

SUSTAINING ISLAMIC FINANCE IN MALAYSIA: FROM SHARIAH COMPLIANCE TO SUBSTANTIVE SUSTAINABILITY

Nor Haryanti Md Nor^{1*}
Yusrina Hayati Nik Muhammad Naziman²
Nadia Farleena Mohd Aznan³
Rabihah Nawawi⁴

¹ Faculty of Business Management, UiTM Kelantan Branch, Kota Bharu Campus, Malaysia,
(E-mail: yanti647@uitm.edu.my)

² Faculty of Business Management, UiTM Kelantan Branch, Kota Bharu Campus, Malaysia,
(E-mail: yusrina@uitm.edu.my)

³ Faculty of Business Management, UiTM Kelantan Branch, Kota Bharu Campus, Malaysia,
(E-mail: nadia910@uitm.edu.my)

⁴ Faculty of Business Management, UiTM Kelantan Branch, Kota Bharu Campus, Malaysia,
(E-mail: rabihah@uitm.edu.my)

*Corresponding author: yanti647@uitm.edu.my

Article history

Received date : 3-8-2026
Revised date : 4-8-2026
Accepted date : 8-9-2026
Published date : 21-9-2026

To cite this document:

Md Nor, N. H., Nik Muhammad Naziman, Y. H.,
Mohd Aznan, N. F., & Nawawi, R. (2026). Sustaining
Islamic finance in Malaysia: From Shariah
compliance to substantive sustainability. *Journal of
Islamic, Social, Economics and Development
(JISED)*, 11 (86), 868 – 879.

Abstract: *Malaysia has established a highly developed institutional ecosystem for Islamic finance, supported by Shariah governance, value-based intermediation, sustainable and responsible investment frameworks, climate-related policies, and green-finance instruments. However, the presence of these institutional mechanisms does not necessarily indicate that Islamic finance has achieved substantive sustainability outcomes. This conceptual paper examines how sustainability principles are translated within Malaysia's Islamic financial system from normative Shariah foundations into institutional practices and measurable economic, social, environmental, and governance outcomes. A structured conceptual review was conducted using academic literature supplemented by relevant policy and regulatory documents issued by Malaysian authorities and international institutions. The literature was synthesised across four interrelated dimensions: Shariah and ethical foundations, governance and accountability, value-based intermediation and impact assessment, and green and sustainable finance. The review indicates that although Islamic finance is conceptually compatible with sustainable development, an important gap remains between ethical principles, institutional frameworks, and their practical implementation. The Malaysian experience therefore highlights the importance of institutional mechanisms that can translate sustainability commitments into financing decisions, risk management, disclosure, and impact assessment. Based on this synthesis, the paper proposes an integrated conceptual framework in which governance and accountability serve as key mechanisms linking Shariah principles, value-based intermediation, and sustainable-finance practices to substantive sustainability outcomes. The paper contributes to the literature by distinguishing between formal Shariah*

compliance and actual sustainability performance, providing a clearer basis for evaluating the effectiveness and future development of sustainable Islamic finance in Malaysia.

Keywords: *Green Finance; Governance; Islamic Finance; Malaysia; Sustainability; Value-Based Intermediation*

Introduction

Islamic finance has evolved considerably from its earlier position as a specialised alternative to conventional financial intermediation and now represents an important component of the financial architecture of many Muslim-majority economies. Within this development, Malaysia has emerged as one of the most institutionally advanced markets for Islamic finance. Its progress has been supported not only by the expansion of Shariah-compliant products, but also by sustained regulatory development, institutional innovation and the gradual incorporation of sustainability principles into banking and capital-market practices. This broader orientation reflects a shift in the role of Islamic finance from a system concerned primarily with contractual compliance towards one that is increasingly expected to contribute to economic resilience, social inclusion and environmental sustainability.

An important development in this transition was the introduction of Value-Based Intermediation (VBI) by Bank Negara Malaysia. VBI was intended to strengthen the role and impact of Islamic banking institutions by encouraging financial practices that generate sustainable and positive outcomes for the economy, society and environment while remaining consistent with shareholders' sustainable returns and long-term interests (Bank Negara Malaysia [BNM], 2017). Mahyudin and Rosman (2020) describe VBI as a mechanism through which Islamic banks can more systematically operationalise *Maqasid al-Shariah* in responding to the interests of multiple stakeholders.

The subsequent Value-Based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) sought to translate this broader vision into an impact-based approach to financing and investment decisions (BNM, 2019). These initiatives provide an institutional mechanism for moving Islamic banking beyond transaction-level Shariah compliance towards consideration of the consequences of financing activities. These developments represent an important change in the interpretation of Islamic financial intermediation, as attention is directed not only towards whether a transaction complies with Shariah principles, but also towards the wider consequences arising from the allocation of financial resources.

The sustainability orientation of Malaysia's Islamic financial system has continued to develop through broader financial-sector policies and regulatory initiatives. Under the Financial Sector Blueprint 2022–2026, Islamic finance is increasingly positioned within a wider agenda of inclusion, transformation and sustainability. More recent regulatory developments have also strengthened expectations concerning climate-risk management, sustainability disclosure and financial institutions' exposure to environmental risks. These changes indicate that sustainability is becoming embedded within financial governance and risk-management practices rather than remaining predominantly within the domain of voluntary corporate responsibility. Kashi et al. (2024) show that the sustainability performance of Islamic banks is influenced by institutional conditions and corporate-governance arrangements, indicating that Islamic identity alone is insufficient to explain sustainability performance. Similarly, Issa et al. (2025) find that sustainability committees, sustainability reporting and the quality of Shariah

governance are associated with efforts to reduce financed emissions. These findings suggest that the contribution of Islamic banks to sustainability depends substantially on whether governance structures influence actual lending, investment and climate-related decision-making processes.

Accordingly, the objective of this conceptual paper is to critically synthesise these interconnected streams and develop an integrated framework for understanding the sustainability of Islamic finance in Malaysia. Specifically, the paper examines how Shariah principles, governance arrangements, value-based intermediation and green-finance mechanisms are connected within Malaysia's sustainable Islamic-finance ecosystem and under what conditions these mechanisms can translate formal Shariah compliance into substantive sustainability outcomes. The paper makes three contributions. First, it distinguishes formal compliance from substantive sustainability, thereby challenging the assumption that Shariah compliance alone is sufficient evidence of sustainability. Second, it integrates previously fragmented discussions of governance, VBI, impact assessment and green finance within a single conceptual structure. Third, it identifies governance and accountability as the principal institutional transmission mechanism through which ethical objectives can influence financing decisions and ultimately economic, social and environmental outcomes.

Literature Review

Concerns regarding the difference between sustainability commitments and actual implementation have also become more prominent. Zafar (2026), examining climate-related reporting among Islamic banks, finds that climate narratives have expanded considerably, while quantitative information relating to renewable finance and net-zero activities remains more limited. Such findings highlight the possibility that sustainability commitments may develop more rapidly than measurable environmental outcomes. They also question the assumption that strong ethical or Shariah-based foundations automatically produce substantive sustainability performance. The existing literature has examined several dimensions of this relationship, although these dimensions have generally developed as separate strands of inquiry. Jan et al. (2021) focus on the alignment between Islamic banking sustainability indicators and the Sustainable Development Goals, while Ali et al. (2020) emphasise the importance of environmentally responsible behaviour among Islamic banking personnel. Kunhibava et al. (2018) highlight the need for Malaysian Islamic banks to play a more proactive role in sustainable financing, whereas Rastam Shahrom and Kunhibava (2023) examine Malaysia's sustainable-banking regulatory framework and its implementation by selected Islamic banks. More recent studies extend this discussion towards institutional quality, corporate governance, climate governance and financed emissions (Kashi et al., 2024; Issa et al., 2025). Collectively, these studies demonstrate growing interest in sustainable Islamic finance, but they also reveal that the literature remains fragmented across regulatory, governance, behavioural and environmental perspectives.

This fragmentation creates an important conceptual gap. Existing studies provide valuable evidence on individual components of sustainability, yet relatively limited attention has been devoted to explaining how these components interact as part of a broader institutional process. In particular, the relationship between Shariah principles, governance and accountability, Value-Based Intermediation, impact assessment and green-finance mechanisms has not been sufficiently integrated into a single conceptual explanation of how sustainability outcomes are produced within Islamic financial institutions.

The Malaysian context provides a particularly appropriate setting for addressing this issue because its Islamic financial ecosystem combines multiple layers of institutional support, including Shariah governance, VBI, impact-assessment frameworks, climate-risk regulation, sustainability disclosure requirements, green financing and Islamic capital-market instruments. The significance of the Malaysian case therefore lies not only in the size or maturity of its Islamic financial sector, but also in the range of institutional mechanisms designed to translate Islamic ethical objectives into financial practices with broader social and environmental implications.

Methodology

This study employs a structured conceptual literature review to examine how sustainability has been conceptualised and operationalised within Malaysia's Islamic financial system. A conceptual review was considered appropriate because the purpose of the study is not to estimate causal or statistical relationships, but to integrate fragmented theoretical, empirical and regulatory perspectives and develop a coherent explanation of how Shariah principles, governance mechanisms, Value-Based Intermediation (VBI), impact assessment and sustainable-finance practices interact. This approach is consistent with recent literature-review scholarship, which emphasises that conceptual and framework-based reviews can contribute to theory development by integrating dispersed knowledge, identifying relationships among concepts and revealing gaps that remain insufficiently explained in the existing literature (Paul et al., 2024; Schreiber & Cramer, 2024; Snyder, 2024).

Particular attention was given to more recent studies published between 2020 and 2026, while earlier influential studies were retained where they provided important theoretical or institutional foundations. The use of citation networks allowed the review to trace the development of key arguments and identify areas in which subsequent research supported, extended or questioned earlier findings. Recent methodological research recommends such an integrative approach when the objective of a review is conceptual development rather than simply producing an inventory of publications (Paul et al., 2024; Snyder, 2024).

Studies were included when they contributed directly to at least one of the principal analytical areas of the review. These included research addressing: (i) sustainability and sustainable development within Islamic banking or Islamic finance; (ii) Shariah governance, Maqasid Shariah and value creation; (iii) VBI and VBIAF implementation in Islamic financial institutions; and (iv) green banking, green sukuk and sustainable financing. Priority was given to peer-reviewed journal articles with clear relevance to Islamic financial institutions, Malaysia or comparable Islamic-finance jurisdictions.

From Shariah Compliance to Substantive Sustainability

A growing body of literature recognises a strong conceptual relationship between Islamic finance and sustainable development. The ethical foundations of Islamic finance emphasise principles such as fairness, responsible resource allocation, avoidance of harm, risk sharing and the promotion of social welfare, all of which are broadly consistent with contemporary sustainability objectives. Earlier evidence has highlighted the alignment between Islamic financial principles and the Sustainable Development Goals (SDGs). Jan et al. (2021), for instance, identify substantial correspondence between Islamic banking sustainability indicators and several SDGs, while Harahap et al. (2023), through a systematic review of 65 publications, conclude that Islamic finance and Maqasid al-Shariah possess considerable potential to support sustainable-development objectives. Their review nevertheless stresses that effective

contributions to the SDGs require support from governments, regulators and financial institutions, suggesting that ethical compatibility alone is insufficient to guarantee sustainable outcomes.

More recent empirical evidence strengthens this distinction between normative principles and actual sustainability performance. Kashi et al. (2024), examining 32 Islamic banks across nine major Islamic-finance jurisdictions, find that sustainability performance is influenced by institutional and corporate-governance characteristics. In particular, the presence of sustainability committees and accumulated experience in sustainability disclosure are positively associated with stronger sustainability performance, whereas regulatory and normative pressures alone do not necessarily produce the expected results. These findings indicate that the sustainability potential of Islamic finance depends significantly on how ethical principles are embedded within institutional structures and organisational practices.

A similar conclusion emerges from recent research on climate governance. Issa et al. (2025), based on 28 Islamic banks in Southeast and West Asia, demonstrate that sustainability committees, sustainability reporting and the quality of Shariah governance are positively associated with financed-emission mitigation. This evidence is particularly important because financed emissions arise directly from banks' lending and investment portfolios. Sustainability performance therefore depends not only on the ethical orientation of Islamic banking, but also on whether governance mechanisms influence the allocation of financial resources towards activities with lower environmental impacts.

These findings challenge the assumption that Shariah compliance automatically results in substantive sustainability. A financial institution may comply with the contractual and jurisprudential requirements of Islamic finance while continuing to finance activities that generate environmental externalities or limited social benefits. Similarly, sustainability-labelled products, Shariah governance structures and ESG disclosures may demonstrate institutional commitment without necessarily establishing that measurable improvements in environmental or social performance have occurred. The distinction between formal compliance and substantive impact is therefore fundamental to understanding the sustainability of Islamic financial institutions. Accordingly, sustainable Islamic finance can be conceptualised as a transmission process in which Shariah-based ethical principles are translated through governance and institutional mechanisms into financing and investment decisions that ultimately generate economic, social and environmental outcomes. A weakness at any stage of this process may create a gap between the ethical aspirations of Islamic finance and its realised sustainability performance. The critical issue is therefore no longer simply whether Islamic finance is conceptually compatible with sustainability, but whether Islamic financial institutions possess the governance structures, accountability mechanisms and decision-making processes necessary to convert that compatibility into measurable and credible sustainability outcomes. For this reason, the present paper conceptualises sustainable Islamic finance as a progression from Shariah principles, through institutional governance and financing decisions, towards measurable economic, social and environmental outcomes. A breakdown at any point in this transmission process can create a gap between Islamic-finance ideals and realised sustainability.

Governance as the Institutional Bridge

Governance plays a central role in translating the ethical foundations of Islamic finance into operational responsibilities, organisational practices and measurable sustainability outcomes.

In Islamic financial institutions, this function is particularly significant because governance structures must simultaneously address financial performance, regulatory compliance, risk management, stakeholder interests and Shariah requirements. Recent literature increasingly suggests that the effectiveness of Islamic governance should therefore be assessed not merely by the existence of boards, Shariah supervisory bodies or sustainability committees, but by the extent to which these structures influence actual decision making.

Current empirical evidence supports this distinction. Kashi et al. (2024), analysing 32 Islamic banks across nine major Islamic-finance jurisdictions, find that the establishment of sustainability committees and greater experience in sustainability disclosure are positively associated with banks' sustainability performance. Importantly, however, regulatory and normative pressures alone were not found to determine sustainability performance. This finding suggests that formal institutional requirements may create an enabling environment, but substantive sustainability depends more heavily on whether governance mechanisms are effectively embedded within the organisation. Recent evidence also highlights the increasing relevance of specialised governance structures. Issa et al. (2025) show that sustainability committees, sustainability reporting and the quality of Shariah governance are positively associated with financed-emission mitigation among Islamic banks in Southeast and West Asia. Such findings are particularly important because financed emissions are linked directly to lending and investment portfolios. Governance therefore becomes relevant not simply because it ensures compliance, but because it can influence capital allocation and climate-related financing decisions.

A similar conclusion emerges from recent research on environmental disclosure and corporate governance in Islamic banks. Evidence from Saudi Arabian Islamic banks indicates that sustainability committees, board environmental expertise and Shariah Supervisory Boards can strengthen environmental disclosure and sustainability-related decision making. The study also finds that environmental disclosure is associated with stronger financial performance, while specialised governance structures help integrate Shariah considerations with ESG-related responsibilities. These findings reinforce the argument that governance quality depends on the competencies, responsibilities and actual influence of governance bodies rather than their formal existence alone.

At the same time, the recent literature cautions against assuming that governance structures automatically generate substantive sustainability outcomes. A sustainability committee may exist without materially influencing credit approval, portfolio allocation, executive incentives or environmental-risk assessment. Likewise, a Shariah Supervisory Board may effectively oversee contractual compliance while having only limited involvement in broader environmental and social considerations. Kashi et al. (2024) provide particularly relevant evidence in this respect, showing that some formal institutional pressures do not independently explain sustainability performance. This distinction points to a potential gap between governance form and governance effectiveness.

Value-Based Intermediation in Transition

Value-Based Intermediation (VBI) represents a significant development in the evolution of Malaysian Islamic banking because it expands the assessment of Islamic financial activities beyond formal Shariah compliance towards the creation of measurable economic, social and environmental value. Introduced by Bank Negara Malaysia, VBI is intended to strengthen the role of Islamic financial institutions by encouraging practices, conduct and financial offerings

that generate positive and sustainable outcomes for the economy, community and environment. Rastam Shahrom and Kunhibava (2023) emphasise that this orientation reflects an attempt to translate the intended outcomes of Shariah into actual banking practices rather than confining Islamic finance to compliance with contractual requirements. The importance of VBI therefore lies not merely in the introduction of an additional policy framework, but in the change it brings to the way Islamic financial intermediation is evaluated. Under a conventional compliance-oriented approach, attention is typically directed towards whether a financial transaction satisfies applicable regulatory, risk-management and Shariah requirements. VBI extends this assessment by asking whether the financing or investment activity contributes positively to stakeholders and whether its broader consequences are consistent with the objectives of Maqasid Shariah. In this respect, VBI shifts the analytical focus from the legal form of financial transactions towards the economic, social and environmental consequences generated by financial intermediation.

Recent studies support this interpretation while also demonstrating that the transition remains incomplete. Abdul Kadir et al. (2024), examining the acceptance of VBI among Malaysian Islamic banks, find that adoption is not uniform across institutions. Some Islamic banks explicitly support BNM's VBI initiative, whereas others perceive themselves as having already implemented comparable value-oriented practices before its formal introduction. The study therefore suggests that the effectiveness of VBI depends not only on regulatory encouragement but also on institutional acceptance, organisational interpretation and the capacity to integrate VBI principles into existing banking practices.

Evidence at the individual-bank level further demonstrates that VBI implementation should be understood as an organisational transformation rather than a one-off compliance exercise. Shafruddin and Shahimi's study of Bank Islam Malaysia Berhad examines how VBI strategies are incorporated into the bank's operations and identifies practical challenges associated with implementation. Their findings show that VBI can become embedded in organisational strategy, but its effectiveness depends on how consistently the underpinning principles are incorporated into banking practices and decision-making processes. Similarly, Mahyudin and Ab Rahman (2024) demonstrate that VBI principles can be translated into specific social-finance activities through the application of waqf at Bank Muamalat Malaysia Berhad, illustrating how value-based objectives can move from regulatory aspirations into concrete institutional initiatives. The operational dimension of VBI is further strengthened through the Value-Based Intermediation Financing and Investment Impact Assessment Framework (VBIAF). VBIAF was developed to assist Islamic financial institutions in translating VBI principles into financing and investment practices by incorporating impact-based considerations into risk assessment. Rastam Shahrom and Kunhibava (2023) explain that the framework was introduced specifically to support the implementation of VBI within actual banking activities and to broaden the assessment of financing beyond traditional financial-risk considerations. In this sense, VBIAF provides the operational mechanism through which broader environmental, social and governance implications can be incorporated into financing and investment decisions.

The distinction between VBI and VBIAF is therefore analytically important. VBI establishes the strategic orientation towards value creation and sustainable impact, whereas VBIAF provides a more structured mechanism for assessing the consequences associated with financing and investment activities. This relationship can be understood as a progression from ethical purpose to institutional strategy and subsequently to operational assessment. The

effectiveness of the process ultimately depends on whether impact considerations influence actual decisions relating to credit approval, sectoral exposure, product design, risk pricing, portfolio allocation and stakeholder engagement.

Green Finance and the Environmental Dimension

Green finance provides another mechanism through which the ethical aspirations of Islamic finance can be translated into tangible economic activities. Malaysia has played a particularly important role in developing green sukuk and integrating sustainable-finance principles into the Islamic capital market. At the banking level, Ali et al. (2020) demonstrate that the environmental behaviour of Islamic bankers can contribute to the development of green banking in Malaysia. Their findings are significant because they move the sustainability debate beyond formal regulation and emphasise internal organisational behaviour. Green banking therefore depends not only on regulatory pressure but also on institutional culture, awareness and employee commitment. Kunhibava et al. (2018) argue for a more proactive role for Malaysian Islamic banks, including greener banking operations and more substantial incorporation of sustainable-financing principles. Their argument suggests that the ethical foundations of Islamic banking do not automatically generate environmentally sustainable practices. Institutional commitment and operational changes remain necessary. More recent evidence confirms that this implementation challenge remains relevant. Muhammad Zuki et al. (2026), examining green banking and sustainability disclosures among six Malaysian Islamic commercial and development banks, find that the sector has made visible progress in climate-risk management, sustainability-framework compliance, environmental-footprint reduction and green-financing activities. However, the level of implementation remains uneven across institutions. Their Green Banking and Sustainability Index scores ranged from 40.3 to 66.7, indicating moderate rather than fully institutionalised adoption. Significant gaps were identified in areas such as renewable-energy deployment, green procurement, verified performance indicators and standardised sustainability reporting.

This recent evidence reinforces an important distinction between the availability of green-finance initiatives and their depth of implementation. Malaysian Islamic banks increasingly offer products such as electric-vehicle financing, solar financing, environmentally oriented home financing and sustainability-linked facilities, yet the scale and diversity of these products vary considerably across institutions. Muhammad Zuki et al. (2026) further report that only a limited number of the Islamic banks examined were directly involved in green or sustainability sukuk activities. This suggests that Malaysia's strong institutional position in Islamic and sustainable finance does not necessarily imply uniform bank-level integration of green-finance practices. At the capital-market level, green sukuk has become one of the most visible mechanisms connecting Islamic finance with environmental sustainability. Liu and Lai (2021) identify Malaysia as an important setting in the emergence of green sukuk and show how the instrument developed through the interaction of Malaysia's Islamic-finance expertise, international green-bond practices and supportive regulatory arrangements. Their analysis nevertheless cautions that the expansion of green sukuk does not automatically resolve broader concerns surrounding the environmental credibility of green finance.

More recent empirical evidence indicates that green sukuk may also generate financial-market benefits. Riaz et al. (2024), using an event-study methodology, find that corporate green sukuk announcements are associated with positive and statistically significant stock-market responses. Their findings suggest that investors perceive green sukuk issuance favourably, indicating that environmental financing instruments can potentially generate both sustainability-related and

market-value benefits. This finding is relevant because it demonstrates that green Islamic finance need not be interpreted exclusively as a regulatory or ethical obligation; it may also create economic incentives for firms and investors. The role of green sukuk in Malaysia continues to develop. Recent research comparing green sukuk with conventional green bonds finds that the two instruments exhibit distinctive performance characteristics within Malaysia's green-finance market, indicating that green sukuk has developed into a meaningful component of the country's sustainable-finance ecosystem rather than merely replicating conventional green bonds. At the same time, case-based research on Malaysian green-sukuk issuance continues to identify practical challenges relating to issuer capability, project experience and market attractiveness, suggesting that continued institutional and regulatory support remains necessary for deeper market development.

Recent comparative evidence also strengthens the connection between green banking and Maqasid Shariah. Salsabila and Fitriyah (2026), analysing Islamic banks in Malaysia and Indonesia using a Maqasid Shariah framework, demonstrate increasing interest in evaluating green-banking performance through Islamic ethical objectives rather than relying solely on conventional environmental indicators. This development is important because it brings the sustainability debate closer to the distinctive normative foundations of Islamic finance while still requiring evidence of actual environmental performance.

Discussion

The synthesis of the literature yields several important implications for understanding the development of sustainable Islamic finance in Malaysia. First, the Malaysian experience demonstrates the importance of institutional architecture in translating broad sustainability principles into financial-sector practices. Frameworks such as VBI, VBIAF, sustainable-finance taxonomies, Shariah governance arrangements and green-sukuk guidelines provide formal channels through which environmental, social and ethical considerations can be incorporated into financing and investment decisions. Malaysia therefore illustrates how regulatory and institutional mechanisms can support the gradual integration of sustainability within Islamic financial intermediation.

However, the existence of a comprehensive regulatory framework should not be interpreted as evidence that substantive sustainability has already been achieved. The literature indicates that the implementation of impact-based assessment, climate-risk management and sustainability-oriented financing remains uneven across Islamic financial institutions. Likewise, the growth of innovative instruments such as green sukuk does not completely eliminate concerns relating to environmental integrity, transparency and potential greenwashing. This suggests that institutional development is an important enabling condition, but its effectiveness ultimately depends on the quality and consistency of implementation. A further implication concerns the growing importance of measurement and accountability. The conceptual compatibility between Islamic finance and sustainability is now relatively well established in the literature. The more pressing issue is whether Islamic financial institutions are able to translate these principles into observable changes in financing behaviour and measurable sustainability outcomes. Consequently, future research should move beyond normative discussions and place greater emphasis on the extent to which sustainability frameworks influence actual resource allocation, risk assessment and institutional performance.

Conclusion

This article examined the institutionalisation of sustainability within Malaysia's Islamic financial system by bringing together four interrelated dimensions: Shariah and ethical foundations, governance and accountability, Value-Based Intermediation (VBI), and green and sustainable finance. Taken together, these dimensions demonstrate that sustainability in Islamic finance is shaped not by a single policy or principle, but by the interaction between ethical foundations, institutional structures, regulatory mechanisms and financial practices.

Recent empirical evidence reinforces the importance of this institutional perspective. Kashi et al. (2024), based on Islamic banks across nine major Islamic-finance jurisdictions, show that sustainability committees and accumulated sustainability-disclosure experience are positively associated with sustainability performance, whereas regulatory and normative pressures alone do not necessarily generate stronger outcomes. This finding supports the argument that formal institutional structures are important, but their effectiveness depends on how deeply sustainability principles are embedded within governance and organisational practices. Shariah principles provide the normative basis for responsible financial behaviour, but ethical compatibility alone cannot establish that sustainability has been achieved. Governance mechanisms, VBI and impact-assessment frameworks provide institutional pathways through which broader sustainability objectives may influence financing and investment decisions, while green-finance instruments create channels for allocating capital towards environmentally and socially beneficial activities. The effectiveness of these mechanisms should ultimately be assessed through observable outcomes rather than through their formal existence.

This interpretation is supported by more recent evidence on climate governance. Issa et al. (2025) find that sustainability committees, sustainability reporting and stronger Shariah governance quality are positively associated with financed-emission mitigation among Islamic banks in Southeast and West Asia. Their findings are particularly relevant because financed emissions arise from lending and investment portfolios, illustrating how governance mechanisms can influence the environmental consequences of banks' capital-allocation decisions. This strengthens the argument that the sustainability contribution of Islamic finance depends on whether governance and Shariah-based values materially influence institutional behaviour.

Malaysia's experience should therefore be interpreted as an evolving institutional transition rather than as evidence that the sustainability challenges of Islamic finance have already been resolved. The country has developed an extensive sustainable-finance architecture encompassing Shariah governance, VBI, VBIAF, climate-risk assessment, sustainable-finance taxonomies and green-finance instruments. Rastam Shahrom and Kunhibava (2023) nevertheless show that implementation among selected Malaysian Islamic banks remains uneven, reinforcing the distinction between regulatory development and institutional transformation. The significance of Malaysia lies therefore not simply in the breadth of its regulatory framework, but in its continuing effort to convert Islamic ethical objectives into operational financial practices.

References

- Abdul Kadir, A. H., Syed Alwi, S. F., Abd Halim, F., Mat Nor, N., & Saiful Fikri, A. A. H. (2024). Realisation of Maqasid al-Shariah using value-based intermediation in Islamic banks: Acceptance or refusal. *Management & Accounting Review*, 23(1), 39–56. <https://doi.org/10.24191/MAR.V23i01-02>
- Ali, Q., Parveen, S., Senin, A. A., & Zaini, M. Z. (2020). Islamic bankers' green behaviour for the growth of green banking in Malaysia. *International Journal of Environment and Sustainable Development*, 19(4), 393 <https://doi.org/10.1504/IJESD.2020.110650>
- Alwi, S. F. S., Abd Halim, F., Tengku Ahmad Mazlin, T. D. A., Abdul Kadir, A. H., Hassan, R., & Saiful Fikri, A. A. H. (2021). Examining Maqasid al-Shariah in Islamic banks: Before and after value-based intermediation implementation. *International Journal of Academic Research in Business and Social Sciences*, 11(9), 964–974. <https://doi.org/10.6007/IJARBS/v11-i9/10822>
- Bank Negara Malaysia. (2017). *Strategy paper on value-based intermediation: Strengthening the roles and impact of Islamic finance*.
- Bank Negara Malaysia. (2018). *Implementation guide for value-based intermediation*.
- Bank Negara Malaysia. (2019). *Value-based intermediation financing and investment impact assessment framework: Guidance document*.
- Harahap, B., Risfandy, T., & Futri, I. N. (2023). Islamic law, Islamic finance, and Sustainable Development Goals: A systematic literature review. *Sustainability*, 15(8), 6626. <https://doi.org/10.3390/su15086626>
- Issa, S. O., Alabi, A. T., & Ubandawaki, A. T. (2025). Climate change governance, Shariah governance quality, and financed emission mitigation: Evidence from Islamic banks in Southeast and West Asia. *Borsa Istanbul Review*, 25(4), 722–732. <https://doi.org/10.1016/j.bir.2025.03.011>
- Jan, A., Mata, M. N., Albinsson, P. A., Martins, J. M., Hassan, R. B., & Mata, P. N. (2021). Alignment of Islamic banking sustainability indicators with Sustainable Development Goals: Policy recommendations for addressing the COVID-19 pandemic. *Sustainability*, 13(5), 2607. <https://doi.org/10.3390/su13052607>
- Kashi, A., Laallam, A., Nomran, N. M., Abumughli, A. A., & Al-Binali, T. (2024). Do institutional environment and corporate governance structures determine Islamic banks' sustainability performance? Evidence across key jurisdictions in Islamic finance industry. *Borsa Istanbul Review*, 24(6), 1088–1100. <https://doi.org/10.1016/j.bir.2024.06.005>
- Kunhibava, S., Ling, S. T. Y., & Ruslan, M. K. (2018). Sustainable financing and enhancing the role of Islamic banks in Malaysia. *Arab Law Quarterly*, 32(2), 129–157. <https://doi.org/10.1163/15730255-12322023>
- Laldin, M. A., & Furqani, H. (2018). Value-based intermediation: An alternative approach to financial intermediation. *ISRA International Journal of Islamic Finance*, 10(2), 158–164.
- Liu, F. H. M., & Lai, K. P. Y. (2021). Ecologies of green finance: Green sukuk and development of green Islamic finance in Malaysia. *Environment and Planning A: Economy and Space*, 53(8), 1896–1914. <https://doi.org/10.1177/0308518X211038349>
- Mahyudin, W. A., & Ab Rahman, A. (2024). The application of value-based intermediation through waqf in Islamic banking: A case study of Bank Muamalat Malaysia Berhad. *The Journal of Muamalat and Islamic Finance Research*, 21(1), 174–184. <https://doi.org/10.33102/jmifr.532>
- Mahyudin, W. A., & Rosman, R. (2020). Value-based intermediation and realisation of Maqasid al-Shariah: Issues and challenges for Islamic banks in Malaysia. *Advanced International Journal of Banking, Accounting and Finance*, 2(5), 34–44. <https://doi.org/10.35631/AIJBAF.25003>

- Muhammad Zuki, M. F., Ishak, M. A. F., & Hassan, M. H. (2026). Green banking and sustainability disclosures in the Islamic banking sector: Evidence from Malaysia. *Organizations and Markets in Emerging Economies*, 17(1), 95–116. <https://doi.org/10.15388/omee.2026.17.5>
- Nicholson, J. M., Mordaunt, M., Lopez, P., Uppala, A., Rosati, D., Rodrigues, N. P., Grabitz, P., & Rife, S. C. (2021). Scite: A smart citation index that displays the context of citations and classifies their intent using deep learning. *Quantitative Science Studies*, 2(3), 882–898. https://doi.org/10.1162/qss_a_00146
- Paul, J., Khatri, P., & Kaur Duggal, H. (2024). Frameworks for developing impactful systematic literature reviews and theory building: What, why and how? *Journal of Decision Systems*, 33(4), 537–550. <https://doi.org/10.1080/12460125.2023.2197700>
- Rastam Shahrom, Z., & Kunhibava, S. (2023). Sustainable finance: A study on Malaysia's regulatory framework on sustainable banking and its implementation by selected Islamic banks in Malaysia in support of Sustainable Development Goals. *The Journal of Muamalat and Islamic Finance Research*, 20(2), 152–178. <https://doi.org/10.33102/jmifr.520>
- Riaz, T., Selamat, A. I., Nor, N. M., & Hassan, A. F. S. (2024). Do investors get benefits from corporate green sukuk issuance. *Journal of Islamic Monetary Economics and Finance*, 10(3), 445–470. <https://doi.org/10.21098/jimf.v10i3.1944>
- Salsabila, F. F., & Fitriyah, F. (2026). Green banking performance in Indonesian and Malaysian Islamic banks: A Maqasid Shariah framework. *JPS (Jurnal Perbankan Syariah)*, 7(1), 65–88. <https://doi.org/10.46367/jps.v7i1.2929>
- Schreiber, F., & Cramer, C. (2024). Towards a conceptual systematic review: Proposing a methodological framework. *Educational Review*, 76(6), 1458–1479. <https://doi.org/10.1080/00131911.2022.2116561>
- Securities Commission Malaysia. (2014). *Sustainable and Responsible Investment Sukuk Framework*.
- Securities Commission Malaysia. (2019). *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market*.
- Securities Commission Malaysia. (2022a). *Principles-based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market*.
- Securities Commission Malaysia. (2022b). *Sustainable and Responsible Investment-Linked Sukuk Framework*.
- Shafruddin, A. S., & Shahimi, S. (2024). Strategy and challenges of value-based intermediation implementation: The case of BIMB. *Qualitative Research in Financial Markets*, 17(1), 153–168. <https://doi.org/10.1108/QRFM-04-2023-0101>
- Snyder, H. (2024). Designing the literature review for a strong contribution. *Journal of Decision Systems*, 33(4), 551–558. <https://doi.org/10.1080/12460125.2023.2197704>
- World Bank. (2019). *Islamic green finance: Development, ecosystem and prospects*. World Bank Group.
- Zafar, M. B. (2026). Talk or action? Unveiling the nature and depth of climate disclosures in Islamic banks using machine learning. *Borsa Istanbul Review*, 26(2), Article 100789. <https://doi.org/10.1016/j.bir.2026.100789>