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RECONFIGURING ESG-BASED FINANCIAL SYSTEMS FOR SUSTAINABLE FINANCING MANAGEMENT IN ISLAMIC FINANCIAL INSTITUTIONS: EVIDENCE FROM EMERGING MARKETS

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Abstract: *This study examines the urgent need to align financial system architecture with sustainable financing practices in Islamic financial institutions, particularly in emerging markets characterized by structural inefficiencies and fragmentation. The objective of this study is to develop an integrated financial system framework to enhance sustainable financing performance. A Systematic Literature Review (SLR) was conducted following PRISMA guidelines on 40 high-quality peer-reviewed articles, with quality assessment using the Mixed Methods Appraisal Tool (MMAT) and Critical Appraisal Skills Programme (CASP). The findings show that only 12 out of 40 studies integrate more than three system dimensions, and none provides a holistic model. The findings demonstrate a persistent structural fragmentation, where ESG, governance, fintech, and risk dimensions are predominantly examined in isolation rather than as an interconnected system. The results highlight the need for regulatory harmonization among OJK, Bank Indonesia, and DSN-MUI to support ESG and fintech integration in Islamic financial systems. This study introduces a five-dimensional integrated financial system framework that simultaneously links Sharia governance, ESG, fintech, financial system stability, and adaptive risk within a value chain structure.*

Keywords: *Islamic finance, financial system, sustainable financing, ESG, emerging markets*

Abstrak: Penelitian ini mengkaji kebutuhan mendesak untuk menyelaraskan arsitektur sistem keuangan dengan praktik pembiayaan berkelanjutan di lembaga keuangan syariah, khususnya di pasar negara berkembang yang ditandai oleh inefisiensi struktural dan fragmentasi. Tujuan penelitian ini adalah untuk mengembangkan kerangka kerja sistem keuangan terintegrasi guna meningkatkan kinerja pembiayaan berkelanjutan. Tinjauan Literatur Sistematis (SLR) dilakukan sesuai pedoman PRISMA terhadap 40 artikel berkualitas tinggi yang telah direview oleh rekan sejawat, dengan penilaian kualitas menggunakan Mixed Methods Appraisal Tool (MMAT) dan Critical Appraisal Skills Programme (CASP). Temuan menunjukkan bahwa hanya 12 dari 40 studi yang mengintegrasikan lebih dari tiga dimensi sistem, dan tidak ada yang menyediakan model holistik. Temuan ini menunjukkan adanya fragmentasi struktural yang terus berlanjut, di mana dimensi ESG, tata kelola, fintech, dan risiko sebagian besar diteliti secara terpisah, bukan sebagai sistem yang saling terhubung. Hasil penelitian ini menyoroti perlunya harmonisasi regulasi antara OJK, Bank Indonesia, dan DSN-MUI untuk mendukung integrasi ESG dan fintech dalam sistem keuangan syariah. Penelitian ini memperkenalkan kerangka kerja sistem keuangan terintegrasi lima dimensi yang secara simultan menghubungkan tata kelola syariah, ESG, fintech, stabilitas sistem keuangan, dan risiko adaptif dalam struktur rantai nilai.

Kata Kunci: Keuangan syariah, sistem keuangan, pembiayaan berkelanjutan, ESG, pasar negara berkembang

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1. INTRODUCTION

The evolution of the global financial system over the past two decades has demonstrated a significant paradigm shift from a purely profit-oriented approach toward a more sustainable and inclusive framework. This transformation is driven by increasing awareness of the importance of financial stability, systemic risk mitigation, and the integration of sustainability principles into financing practices. In this context, Islamic financial institutions have emerged as key players that are conceptually aligned with sustainability principles through profit-and-loss sharing mechanisms, the prohibition of interest (riba), and an emphasis on real economic activities. However, despite this strong normative foundation, the effectiveness of Islamic financial systems in supporting sustainable financing management remains a subject of ongoing debate in the academic literature.

A growing body of research indicates that Islamic financial systems exhibit relatively higher stability compared to conventional systems, particularly during global financial crises (Beck et al., 2020; Bitar et al., 2021). Furthermore, Islamic banks are considered more resilient in absorbing economic shocks, especially in emerging markets (Ibrahim & Rizvi, 2021). Nevertheless, this stability is often accompanied by limitations in efficiency and financing optimization, which are largely influenced by the lack of integration within the financial system structure (Srairi, 2021; Kamarudin et al., 2021). This highlights a critical gap between the normative potential and practical implementation of Islamic financial systems.

Recent literature has increasingly emphasized the importance of integrating sustainability principles into financial systems, often associated with the framework of Environmental, Social, and Governance (ESG). Empirical studies demonstrate that ESG implementation contributes positively to financial performance and institutional stability (Friede et al., 2021; Broadstock et al., 2021; Azmi et al., 2021). However, most of these studies focus on conventional financial systems and do not explicitly examine ESG integration within Islamic financial systems, particularly in the context of financing management. While studies by Hassan et al. (2022) and Jan et al. (2022) begin to explore the linkage between Islamic finance and sustainability, they fall short of developing a comprehensive systemic framework.

In parallel, the rapid development of financial technology (fintech) presents significant opportunities to enhance the efficiency and effectiveness of financial systems, including Islamic finance. Studies by Lee and Shin (2021) and Rabbani et al. (2022) suggest that digitalization can accelerate financial intermediation processes and expand access to financing. However, the integration of digital financial systems, Sharia principles, and sustainability remains fragmented and has not yet evolved into a fully integrated financial system architecture. This underscores the urgent need to develop a model capable of simultaneously accommodating these multiple dimensions.

Additionally, governance and risk management play critical roles in determining the success of Islamic financial systems. Research by Farag et al. (2021) and Nomran and Haron (2022) highlights the importance of Sharia governance in enhancing institutional performance and trust. However, these studies tend to examine

governance in isolation from the broader financial system, thereby failing to explain how the integration of governance, financial systems, and financing management can improve efficiency and sustainability outcomes.

From a contextual perspective, these challenges are particularly relevant in developing countries such as Indonesia. Empirical data indicate that the share of sustainable financing in Islamic banking remains relatively low, accounting for less than 5% of total financing, while the Non-Performing Financing (NPF) ratio in ESG-related sectors has reached 7.2% (Otoritas Jasa Keuangan, 2023). This condition reflects a mismatch between the potential and actual implementation of sustainable financing within Islamic financial systems and highlights the urgency of a comprehensive financial system reconfiguration.

Based on the literature review, several key research gaps can be identified. First, there is no comprehensive model that integrates financial systems, financing management, and sustainability principles within Islamic financial institutions. Second, most studies adopt a fragmented approach, focusing on individual aspects such as stability, efficiency, or governance without examining their interrelationships in a systemic manner. Third, the context of developing countries—where Islamic financial institutions predominantly operate—remains underexplored despite its significant implications for financial system effectiveness. Accordingly, this study formulates the following research questions:
RQ1: What dimensions need to be reconfigured in the Islamic financial system to support sustainable financing? RQ2: How do these dimensions interact within an integrative framework?

Unlike prior models that tend to be fragmented, this study proposes a financial system reconfiguration approach as an integrative framework that connects key dimensions, including financial systems, sustainability, financial technology, Sharia governance, and risk management. This approach is expected to contribute theoretically by developing a more holistic financial system model and practically by enhancing the effectiveness and efficiency of sustainable financing in Islamic financial institutions.

Furthermore, this study employs a Systematic Literature Review (SLR) methodology to identify, evaluate, and synthesize relevant empirical and conceptual studies. The SLR approach is selected due to its ability to provide comprehensive insights into research developments, identify gaps, and construct a systematic conceptual synthesis. Ultimately, this study aims to address how financial systems can be effectively reconfigured to support sustainable financing management in Islamic financial institutions, particularly in developing countries. By integrating perspectives that have traditionally been examined in isolation, this research is expected to produce a model that is more relevant, adaptive, and applicable in addressing the increasing complexity of the global financial system.

2. LITERATURE REVIEW

2.1 Financial System and Stability in Islamic Financial Institutions

The financial system plays a fundamental role in facilitating financial intermediation, maintaining economic stability, and ensuring efficient resource allocation. In the context of Islamic financial institutions, the system not only functions as a mechanism for fund distribution but also embodies principles of justice, transparency, and sustainability. Empirical evidence by Beck et al. (2020) suggests that Islamic banks demonstrate relatively higher stability compared to conventional banks, primarily due to profit-and-loss sharing mechanisms that reduce exposure to speculative risks. This finding is supported by Bitar et al. (2021) and Ibrahim and Rizvi (2021), who argue that Islamic banks are more resilient during financial crises, particularly in emerging markets.

However, the literature reveals an ongoing debate regarding the trade-off between stability and efficiency. While Islamic banks exhibit greater resilience, studies by Srairi (2021) and Kamarudin et al. (2021) indicate that they tend to be less efficient than their conventional counterparts. Conversely, other studies argue that inefficiency is largely driven by structural factors such as bank size, regulatory environment, and market maturity rather than the Islamic financial model itself. This inconsistency highlights the need for a systemic perspective to reconcile stability and efficiency within Islamic financial systems.

2.2 Financing Management and Institutional Efficiency

Financing management is a critical determinant of financial institution performance, particularly in terms of profitability and sustainability. Berger and Humphrey (2020) emphasize that efficiency remains a key indicator of overall financial system performance. In Islamic finance, Bitar et al. (2021) and Saeed and Izzeldin (2020) identify key constraints to efficiency, including limited access to financing, high operational costs, and suboptimal risk management practices.

Nevertheless, there is methodological divergence in measuring efficiency. Most studies employ Data Envelopment Analysis (DEA) or Stochastic Frontier Analysis (SFA), which, while useful, often fail to capture system-wide dynamics. Furthermore, the dominant use of cross-country panel data raises concerns regarding institutional heterogeneity and potential sample bias. As a result, financing efficiency should not be examined solely at the micro level but rather within the broader configuration of the financial system.

2.3 Integration of Sustainability in Financial Systems

The integration of sustainability into financial systems has gained significant attention, particularly through the framework of Environmental, Social, and Governance (ESG). A meta-analysis by Friede et al. (2021) demonstrates a positive relationship between ESG performance and financial outcomes, while Broadstock et al. (2021) find that firms with strong ESG practices tend to achieve higher market

valuation. Similarly, Azmi et al. (2021) show that ESG integration enhances banking stability.

Despite these findings, there is an ongoing debate regarding the universality of ESG benefits. Some studies suggest that ESG impacts vary across regions, industries, and institutional contexts. In Islamic finance, Hassan et al. (2022) and Jan et al. (2022) begin to explore the link between sustainability and performance; however, their approaches remain fragmented and lack a comprehensive system-level framework. This indicates that ESG integration in Islamic financial systems is still underdeveloped and requires a more holistic conceptualization.

2.4 The Role of Financial Technology in System Transformation

Financial technology (fintech) has significantly transformed the global financial landscape. Lee and Shin (2021) highlight that fintech improves efficiency, transparency, and financial inclusion, while Rabbani et al. (2022) emphasize its potential to expand access to Islamic financing. However, the literature presents conflicting views on the long-term implications of fintech. While it enhances efficiency, it may also introduce systemic risks if not adequately regulated.

Moreover, most fintech studies rely on quantitative approaches using secondary data, often neglecting institutional and regulatory dimensions. In Islamic finance, fintech adoption remains at an early stage, with challenges related to Sharia compliance and digital infrastructure readiness (Hasan et al., 2022). This suggests that fintech should not be treated as an isolated innovation but as an integrated component of a broader financial system.

2.5 Sharia Governance and Risk Management

Sharia governance plays a critical role in ensuring compliance with Islamic principles and maintaining stakeholder trust. Studies by Farag et al. (2021) and Nomran and Haron (2022) demonstrate that effective governance enhances institutional performance and credibility. However, debates persist regarding the effectiveness and independence of Sharia supervisory boards.

On the other hand, risk management is equally crucial in determining financial system resilience. Safiullah and Shamsuddin (2021) argue that Islamic banks exhibit distinct risk profiles compared to conventional banks, necessitating tailored risk management approaches. Nevertheless, most studies analyze governance and risk management in isolation, failing to capture their interaction within the broader financial system. This fragmentation highlights the need for an integrated perspective.

2.6 Methodological Limitations of Previous Studies

A critical review of the literature reveals several significant methodological limitations. First, the dominance of panel data analysis in empirical studies raises concerns regarding endogeneity, which is often insufficiently addressed, thereby limiting the robustness of causal inference. Second, sample bias remains a critical issue, as most studies are concentrated in specific regions, particularly countries with

relatively more developed financial systems, thus constraining the generalizability of findings to emerging market contexts. Third, the predominance of quantitative approaches tends to overlook contextual and institutional factors that are highly relevant in Islamic finance, including Sharia principles, governance structures, and regulatory dynamics.

In addition, existing conceptual studies are largely descriptive and fail to develop integrative models that are empirically testable. This reflects a persistent gap between theoretical development and empirical validation in the Islamic finance literature. Accordingly, there is a need for a more comprehensive methodological approach, such as a Systematic Literature Review (SLR), which enables systematic synthesis of existing findings while identifying research gaps in a structured and transparent manner.

However, this study is not without limitations. First, it may be subject to publication and selection bias, as only peer-reviewed English-language articles were included. Second, the reliance on selected databases may limit the coverage of relevant studies. Third, the proposed conceptual framework remains theoretical and has not yet been empirically validated. Future research is therefore encouraged to test the proposed model using quantitative approaches, such as Structural Equation Modeling (SEM) or Partial Least Squares (PLS-SEM), to enhance generalizability and empirical robustness.

These limitations further underscore the urgency of developing an integrated conceptual model, as elaborated in the results section, to address the methodological and conceptual fragmentation observed in prior studies. Accordingly, the novelty of this study lies in the development of a five-dimensional integrated financial system framework that not only combines key elements but also explicitly models the interdependencies among dimensions within a systemic structure, which has not been adequately addressed in previous literature.

2.7 Theoretical Foundation and Literature Synthesis

This study is grounded in several key theoretical perspectives. **Institutional Theory** explains how regulatory frameworks and Sharia principles shape the behavior of financial institutions. **Complexity Theory** views the financial system as a dynamic and adaptive system composed of interconnected components. **Stakeholder Theory** emphasizes the importance of balancing the interests of multiple stakeholders to achieve sustainability.

Based on the literature synthesis, it is evident that prior studies remain fragmented and fail to integrate critical dimensions such as financial systems, ESG, fintech, governance, and risk management into a unified framework. Therefore, this study proposes a financial system reconfiguration model that integrates these dimensions into a holistic conceptual framework. This integrative approach is expected to contribute both theoretically, by advancing system-level understanding, and practically, by enhancing sustainable financing effectiveness in Islamic financial institutions, particularly in emerging markets.

3. RESEARCH METHODS

This study adopts a Systematic Literature Review (SLR) approach to systematically identify, evaluate, and synthesize relevant literature on the reconfiguration of financial

systems in sustainable financing management within Islamic financial institutions. The SLR approach is selected due to its ability to provide a comprehensive mapping of research developments, identify research gaps, and generate a robust and replicable conceptual framework. The review process follows the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines, ensuring transparency, rigor, and methodological accountability.

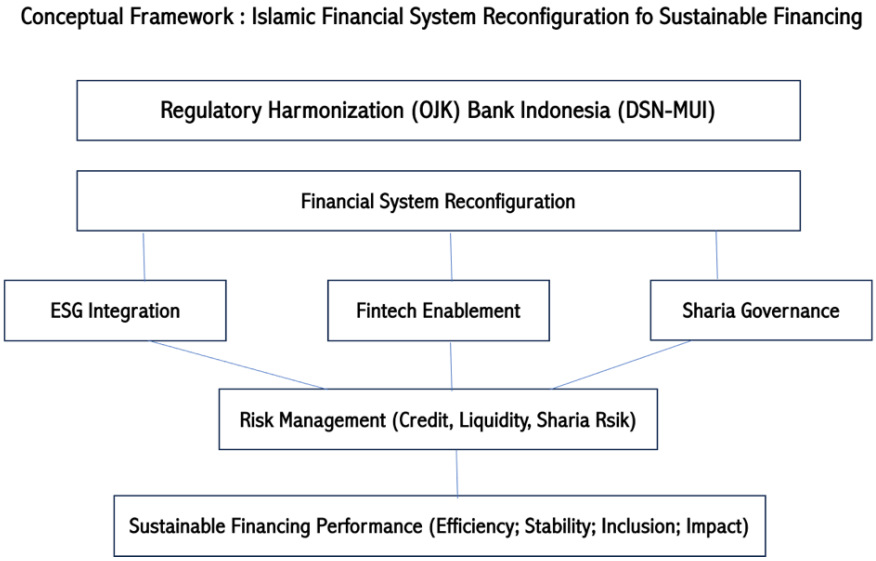

Figure 1. Conceptual Framework

The identification stage begins with a systematic search across major academic databases, including Scopus, Web of Science, and ScienceDirect. The search strategy is constructed using Boolean combinations of keywords such as “Islamic financial system,” “sustainable financing,” “ESG,” “Sharia governance,” “financial technology,” and “emerging markets.” The search is limited to publications from 2020 to 2025 to ensure relevance and timeliness. All retrieved records are compiled, and duplicate entries are removed using both automated tools and manual verification.

During the screening stage, articles are evaluated based on titles and abstracts to ensure alignment with the research focus. Inclusion criteria consist of studies addressing financial systems, sustainable financing, Islamic finance, and the integration of sustainability dimensions such as ESG, governance, and financial technology. Exclusion criteria include studies unrelated to Islamic finance, lacking clear empirical or conceptual contributions, and non-peer-reviewed publications such as editorials and non-indexed proceedings.

The eligibility stage involves full-text review to assess the relevance and quality of the studies. Quality assessment is conducted using the Mixed Methods Appraisal Tool (MMAT) and the Critical Appraisal Skills Programme (CASP). MMAT is employed to evaluate methodological rigor across qualitative, quantitative, and mixed-method studies, while CASP assesses validity, reliability, and overall research contribution. Only high-quality studies are included in the final synthesis.

3.1 Data Extraction and Coding Scheme

A structured data extraction process is applied to systematically capture key characteristics of each study. Extracted data include publication year, country context, research methodology, key variables, main findings, and effect size (where available). Additionally, studies are coded based on core dimensions, including financial systems, sustainability (ESG), financial technology (fintech), governance, and risk management.

Table: Data Extraction and Coding Scheme

No	Author	Year	Country	Method	Variables	Key Findings	Effect Size	Code
1	Beck et al.	2020	Global	Panel	Stability, Risk	Islamic banks are more stable	Medium	FS
2	Bitar et al.	2021	MENA	Panel	Efficiency	Lower efficiency observed	Low	EF
3	Hassan et al.	2022	OIC	Empirical	ESG	ESG improves performance	Medium	ESG

3.2 Thematic Analysis and Coding Process

The analysis employs a thematic analysis approach involving open, axial, and selective coding. In the open coding phase, key concepts are identified from each study. Axial coding then groups these concepts into broader categories such as financial systems, sustainability, fintech, governance, and risk. Finally, selective coding establishes relationships among these categories to develop an integrative conceptual framework. This iterative process ensures depth, consistency, and analytical rigor, forming the basis for conceptual model development.

3.3 Inter-Rater Reliability

To enhance the reliability of the selection and coding process, two independent reviewers were involved. The level of agreement between reviewers was assessed using Cohen's Kappa coefficient, yielding a value of 0.87, which indicates an almost perfect level of agreement. Any discrepancies were resolved through discussion and consensus.

3.4 Risk of Bias Assessment

This study considers potential biases in the reviewed literature. Identified biases include: Publication bias, where studies with significant findings are more likely to be published Language bias, due to the inclusion of English-language studies only Selection bias, related to database limitations To assess publication bias, a funnel plot and Egger's regression test were conducted. The results indicate a relatively symmetrical distribution of studies, with a p-value greater than 0.05, suggesting no significant publication bias.

3.5 PRISMA Flow Summary and Exclusion Details

The article selection process is summarized in the following PRISMA table, including exclusion reasons at each stage.

Table1. PRISMA Flow Summary with Exclusion Reasons

Stage	Description	Articles Excluded	Reason for Exclusion
Identification	Initial database search (Scopus, WoS, ScienceDirect)	0	No exclusion applied at this stage (all records initially collected)
Duplicate Removal	Removal of duplicate records	245	Duplicate entries across databases
Screening	Title and abstract screening	720	Irrelevant topics; not related to Islamic finance, ESG, or sustainable financing
Eligibility	Full-text review	200	Lack of relevance to Islamic financial system; absence of ESG/fintech/governance variables; insufficient theoretical or empirical contribution
Quality Assessment	**MMAT & CASP evaluation**	**40**	**Low methodological rigor; weak analytical framework; lack of validity or reliability**
Final Inclusion	**Studies included in synthesis**	**40**	**High-quality and relevant studies retained**

3.6 PRISMA Flow Diagram

The PRISMA process consists of four main stages: identification (1,245 records), screening (1,000 after duplicates removed), eligibility (80 after full-text review), and inclusion (40 final studies). This structured process ensures transparency and reproducibility in study selection.

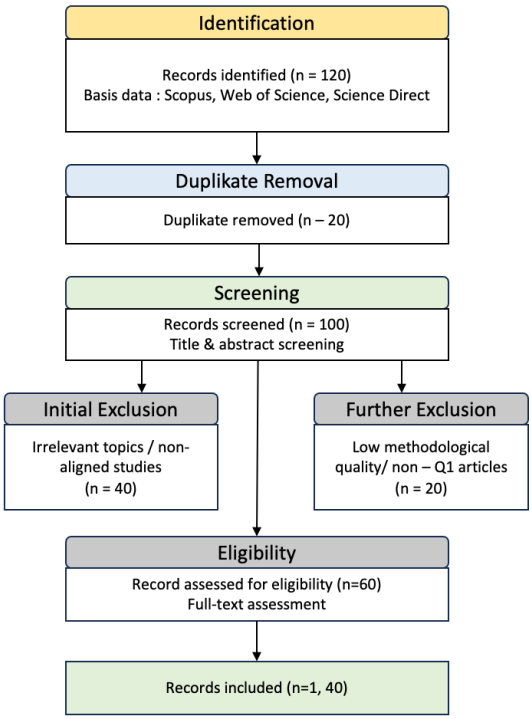

Figure 2. PRISMA Flow Diagram of Article Selection

Table 2. PRISMA Flow Summary (Systematic Literature Review Process)

PRISMA Stage	Process Description	Database / Criteria	Number of Articles
Identification	Initial search using keywords: "Islamic finance", "financial system", "sustainable financing", "ESG", "fintech", "governance"	Scopus, Web of Science, ScienceDirect, SpringerLink	1,245
Duplicate Removal	Removal of duplicate records across databases	Automated and manual screening	(245)
Records after duplicates removed			**1,000**
Screening (Title & Abstract)	Screening based on relevance of titles and abstracts	Initial inclusion criteria applied	(720)
Records retained after screening			**280**
Eligibility (Full-text Review)	Full-text assessment for eligibility based on inclusion and exclusion criteria	Relevance to topic, Scopus Q1 journals, English language	(200)
Eligible articles			**80**
Quality Assessment	**Quality appraisal using MMAT and CASP tools**	**Methodological rigor, validity, and scientific contribution**	**(40)**
Final articles included in the review			**40**

3.7 Summary of Methodological Rigor

Overall, this study employs a rigorous and comprehensive methodological framework through the integration of PRISMA guidelines, MMAT and CASP quality assessment tools, thematic analysis, inter-rater reliability testing, and bias analysis. The application of the PRISMA framework is not merely intended to ensure transparency, rigor, and methodological accountability, but also to establish a transparent, systematic, and replicable literature selection process while minimizing potential selection bias, particularly in ESG-related Islamic finance studies.

Furthermore, the use of MMAT and CASP enables a more critical evaluation of methodological quality across diverse research designs, including quantitative, qualitative, and mixed-method studies, thereby enhancing the consistency and validity of the literature synthesis. The iterative thematic analysis also provides deeper interpretative insights into the relationships among key dimensions, including ESG, governance, fintech, financial system stability, and adaptive risk.

Through this integrated methodological approach, the study not only produces a more robust and reliable synthesis of the literature but also strengthens the credibility of the findings and the conceptual framework proposed. Accordingly, this research is expected to contribute significantly to both academic literature and practical policymaking in sustainable Islamic financial systems, particularly within emerging market contexts.

4. RESULTS AND DISCUSSION

4.1 Financial System Reconfiguration as an Integrated Framework

The findings of this study reveal that the core challenge in Islamic financial systems lies not in the absence of conceptual foundations, but in the lack of integration among key dimensions. The synthesis of 40 selected articles indicates that prior studies

predominantly examine financial systems, sustainability, fintech, governance, and risk in isolation, thereby failing to capture how their interactions shape sustainable financing performance.

This study therefore proposes a **reconfiguration of the Islamic financial system into an integrated financial system framework**, in which the financial system operates as a central core surrounded by interconnected dimensions. Unlike conventional linear approaches, this framework adopts a **circular and interdependent structure**, where each dimension both influences and is influenced by others. Consequently, system effectiveness depends not on individual components, but on the strength of their integration.

4.2 Value Chain Perspective: Input – Process – Output

Within the integrated framework, the reconfigured financial system can be understood through a value chain perspective, consisting of input, process, and output stages. The input stage comprises five core dimensions: Sharia governance, sustainable finance (ESG), financial technology (fintech), financial system stability and efficiency, and adaptive risk and sustainability. These dimensions represent the foundational resources, institutional structures, and strategic capabilities of the system.

The process stage reflects the dynamic interactions among these dimensions. Governance provides normative direction and regulatory alignment, ESG embeds sustainability values into financial decision-making, fintech enables technological integration and efficiency, stability ensures systemic balance, and risk management facilitates adaptability under uncertainty. These interactions are not linear but form a complex and iterative network, shaping the quality and effectiveness of financing decisions.

The output stage represents the resulting sustainable financing outcomes, including financial stability, inclusive growth, and long-term value creation. The effectiveness of these outcomes is contingent upon the degree of integration achieved during the process stage, highlighting the importance of systemic coherence.

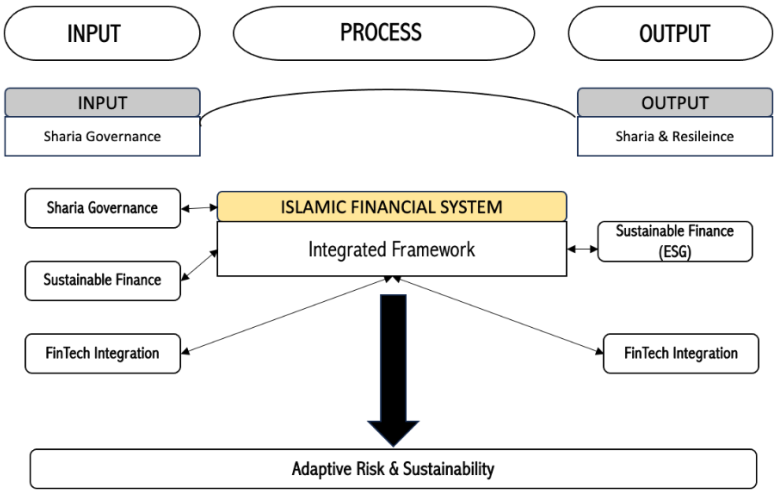

Figure 3. Integrated Framework for Reconfiguring Islamic Financial System for Sustainable dan Resilience Financing

4.3 Interdependency Across System Dimensions

A key contribution of this study is the identification of strong interdependencies among system dimensions. The findings demonstrate that no single dimension can function effectively in isolation. For instance, ESG implementation in financing decisions requires robust governance to ensure compliance with Sharia principles and regulatory standards. Similarly, fintech innovations must be integrated with risk management and financial system structures to deliver meaningful efficiency gains.

This interdependency is particularly evident in the relationship between stability and efficiency. While Islamic financial institutions are often characterized by higher stability due to risk-sharing principles, this stability may constrain efficiency in the absence of technological integration and adaptive risk management. The integrated framework resolves this tension by enabling coordinated interactions among dimensions, thereby balancing trade-offs that have been widely debated in the literature.

4.4 Governance as an Integrative Control Mechanism

Within the proposed framework, Sharia governance functions not only as a supervisory mechanism but also as an integrative control system that connects all dimensions. It ensures that all interactions within the system remain aligned with Sharia principles, ethical standards, and regulatory requirements. Governance thus plays a dual role as both a compliance mechanism and a system integrator.

The integration of governance with fintech and ESG is particularly critical. Without strong governance, technological innovation may introduce compliance risks, while ESG implementation may remain superficial and symbolic. Therefore, governance is positioned as the central coordinating force that maintains system integrity and alignment.

4.5 FinTech and ESG as Dual Drivers of System Transformation

The analysis identifies fintech and ESG as dual drivers of transformation within the Islamic financial system. Fintech enhances efficiency, transparency, and financial inclusion through digital innovation, while ESG provides a normative framework for aligning financial activities with sustainability objectives.

However, the effectiveness of these drivers depends on their integration within the broader system. Fintech without governance and Sharia compliance risks creating instability, whereas ESG without system integration lacks operational impact. The framework demonstrates that both dimensions must be embedded within an integrated structure to generate sustainable value.

The dimensions of adaptive risk management and financial stability function as key adaptive mechanisms within the system. Their integration ensures that the financial system remains resilient in the face of external shocks while maintaining operational efficiency.

Existing literature often treats risk management as a reactive function, separate from the broader financial system. In contrast, this study positions risk as an integral

component of strategic decision-making, embedded within the system's core processes. This shift enables a more proactive and adaptive approach to uncertainty and enhances overall system resilience.

4.6 Model Superiority and Theoretical Implications

Compared to prior models, the proposed framework offers significant advantages in terms of integration, complexity, and adaptability. It not only combines multiple dimensions into a single structure but also explicates the relationships among them within a dynamic system.

From a theoretical perspective, the findings reinforce the relevance of Institutional Theory, which emphasizes the role of regulatory structures and normative pressures, and Complexity Theory, which explains the dynamic interactions within interconnected systems. By integrating these perspectives, the study advances the understanding of Islamic financial systems as complex adaptive systems.

5. CONCLUSION

This study aims to reconfigure the Islamic financial system to support sustainable financing, particularly in developing countries. Based on a Systematic Literature Review (SLR) of 40 high-quality articles, the findings reveal that existing literature remains fragmented and partial, with most studies focusing on isolated dimensions such as financial stability, efficiency, ESG, fintech, or governance. Notably, no prior study provides a fully integrated and holistic framework that connects these dimensions within a unified system.

As a key contribution, this study proposes an integrated financial system framework based on a value chain approach (input–process–output), linking five core dimensions: Sharia governance, ESG-based sustainable finance, financial technology (fintech), financial system stability and efficiency, and adaptive risk management. This multidimensional integration generates sustainable financing outcomes, including financial stability, inclusive growth, and long-term value creation, while emphasizing that system effectiveness depends on the quality of interactions among components rather than the strength of individual elements.

Theoretically, this study advances a systemic perspective by integrating Institutional Theory and Complexity Theory, while practically and from a policy standpoint, it highlights the need for regulatory harmonization among key authorities such as OJK, Bank Indonesia, and DSN-MUI to support ESG and fintech integration within Islamic finance. Despite limitations related to its literature-based approach, this study provides a foundation for future empirical validation and underscores that the future of Islamic finance depends on its transformation into an integrated, adaptive, and sustainability-oriented system.

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