written in the following notation:

$$X_i + (\theta) \text{ --- } \rightarrow X_i(\theta)$$

While the θ -induction process of a system consists of several variables (X_i) can be written as follows:

$$f(X_i) + (\theta) \text{ --- } \rightarrow f(\theta, X_i(\theta))$$

In a system with identified subsystems or variables, their relationships and functions can be described as follows:

$$f(X_1, X_2, X_3, X_4, X_n) + (\theta) \text{ --- } \rightarrow f(X_1(\theta), X_2(\theta), X_3(\theta), X_4(\theta), X_n(\theta), \theta)$$

In this study, θ was obtained scientifically by employing *al-Maqasid al-'Ulya al-Hakimah*. This framework is used for the proposed Islamic sustainable finance framework, which consists of five components. Therefore, the proposed framework, otherwise termed the "Islamic Sustainable Finance (ISF)" is a function of all components (Tawhid, Human self, Wealth, Society, and Earth) that interact with each other, integrate, and evolve (Interaction, Integration, and Evolution/III) towards a balance and reach well-being" with functions:

$$ISF = f(T, H, W, S, E) \tag{2}$$

by adding θ (theta), the equation becomes as follows:

$$ISF(\theta) = f_1 \{T(\theta), H(\theta), W(\theta), S(\theta), E(\theta), \theta\} \tag{3}$$

$$T(\theta) = f_2 \{ISF(\theta), H(\theta), W(\theta), S(\theta), E(\theta), \theta\} \tag{4}$$

$$H(\theta) = f_3 \{ISF(\theta), T(\theta), W(\theta), S(\theta), E(\theta), \theta\} \tag{5}$$

$$W(\theta) = f_4 \{ISF(\theta), T(\theta), H(\theta), S(\theta), E(\theta), \theta\} \tag{6}$$

$$S(\theta) = f_5 \{ISF(\theta), T(\theta), H(\theta), W(\theta), E(\theta), \theta\} \tag{7}$$

$$E(\theta) = f_6 \{ISF(\theta), T(\theta), H(\theta), W(\theta), S(\theta), \theta\} \tag{8}$$

$$(\theta) = f_7 \{ISF(\theta), T(\theta), H(\theta), W(\theta), S(\theta), E(\theta)\} \tag{9}$$

- ISF = Islamic Sustainable Finance framework
- T = Tawhid
- H = Human self
- W = Wealth
- S = Society
- E = Earth
- θ = Theta ('index'/*maqasid al-'Ulya al-Hakimah*)

All variables are induced by theta (θ), and each X_i is interdependent with one another to form circular causation. ISF and all variables, (T, H, W, S, E), interact with each other to make circular causation. They independently influence each other and are interdependent among elements. The well-being of one depends on the well-being of the other. This will provide harmony and balance to accomplish sustainable development (Furqani & Mulyani, 2018).

Equation 9 is referred to as the welfare function ($W(\theta)$), which is generated through the θ process. The premise of TSR then: “In a system that has been knowledge-induced by (θ), then well-being (or prosperity, virtues, goodness) is the participation of all components that have been knowledge-induced by (θ), and the component (θ) itself. Here, (θ) is interpreted as an external influence or determinant, representing a force beyond human ability (God)” (Mukadar, 2020; Prabowo, 2013; Sri Rahmany & Akhmad Affandi Mahfudz, 2021; Wijananto et al., 2021).

The circular causation framework of variables that form the ISF can be described in the following causal loop diagram. In the notation of the causal relationship, the arrow is a causal relationship, not a correlation relationship. The plus sign (+) is polarity. Positive polarity has two meanings: increasing (accumulating) or changing in the same direction. For example, understanding Tawhid increases the *tazkiyah nafs al-insaniyyah* (human self). The increase in *tazkiyatun nafs al-insaniyyah* (human self) will increase the level of Tawhid. Tawhid increases a balanced attitude (*mizan* and *adl*) towards the environment. A balanced attitude towards the environment will increase the understanding of Tawhid, as the universe is part of the verses of Allah (*al-ayah al-kawniyah*).

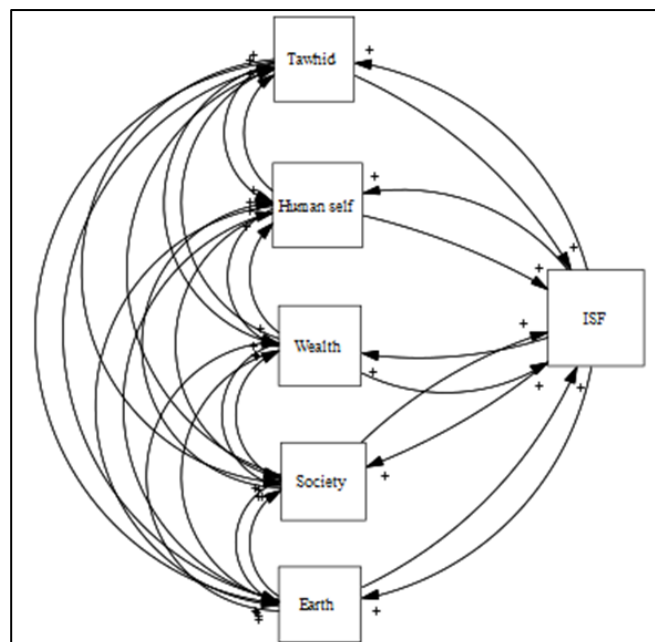


Figure 7: Conceptual Framework and Causal Loop of the ISF Framework

Source: Authors (2025)

Finally, to operationalize this framework, the five ‘components’ are articulated and detailed in ‘dimensions’. ‘Dimensions’ are then articulated in ‘elements’, and ‘elements’ are articulated in ‘indicators’. This stage involves transitioning from the theoretical framework to practical application. Through this operationalization, the ISF metrics would be established and incorporated into Islamic banks’ sustainability reports.

Conclusion

The study successfully develops an Islamic Sustainable Finance (ISF) framework for Islamic banks. The study identified that ‘Alwani’s theory of *Maqashid al-‘Ulya al-Hakimah* is the most appropriate framework for this study, consisting of five components. The proposed framework is intended to give recommendations that may assist industry players, regulators, and policymakers in developing an appropriate sustainable finance model for Islamic banks based on Islamic principles. It is expected to improve society’s perspective, particularly among stakeholders in the institution’s direction toward achieving *maqasid al-Shariah*. This study is significant as it is the pioneering research to demonstrate that it is feasible to develop a sustainable framework for Islamic banks based on Islamic sources using the TSR approach.

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