

# THE SDG-ISLAMIC BANKING NEXUS: INSIGHTS FROM THE OIC TOP ECONOMIES

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**ABSTRACT** – Islamic Banking and Finance (IBF) has emerged as a promising alternative to conventional finance, with its principles aligned with the United Nations' Sustainable Development Goals (SDGs). This study investigates the relationship between the performance of IBF in five major Organization of Islamic Cooperation (OIC) countries - Saudi Arabia, Turkey, Indonesia, Malaysia, and the United Arab Emirates - and key SDG indicators: return on assets, regulatory capital to assets, regulatory Tier 1 capital to risk-weighted assets, and broad money to total reserves ratio. Employing panel data analysis, the research reveals that three out of the four SDG indicators significantly impact the total assets of Islamic banks, while the regulatory capital-to-assets indicator shows no significant relationship. These findings underscore the complex interplay between profitability, risk management, liquidity, and asset growth in the IBF sector. The study contributes to the growing body of literature on the role of IBF in promoting sustainable development. The results have important implications for regulators, policymakers, and Islamic banking institutions, highlighting the need for a balanced approach that reconciles financial performance with social and environmental objectives. This research paves the way for a more sustainable and inclusive financial system that can drive economic growth, social welfare, and environmental sustainability in the Muslim world and beyond.

**Keywords:** Islamic banking, Islamic finance, SDG indicators, Panel Data Analysis

**ABSTRAK** – *Hubungan SDG dengan Perbankan Syariah: Wawasan dari Negara-Negara Utama OKI.* Perbankan dan Keuangan Syariah telah menjelma menjadi alternatif yang menjanjikan bagi keuangan konvensional, dengan prinsip-prinsipnya yang selaras dengan tujuan pembangunan berkelanjutan (SDGs). Penelitian ini menyelidiki hubungan antara kinerja total aset perbankan dan keuangan Islam di lima negara utama OKI, yaitu Saudi Arabia, Turkey, Indonesia, Malaysia, and the United Arab Emirates, dan beberapa indikator SDG yaitu laba atas aset, modal peraturan terhadap aset, peraturan modal Tier 1 terhadap aset tertimbang menurut risiko, dan uang beredar terhadap total cadangan. Studi ini menggunakan pendekatan analisis data panel yang mengumpulkan regresi kuadrat terkecil biasa menggunakan data sepuluh tahun dari tahun 2013 hingga 2022. Hasilnya menunjukkan bahwa tiga dari empat indikator SDG mempunyai dampak signifikan terhadap total aset perbankan syariah, sedangkan peraturan modal terhadap total aset perbankan syariah tidak berpengaruh signifikan terhadap total aset perbankan syariah. Temuan ini menunjukkan adanya trade-off antara profitabilitas, manajemen risiko, likuiditas, dan pertumbuhan aset di perbankan syariah. Temuan ini mempunyai implikasi bagi regulator, pembuat kebijakan, dan lembaga perbankan Islam, serta berkontribusi terhadap pemahaman keuangan yang bertanggung jawab dan pembangunan berkelanjutan.

**Kata kunci:** Perbankan syariah, Keuangan syariah, Indikator TPB, Analisis Data Panel

## INTRODUCTION

In recent times, there has been a notable increase in interest in Islamic banking and finance (IBF) due to their alignment with the Sustainable Development Goals (SDGs) and their potential to contribute to economic growth, social welfare, and environmental sustainability (Ahmed et al., 2015). As the world strives to achieve the SDGs outlined by the United Nations, understanding the relationship between SDG indicators and the performance of Islamic banking and finance becomes crucial (Khansa & Violita, 2021).

Islamic banking is founded on Shariah principles, which support fair wealth distribution, moral and responsible financial behavior, and economic stability (Kartika et al., 2022; Kamri et al., 2014). These principles align closely and share similar objectives with the SDGs in terms of eradicating poverty, promoting gender equality, maintaining environmental sustainability, and fostering inclusive economic growth (Abdul Rahim et al., 2023). How IBF performances relate to particular SDG indicators or how IBF contributes to sustainable development has been an interesting issue for further investigation.

Previous studies have shown that Islamic banking and finance play a crucial and essential role in supporting the implementation of SDGs (Alam et al., 2022). It has untapped potential that can be used to meet the substantial financing needs of the SDGs. Innovative Islamic financial instruments can significantly support Sustainable Development Goals (Khan, 2019). Green instruments are one of the financial instruments paving the way for more climate-friendly green investments (Abdullah & Keshminder, 2022). Islamic finance is expected to play a significant role in directing investments toward the most sustainable sectors in energy, transport, construction, and waste management (Marwan & Haneef, 2019).

Total assets have been used to measure Islamic banking performance as they represent the size and growth of the Islamic banking industry in each nation (Altinay et al., 2022). Total assets are a good representation of the Islamic banking industry's size as they reflect growth, diversity, and market presence, indicating the industry's development and significance in financial markets (Al-Salem, 2008). Furthermore, an important factor of development that determines the role of the Islamic banking industry in the national banking system is its level of development, which is closely related to the size of the bank. A smaller



bank with fewer assets will likely have lower levels of economies of scale (Wahyuni & Azmi, 2019; Dermawan et al., 2021).

Regulatory capital to assets, regulatory Tier 1 capital to risk-weighted assets, return on assets, and the broad money-to-total reserves ratio are a few of the important SDG indicators relating to the bank's assets that make up the independent variables. According to Umar et al. (2022), these indicators show several aspects of financial stability and sustainable development in the Islamic banking industry. There are relatively few previous studies that have looked at how Islamic banking and finance relate to SDG indicators.

While existing research recognizes the potential of IBF for achieving SDGs (Alam et al., 2022; Khan, 2019), a limited number of studies have quantitatively examined the relationship between SDG indicators and IBF performance in the past five years (Ibrahim, 2018). This gap highlights the need for a deeper understanding of how specific IBF practices contribute to sustainable development goals. Intended to fill the existing gaps in the literature, this study aims to investigate the contribution of IBF practices to sustainable development goals in five selected OIC countries: Saudi Arabia, Turkey, Indonesia, Malaysia, and the United Arab Emirates. These countries are chosen for their diverse regional representation, developed and developing economies' representation, and well-established IBF sectors (SGIER, 2023). Our specific objective is to analyze how specific SDG indicators relate to the performance of IBF institutions in these countries. This study used a quantitative approach with a unique diverse sample of countries to study this relationship.

To achieve our research objectives, we employ a panel data analysis approach, specifically using pooled ordinary least squares regression (POLS). We analyze data collected over ten years from 2013 to 2022, which allows for a comprehensive assessment of the impact of SDG indicators on Islamic banking and finance in the selected countries. By considering multiple countries, we can identify country-specific patterns and capture cross-country variations in the relationship between SDG indicators and Islamic banking performance (Otman, 2022).

The results of this study will offer valuable perspectives for policymakers, regulators, and Islamic banking institutions. Understanding the impact of SDG indicators on Islamic banking and finance can inform policy decisions to promote sustainable and responsible financial practices (Mufaidah, 2022).



Additionally, this study contributes to the increasing amount of literature about the intersection of Islamic finance and sustainable development, paving the way for further research and discussions in this field. By exploring the impact of SDG indicators on Islamic banking and finance, we aim to contribute to the ongoing efforts to achieve sustainable development goals and promote responsible finance within the Islamic banking sector.

In the following sections, the paper reviews relevant literature in Section 2, presents the methodology used for data analysis in Section 3, discusses the results and implications in Section 4, and concludes with key findings and recommendations in Section 5.

## **LITERATURE REVIEW**

Islamic banking and finance have garnered increasing attention in the literature due to their alignment with sustainable development goals (SDGs) and their potential to contribute to economic growth, social welfare, and environmental sustainability (Hudaefi, 2020). This section provides an overview of existing literature on Islamic banking and finance, SDGs, and their intersection, along with a discussion of previous studies that have investigated the relationship between SDG indicators and banking performance. Additionally, relevant studies specifically focused on IBF in the context of the selected OIC countries (i.e., Saudi Arabia, United Arab Emirates, Indonesia, Turkey, and Malaysia) will be analyzed.

IBF has been recognized for its unique features that promote responsible and ethical financial practices. The principles of Shariah, upon which Islamic banking is based, emphasize fairness, risk-sharing, and prohibition of interest (Alam, 2013). These principles are closely aligned with the SDGs, which aim to address issues such as poverty, inequality, and environmental degradation (Campra et al., 2021). Consequently, the practice of Islamic finance holds promise in supporting the attainment of SDGs by directing investments toward sustainable sectors and promoting inclusive economic growth (Umar et al., 2022).

Jallow (2022) investigated the performance of Islamic banks in member countries of the Organization of Islamic Cooperation (OIC). He found that the profitability of Islamic banks can be affected by several factors, including bank-specific variables such as capitalization, asset quality, efficiency, and bank size, as well as macroeconomic variables such as inflation and real GDP growth rate



per capita. The paper also found that Islamic banks exhibit superior performance during times of inflation. The findings of this study are important because they suggest that Islamic banks are well-positioned to support economic growth and development in OIC member countries. These insights resonate with the broader narrative of Islamic banking's alignment with SDGs, as they suggest that Islamic banks are well-positioned to foster economic growth and development in OIC member countries. The paper's policy implications, such as the need to further enhance the guidelines for capital adequacy and risk management practices specifically for Islamic banks, are also valuable (Jallow, 2022).

Several studies highlight the inherent compatibility between IBF and SDGs due to their shared focus on social well-being and ethical practices (Dirie et al., 2023; Harahap et al., 2023). IBF principles align with Maqasid al-Shariah, the Islamic legal objectives that emphasize social justice (maslahah). This alignment translates into financial instruments designed to promote financial inclusion, poverty reduction, and sustainable development (Tok et al., 2022).

According to Khan (2019), SDGs can be achieved with the help of Islamic financing. However, he contends that changes are required to make Islamic finance more useful in accomplishing this objective. Khan's many ideological and regulatory reforms include promoting Islamic financial goods and services that are designed to help sustainable development, incorporating the SDGs into Islamic financial institutions' risk management systems, creating new Islamic financial products that are intended to address the issues with sustainable development, and fostering a climate that encourages Islamic financial institutions to finance sustainable ventures and enterprises (Khan, 2019). Khan contends that these changes would enable Islamic finance to contribute as much as possible to sustainable development. Islamic finance contributes to various SDGs in the following ways:

1. Poverty Reduction (SDG 1): Islamic microfinance plays a crucial role by providing financial services to underserved communities, promoting entrepreneurship, and empowering individuals to lift themselves out of poverty (Jamal & Ahmed, 2020; Canbaz, 2022). Zakat, a mandatory charitable obligation, also directly addresses poverty by redistributing wealth within society (Dirie et al., 2023).
2. Education (SDG 4): Waqf (endowments) can be dedicated to funding educational institutions, providing scholarships, and promoting access to



- quality education (Ahmad, 2021). Additionally, Islamic banks may offer financing options for educational purposes, aligned with Maqasid al-Shariah's emphasis on knowledge acquisition.
3. Health and Well-being (SDG 3): Sadaqah (voluntary charity) can be directed towards healthcare initiatives, while Islamic social finance institutions can offer financing for medical equipment and infrastructure development (Harahap et al., 2023). The emphasis on ethical conduct within IBF ensures responsible investment practices that prioritize public health and well-being.
  4. Economic Growth and Infrastructure Development (SDG 8 & 9): IBF promotes financial inclusion, which fosters economic growth and job creation (Siddique et al., 2022). Sharia-compliant financing instruments support infrastructure development projects, contributing to sustainable and inclusive economic growth (Zeb et al., 2022).
  5. Environmental Sustainability (SDG 13): Islamic financial principles promote responsible investment and discourage activities harmful to the environment (Canbaz, 2022). IBF institutions can encourage sustainable practices by offering financing for renewable energy projects and environmentally friendly businesses.

Previous studies have investigated the correlation between SDG indicators and banking performance (Jan et al., 2023), with a specific focus on the impacts on financial stability and sustainability (Al-Jayyousi et al., 2022). For example, research by Jan et al. (2021) examined the influence of SDG indicators on bank profitability and found that certain indicators, such as environmental sustainability and social responsibility, were positively correlated with profitability. Similarly, Li et al. (2021) investigated the relationship between SDGs and banking efficiency and found that banks that incorporate SDG considerations tend to be more efficient in their operations.

Studies like Mahadi et al. (2021) showcase the role of Islamic social finance in mitigating the negative economic impacts of COVID-19, further demonstrating IBF's adaptability to address critical social issues. Similarly, Ahmad (2021) explores the case of the Al-Khidmat Foundation in Pakistan, highlighting how Islamic social finance tools like Zakat, Sadaqah, and Awqaf contribute to socio-economic development and poverty alleviation.

Jan et al. (2021) found a strong correlation between Islamic banking sustainability indicators and the UN SDGs in the areas of social sustainability,



environmental sustainability, and economic sustainability. This alignment is important because it suggests that Islamic banking can play a significant role in achieving the UN SDGs. The paper includes several recommendations for policies that can help tackle the COVID-19 outbreak, such as increasing access to Islamic financial services for vulnerable populations, developing new Islamic financial products and services that support sustainable development, promoting sustainable investment by Islamic banks, and strengthening the governance of Islamic banks to support sustainable development (Jan et al., 2021). It is important to follow these recommendations to lessen the negative effects of COVID-19 on Islamic banking and promote its sustainable development.

Several previous studies have been conducted in the context of IBF to investigate the relationship between SDGs in general and performance indicators specific to Islamic financial institutions. For example, Muhmad et al. (2022) investigated the impact of SDGs on the financial performance of Malaysian Islamic banks and discovered a positive relationship between SDG indicators and profitability. Additionally, Akter et al. (2021) investigated the impact of SDGs on Islamic banks' financial stability in Bangladesh and discovered that SDG-related financing positively influenced stability measures.

According to Ahmed et al. (2015), Islamic finance has the potential to significantly contribute to achieving the UN SDGs. The tenets of social justice, equality, and environmental preservation form the foundation of Islamic finance. These values closely resemble the SDGs' objectives. Islamic banking also encourages financial inclusion, a crucial component of attaining sustainable development. The article offers several illustrations of how Islamic financing might help achieve the SDGs. For instance, Islamic microfinance institutions may be able to provide financing to low-income and marginalized groups. Islamic banks can invest in environmentally friendly ventures and initiatives, such as green infrastructure and renewable energy. Islamic insurance providers can offer financial security against climate-related hazards (Ahmed et al., 2015). The paper concludes by calling for policymakers and regulators to create an enabling environment for Islamic finance to play its full role in supporting the SDGs. This can be done by developing supportive policies and regulations, and by promoting awareness of Islamic finance.

A study by Avrampou et al. (2019) found that the alignment of the performance of leading European banks with the UN SDGs is low and heterogeneous. This



is likely due to several factors to consider, including the complexity of the SDGs and the challenges of measuring and reporting on SDG performance. The SDGs that receive the most attention are those that are targeted by strategies specific to the banking industry. The findings suggest that there is room for improvement in the banking sector's performance towards the SDGs. The paper also finds that bank-specific strategies drive the most extensively addressed SDGs (Avrampou et al., 2019). This suggests that banks are more likely to focus on the SDGs that are aligned with their own business goals. However, this also means that some important SDGs may be overlooked.

Regarding the selected OIC countries of Saudi Arabia, Turkey, Indonesia, Malaysia, and the United Arab Emirates investigated in this study, there has been a growing body of research on the performance and contribution of IBF to sustainable development. Studies have highlighted the important role of Islamic banking in advancing financial inclusion, bolstering economic growth, and addressing environmental challenges in Indonesia (Ghonyah & Hartono, 2019), Malaysia (Yani Ismail et al., 2020), Saudi Arabia (Sepideh Khavarinezhad et al., 2021), Turkey (Md. K. Alam & Ullah, 2022), and United Arab Emirates (Osmanovica et al., 2020).

However, there is a limited amount of empirical literature available on the connection between SDG indicators and IBF in the selected countries. The goal of this research is to fill this gap by conducting a panel data analysis to explore the specific impacts of selected SDG indicators on Islamic banking's total assets in these countries over ten years.

Overall, the literature suggests that there is a relationship between SDGs and various performance indicators in the banking sector, including profitability, efficiency, stability, and financial inclusion. However, to gain a better understanding, additional research on the specific impacts of SDG indicators on IBF in the context of the selected countries is necessary. The following section will present the methodology employed in this study to investigate this relationship.

## **METHODOLOGY**

This section provides an overview of the data collection process, variables, econometric model, and the methodology employed to conduct the study. Research design refers to the systematic gathering and analysis of data to achieve predetermined objectives through the empirical examination of





previous economic data (Qi & Chu, 2022). A panel data analysis approach is applied in this paper to investigate the relationship between selected SDG indicators and the performance of IBF in five OIC countries: Saudi Arabia, Turkey, Indonesia, Malaysia, and the United Arab Emirates. The panel data consist of annual time series data collected from 2013 to 2022.

### **Data Source and Collection**

The secondary data source for this study is the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), which provides comprehensive data on IBF indicators in the selected countries. SESRIC is a reputable organization known for its reliable and comprehensive data related to IBF indicators. SESRIC collects and validates financial data from national authorities and financial institutions, ensuring its accuracy and reliability.

A potential challenge in data collection for this study is the availability of consistent and comprehensive data on Islamic banking SDG indicators across all countries. While SESRIC is a reputable source, data collection practices may vary between countries. This study mitigates this challenge by focusing on data directly related to IBF and SDG activities reported by SESRIC.

### **Variables**

The dependent variable in this analysis is Islamic banking's total assets, measured in USD millions. It represents the size and growth of the Islamic banking sector in each country. The independent variables are selected SDG indicators related to the bank's assets, namely:

1. SDG 10.5.01: Return on Assets (ROA): This metric gauges bank profitability by comparing net income to total assets. It reflects the effectiveness and financial success of banking institutions.
2. SDG 10.5.01: Regulatory Capital to Assets (RCA): This indicator evaluates the capital adequacy of Islamic banks by analyzing the regulatory capital to total assets ratio. It represents the capacity of banks to absorb losses while preserving their financial stability.
3. SDG 10.5.01: Regulatory Tier 1 Capital to Risk-Weighted Assets (RRA): This metric gauges the strength of a bank's capital using the ratio of regulatory Tier 1 capital to risk-weighted assets. It indicates how strong the bank's primary capital is in relation to its risk exposure.



4. **SDG 17.13.01: Broad Money to Total Reserves Ratio (BMR):** This measure evaluates the liquidity of banks by analyzing the ratio of broad money (M2) to total reserves. It indicates the banks' ability to fulfill their short-term obligations and maintain financial stability (Statistics Division, n.d.).

### Econometric Model

The econometric model employed for this study is the Pooled Ordinary Least Squares (POLS) regression model. This model examines the relationship between the dependent variable, represented as the natural logarithm of Total Assets ( $\ln TA$ ), and the independent variables, including Return on Assets (ROA), Regulatory Capital to Assets (RCA), Regulatory Tier 1 Capital to Risk-Weighted Assets (RRA), and Broad Money to Total Reserves Ratio (BMR). The model is specified as follows:

$$\ln TA_{(i,t)} = \alpha_0 + \alpha_1 ROA_{(i,t)} + \alpha_2 RCA_{(i,t)} + \alpha_3 RRA_{(i,t)} + \alpha_4 BMR_{(i,t)} + e_{(i,t)} \quad (1)$$

where:

- $\ln TA_{(i,t)}$  is the natural logarithm of total assets for country  $i$  in year  $t$ .
- $\alpha_0$  is the intercept of the model.
- $\alpha_1$ ,  $\alpha_2$ ,  $\alpha_3$ , and  $\alpha_4$  are the parameters of the independent variables.
- $ROA_{(i,t)}$ ,  $RCA_{(i,t)}$ ,  $RRA_{(i,t)}$ , and  $BMR_{(i,t)}$  are the values of the independent variables for country  $i$  in year  $t$ .
- $e_{(i,t)}$  is the error term or disturbance, which represents other variables that affect  $\ln TA$  but are not included in the model.

### Model Justification and Potential Challenges

The POLS model is a well-established approach for analyzing panel data, allowing us to capture both time-series and cross-sectional effects. Moreover, the model is relatively straightforward to implement and interpret, making it suitable for initial investigations of relationships between variables. This is particularly helpful in this context, where we are exploring the initial impacts of SDG indicators on IBF performance across different countries.

A potential challenge in data analysis is ensuring the validity of the model assumptions, such as homoscedasticity and the absence of multicollinearity. The study assumes that the relationship between SDG indicators and IBF performance is linear, that errors are independent and identically distributed,



and that the independent variables do not exhibit multicollinearity. Additionally, the study assumes homoscedasticity, meaning that the variance of the error term is constant across all observations. Diagnostic tests will be conducted to assess the validity of these assumptions.

## RESULTS AND DISCUSSION

### Descriptive Statistics

Table 1 displays descriptive statistics for both dependent and independent variables investigated in the study. The statistics include Standard Deviation (SD), Maximum, Minimum, Mean, and Median. These statistics offer valuable insights into the dataset's characteristics.

Table 1. Descriptive Statistics

	TA	ROA	RRA	RCA	BMR	lnTA
Mean	109,612.30	1.7666	16.3767	11.6994	3.2369	10.8766
Median	127,033.00	1.7150	16.1700	11.9950	3.6925	11.7522
Maximum	301,499.30	3.0200	22.5600	15.4200	5.2000	12.6165
Minimum	1,479.70	0.6700	12.9800	7.1800	0.5600	7.2996
Std. Dev.	80,325.01	0.4367	2.2324	2.0918	1.3212	1.7040

Total Assets (TA) exhibit a wide range, from a minimum value of USD 1,479.7 million to a maximum of USD 301,499.3 million. This variance signifies notable disparities in the total asset holdings of Islamic banks and finances among the five OIC countries under study, as shown by the standard deviation of USD 80,325.01. These values also indicate that Islamic banking began with a relatively modest base of USD 202.3 million but has experienced substantial growth in recent years. This growth suggests significant potential within the Islamic financial sector across these countries. It may be attributed to the effective collaborative efforts of member countries, driven by strong policies aimed at fostering the development of Islamic banking throughout the region. Consequently, this growth implies a substantial market share for the Islamic banking sector. The natural logarithm of Total Assets (lnTA) shares similar characteristics with Total Assets, reflecting a comparable range and spread.

The profitability of Islamic banking and finance organizations is measured by Return on Assets (ROA), which is SDG 10.05.01. Its wide range—from a minimum of 0.67% to a maximum of 3.02%—indicates that these companies' financial performance is subject to wide changes. This shows that some



institutions might be better at making money, which might make a difference in how successfully they help the economies of the countries under study grow and sustain themselves.

Table 1 also reports the descriptive statistics for the Regulatory Capital to Assets (RCA), which aligns with SDG 10.05.01. The RCA assesses the proportion of regulatory capital to total assets. It ranges from 7.18% to 15.42%, reflecting differences in capital adequacy. This metric is crucial for ensuring financial stability and resilience within the Islamic banking sector. Higher RCA values indicate that institutions have stronger capital buffers to weather economic shocks and promote sustainable economic development.

The descriptive statistics of the Regulatory Tier 1 Capital to Risk-Weighted Assets (RRA), which is associated with SDG 10.05.01, are also reported in Table 1. The RRA evaluates the ratio of Tier 1 capital (core capital) to risk-weighted assets. This ratio, ranging from 12.98% to 22.56%, indicates variations in financial strength among Islamic banking institutions. Higher RRA values imply greater financial robustness, which is essential for safeguarding depositors' funds and promoting long-term economic stability.

Finally, Table 1 reports the descriptive statistics of the Broad Money to Total Reserves Ratio (BMR) that is linked to SDG 17.13.01. The BMR measures the relationship between broad money supply and total reserves, providing insights into monetary policy and liquidity conditions. The values of BMR varied from 0.56% to 5.20%, with a mean value of 3.24%, suggesting differing monetary dynamics among the countries. A higher BMR may indicate a greater money supply relative to reserves, potentially influencing inflation and economic stability.

In summary, Table 1 provides essential insights into the key variables of IBF across the studied countries. These statistics reveal significant variations in ROA, RCA, RRA, and BMR. These variations highlight the diverse performance, capital adequacy, financial strength, and monetary dynamics within the sector. The independent variables or SDG indicators offer critical insights into the performance, stability, and monetary dynamics of IBF in the studied countries. The variations observed underscore the sector's potential to contribute to economic growth, financial stability, and overall sustainability. The descriptive statistics lay the groundwork for a deeper understanding of the



intricate dynamics within Islamic banking and finance and their impact on sustainable development.

### **POLS Panel Data Estimates**

The results of the POLS panel data analysis are reported in Table 2. As observed from Table 2, several important findings are revealed on the relationship between selected SDG indicators and the performance of IBF in five OIC countries: Saudi Arabia, Turkey, Indonesia, Malaysia, and the United Arab Emirates. These findings show a complex interplay between profitability, risk management, liquidity, and asset growth within Islamic banking, aligning with Sharia principles.

Table 2. POLS Results

<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
Constant	23.14304***	1.5607	14.8286	0.0000
ROA	-2.8591***	0.3112	-9.1872	0.0000
RCA	0.0806	0.1089	0.7402	0.4630
RRA	-0.3644***	0.0780	-4.6739	0.0000
BMR	-0.6768***	0.1436	-4.7120	0.0000
R-squared	0.7465	Adjusted R-squared	0.7239	
F-statistic	33.1209	Prob(F-statistic)	0.0000	

Note: \*\*\* shows significance at the 1% level.

As observed from Table 2, the study found the coefficient of determination, adjusted R-square of 0.7239, which means that changes in the independent variables in the aforementioned model account for 72.29% of the variations in the performance of Islamic banks' total assets. Because Prob(F-statistic) = 0.00, which is less than 0.05, the model is overall significant. Additionally, ROA, RRA, and BMR, three of the four SDG indicators, had a statistically significant impact on the total assets of Islamic banking because their Prob = 0.00 findings were less than 0.05. Due to the fact that Prob = 0.4630 is more than 0.05, RCA has no significant effect on the overall assets of Islamic banking.

The SDG 10.05.01: Return on Assets (ROA) indicator shows a negative coefficient of -2.8591, suggesting that an increase in a unit of ROA has caused a decrease in the total assets of Islamic banks by 2.8591 units. This finding is consistent with the findings of Hasan and Dridi (2010), as they found that Islamic banks with higher ROAs tend to have lower asset growth rates. The economic rationale behind this result could be that banks with a focus on maximizing short-term profitability may allocate more of their earnings to



shareholder returns, dividends, or other financial instruments rather than reinvesting in asset growth. This implies that Islamic banks may prioritize efficiency and immediate financial performance over the expansion of their asset base.

On the other hand, SDG 10.05.01: Regulatory Capital to Assets (RCA) does not demonstrate a statistically significant relationship with total assets. This result suggests that the capital adequacy of Islamic banks, as measured by the regulatory capital-to-assets ratio, has no significant impact on their asset growth. This result contrasts with some previous research on commercial banks done by Stewart et al. (2021) and Abbas and Masood (2020). The scientific justification for the insignificant finding of RCA on TA could be that while capital adequacy is crucial for financial stability, it may not directly drive asset expansion. Islamic banks might maintain a sufficient capital buffer to meet regulatory requirements and safeguard against risks, but this might not correlate strongly with aggressive asset growth.

Table 2 also reports a negative significant relationship between the regulatory Tier 1 capital to risk-weighted assets ratio (RRA) with an estimated coefficient of -0.3644, indicating that a higher proportion of the indicator regulatory Tier 1 capital to risk-weighted assets is associated with a decrease in total assets. This finding is consistent with the findings of Beck et al. (2013), as they found that Islamic banks with higher RRA ratios tend to have lower asset growth rates. This is because Islamic banks with stronger capital positions may prioritize risk management and stability over asset expansion. They may be more conservative in their lending practices to ensure the safety of depositors' funds.

Finally, the study found a negative relationship between the Broad Money to Total Reserves Ratio (BMR) with an estimated coefficient of -0.6768, indicating that a higher ratio of the indicator is associated with a decrease in total assets. This finding suggests that Islamic banks with higher liquidity may allocate fewer funds to asset growth and instead focus on maintaining financial stability. They might hold a more substantial portion of their assets in liquid form, such as cash or highly liquid securities, to ensure their ability to meet short-term obligations. Our finding is somewhat different from the findings of previous studies. For example, studies by Phelan (2015) and Chiarella et al. (2012) found that banks with higher BMR ratios tend to have higher asset growth rates.



## Practical Implications

The POLS panel data analysis yielded significant insights regarding the relationship between Islamic banking and sustainable development. Three of the four chosen SDG indicators demonstrated a statistically significant impact on Islamic banks' total assets. Return on Assets (ROA), Regulatory Tier 1 Capital to Risk-Weighted Assets (RRA), and the Broad Money to Total Reserves Ratio (BMR) all exhibited a negative and statistically significant association with total assets. Interestingly, the Regulatory Capital to Assets Ratio (RCA) did not show a significant impact.

The negative coefficient of ROA suggests that prioritizing profitability is not necessarily the primary driver of asset growth in Islamic banking. This finding may indicate a focus on efficiency and ethical financial practices, where long-term financial stability takes precedence over rapid asset expansion and short-term gains. This alignment strengthens the potential of Islamic finance to contribute meaningfully to achieving SDGs, particularly those related to responsible economic growth and financial stability.

The insignificant relationship between RCA and asset growth suggests that Islamic banks can fulfill regulatory capital requirements without significantly hindering their asset expansion plans. However, maintaining adequate capital remains crucial for financial stability. Similarly, the negative coefficient of RRA implies that a strong primary capital position relative to risk exposure significantly impacts total assets. This aligns with the emphasis on risk management within Islamic banking practices. The negative coefficient of BMR further underscores the importance of responsible banking practices. The liquidity of banks and their ability to meet short-term obligations influence their total assets, suggesting a focus on responsible management of resources.

Overall, this study highlights a key aspect of the balance achieved by Islamic banks: prioritizing efficiency, risk management, and stability while contributing to SDGs. This focus aligns well with the principles of Shariah, which emphasize responsible and ethical financial practices. The findings illuminate the link between SDG metrics and the effectiveness of Islamic banking, emphasizing the importance of considering profitability, capital adequacy, and liquidity within the context of asset growth. Furthermore, the research underscores the potential of Islamic finance as a key contributor to advancing SDGs.



## CONCLUSION

This study investigated the relationship between specific SDG indicators and the performance of Islamic banking institutions in five OIC countries. A POLS panel data analysis revealed that return on assets (ROA), regulatory Tier 1 capital to risk-weighted assets (RRA), and the broad money to total reserves ratio (BMR) had a negative and significant relationship with total assets, while the regulatory capital to assets ratio (RCA) did not have a significant impact. These findings suggest that Islamic banks prioritize efficiency, long-term financial stability, and risk management, aligning with Shariah principles of ethical and responsible financial practices, which underscores their potential to contribute to the SDGs, particularly in responsible economic growth and financial stability.

This study carries significant implications for a variety of stakeholders. Policymakers and regulators can leverage these findings to comprehend how SDG indicators influence Islamic banking and finance. This understanding empowers them to design regulations and policies that foster responsible financial practices within the Islamic banking sector, while simultaneously ensuring its continued growth. Striking an optimal balance between financial stability and asset expansion will be a critical challenge, and policymakers have a crucial role to play in achieving this equilibrium. Islamic banking institutions can benefit from the knowledge that their reach extends beyond specific regions, demonstrating a global presence for Islamic finance. Furthermore, this study sheds light on how Islamic finance can contribute to achieving sustainable development goals on a global scale. Finally, researchers gain valuable insights that contribute to the expanding body of knowledge on the intersection of Islamic finance and sustainable development. The established theoretical foundation, highlighting the alignment between Islamic banking and finance principles and the SDGs, paves the way for further investigation and discourse within this domain.

Despite its contributions, this research acknowledges certain limitations. The analysis is confined to a particular selection of SDG indicators, potentially overlooking a wider spectrum of factors that influence IBF performance. Furthermore, the geographical scope encompasses only five OIC member countries, restricting the generalizability of the findings to other contexts. To achieve a more holistic understanding of the interplay between Islamic finance and sustainable development, future research endeavors should incorporate a





more extensive range of SDG indicators and encompass a broader geographical scope.

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