

Islamic Business and Finance Series

ISLAMIC FINANCE AND SUSTAINABLE DEVELOPMENT

A GLOBAL FRAMEWORK FOR ACHIEVING
SUSTAINABLE IMPACT FINANCE

Edited by

Mohd Ma'Sum Billah, Rusni Hassan, Razali Haron
and Nor Razinah Mohd Zain



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Islamic Finance and Sustainable Development

The interest in improving Environmental, Social and Governance (ESG) outcomes among stakeholders of Islamic banking and finance has become front and centre in the discussions relating to Islamic sustainable finance.

This book offers an expansive overview of the relevant issues, global initiatives and trends in the management, governance, and operation of Islamic sustainable impact finance. It identifies the models and mechanisms required to achieve sustainable impact finance in the context of Islamic investment and project development and collects and observes the latest approaches in maintaining and fulfilling the principles of Shariah-compliance in Sustainable Development Goals and Environmental, Social and Governance-oriented projects. The book also explores conventional financing instruments, which are being used in modern practice.

While Islamic sustainable finance provides a positive change in the Islamic banking and finance industry globally, implementing it is not without its challenges. Such challenges, such as the fulfilment of Shariah-compliance requirements, both legally and jurisprudentially, and the application and development of modern innovative products and hybrid models of classical products are highlighted and addressed in the book. The book delves into the current management practices of Islamic banking and finance, which promote Islamic sustainable impact finance and outlines strategies for meeting sustainable investments and projects. Other factors, such as the latest technology, regulations and social, political and economic policies are also considered. Evidence is provided via case studies from selected countries that participate actively in the Islamic banking and finance industry globally.

The book will attract a wide audience from researchers, scholars, and students to stakeholders of Islamic banking and finance, regulators, policy makers and Shariah-compliant practitioners.

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Sustainable Impact Finance

**Edited by: Mohd Ma'Sum Billah,
Rusni Hassan, Razali Haron and
Nor Razinah Mohd Zain**

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ONLY FOR IIUM REPOSITORY

This book is dedicated to the remembrance of my most beloved parents Allamah Mufti Nur Mohammad (r) and Ustazah Akhtarun Nisa' (r) who have nourished me with their love and wisdom. May Allah (swt) shower them with His Love and Mercy and grant them Jannat al-Ferdaus. I would also like to dedicate this book to my lovely wife Dr Khamsiah Nawawi (Head, OSHE-Hospital UKM) and our heart-touching kids Dr Ahmad Mu'izz Billah (Head of Surgical Department and Medical officer at the Mukah Hospital, a Government hospital under the Ministry of Health, Malaysia), Ahmad Mu'azz Billah (OP-Cadet-RMC, BSc Hons. Formerly affiliated with the JPM, Putrajaya and currently serves at Accenture, Malaysia), Ahmad Muniff Billah (OP-Cadet-RMC. Winner of Gold Medal Award 2023 in his outstanding innovative research project and currently pursuing with his BSc Honors in Aviation Management and Piloting, MSU) and Akhtarun Naba' Billah (Pursuing with her LLB Honors, IIUM and Winner of Dean's List), for their continuous supports and sacrifices.

May all be blessed with *Muwaddau Wa Rahmah, Qurratu A'yun and Mardhaati Allah* (swt) in the life and the next.

This book is also dedicated to the Ummah and the whole of humanity.

Mohd Ma'Sum Billah, PhD

A special dedication to my parents, my extended family, my teachers and Murabbi who inspired, guide and shape me to be the person I am today. A special thanks also to the Institute of Islamic Banking and Finance (IIUM) team members for their unwavering support in bringing the Institute to a higher level. May Allah provide us with the fortitude and dedication to contribute to the well-being of our institution and to the Ummah.



Rusni Hasan, PhD

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Razali Haron, DBA

This book is dedicated to the loving memory of my parents, Sayiran Binti Hassan Raza and Haji Mohd. Zain Bin Haji Harun. My greatest gratitude goes to my husband, Mohd. Yusmadi Bin Mohd. Yunan for teaching me the value of being patience. Thank you also to all my respected teachers, especially Prof. Dr. Mohd Ma'Sum Billah and Prof. Dr. Engku Rabiah Adawiah Engku Ali. May Allah bless them always, Ameen.

Nor Razinah Mohd Zain, PhD



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Rusni Hassan, PhD

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There is no strength and power except in *Allah (swt)*, To Him comes the praise, the Savant, the Wise, the Omniscient, the most beautiful names belong to Him. May the blessing of Allah (swt) and peace be upon *Muhammad (saw)* and all the Prophets (*aws*) from the first to the last.

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Razali Haron, DBA

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Nor Razinah Mohd Zain, PhD



Foreword

Since the initiative of global effort of the United Nations with Millennium Development Goals (MDGs) in 2000, which was subsequently replaced by Sustainable Development Goals (SDGs) in 2015 to tackle the indignity of poverty, the United Nations has continued to serve as a universal call for a sustainable future while promoting equality, human rights and justice for all. Moving towards 2030, it is affirmed that financial sectors and their relevant stakeholders have vital roles in making impactful sustainable finance and creating positive trends and changes which are relevant to meeting SDGs. This is not limited to the investors per se, but it extends to includes practices of the financial sector internally, and the community that is externally served. Looking closely to Islamic banking and finance and its related sectors such as Takaful and the Islamic capital market, they stand out as having high potential in attaining sustainable finance and to create positive impacts in multi-layered levels. Instead of reinventing the wheel, Islamic sustainable finance is properly rooted back in the principles of Shari'ah and its financing mechanisms that can be seen in practice as applied throughout Islamic banking and financial industries today. With the continuous expansion of Islamic banking and finance across the globe, it offers a rather unique perspective of sustainable finance in the modern context.

This book is timely, and it accurately contributes to understanding the unique perspective of Islamic sustainable finance and possible changes that it can bring. In order to fully comprehend and value the practical implementation of Islamic sustainable finance, it is imperative to possess a comprehensive publication, such as this book, that encompasses global case studies and contemporary methodologies of Islamic sustainable finance. This book is aimed at contributing as a significant reference, to creating changes in the minds of readers, while considering the diverse range of stakeholders across various geographical regions that are keenly interested in this field. The primary emphasis in this book is directed to engaging in discussions pertaining to global initiatives, developments within Islamic sustainable finance and the presence of classical instruments within contemporary practices. It also highlights the apparent challenges associated with the implementation of Islamic sustainable finance within the respective industries. Obviously, Islamic banking and finance have many suitable financing mechanisms for the



implementation of Islamic sustainable finance and its impacts, while it comprehensively emphasizes sustainable development.

Upon a careful examination of the book's content, it becomes evident that the discourse presented in this book is skilfully crafted and meticulously edited by esteemed editors with intellectual efforts. The book also benefits from the valuable contributions of devoted individuals who possess a wealth of expertise in their respective domains. Without a doubt, this book will serve as an essential resource for understanding the discourse and the relevant relationships that exist between Islamic finance, sustainable development and Islamic sustainable finance in the contemporary reality. I would like to extend my congratulations to editors, contributors and the publisher for their praiseworthy efforts in producing a book of exceptional relevance.

**Prof. Emeritus Tan Sri Dato'
Dzulkifli bin Abdul Razak**

Rector International Islamic University
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Preface

Islamic sustainable finance is a concept emerged from the continuous process of integration between classical and modern discourses of Islamic banking and finance with the understanding relating to sustainability and sustainable development agendas. While the notion of sustainable impact finance captures the attention of relevant stakeholders, such as investors, bankers, practitioners, etc., it is important to look back, analyse and share the viable practices of Islamic sustainable finance that are utilised successfully in giving tremendous impacts to societies, communities and selected countries. As prioritised under the main components of sustainable development agendas, i.e., environmental, social and economy, the practices of Islamic sustainable finance and the relevant financing mechanisms are not only emphasised on sustainable impacts from those three perspectives; they are also contributing to Shariah-compliance initiatives and empowering ethical investments and businesses. Currently Islamic sustainable finance and its practices are going beyond borders and jurisdictions. Thus, it is important to capture those different practices from global initiatives and international trends. The practices of Islamic sustainable finance remain unique due to existence of combinations between modern and classical instruments as approved by Shariah principles. While it has huge potential to grow further in the future, it is important to embrace the challenges that may exist within Islamic banking and finance and its closely related industries, i.e., Islamic capital market. By having such a view, the sharing provided in this book attempts to identify the international initiatives and trends of Islamic sustainable finance across borders, appreciate the application of classical instruments or mechanisms in the modern Islamic sustainable finance and address visible challenges that exist in Islamic banking and finance and Islamic capital market. ***This book, titled “Islamic Finance and Sustainable Development: A Global Framework for Achieving Sustainable Impact Finance,” is organised into Three Crucial Parts with eighteen important chapters and a specific introduction and index at the end.***

Part I provides a discussion relating to Islamic sustainable finance from global initiatives and trends. Within this Part, the chapters are divided into five important chapters. Chapter 1 explores Islamic sustainable finance from Gulf experiences. Chapter 2 evaluates Islamic sustainable finance from experiences of African countries. Chapter 3 focuses on Islamic sustainable finance from experiences of



SAARC. Chapter 4 analyses Islamic Micro-financing for SMEs towards its sustainability from Libyan experience. Chapter 5 discusses sustainability through Zakat from the experience of the Islamic banking industry in Malaysia.

Part II is concerned with practices of classical instruments in the modern setting of Islamic sustainable finance, which stands out with eleven chapters. Chapter 6 highlights the instruments of Islamic sustainable finance. Chapter 7 provides a bibliometric analysis on the emergence of Zakat in sustainability. Chapter 8 assesses the role of Zakat in building up a sustainable investment. Chapter 9 looks closely at Zakat governance towards sustainable finance. Chapter 10 evaluates the effectiveness of Zakat management towards sustainability. Chapter 11 discusses Islamic sustainable finance: how does Waqf matter? Chapter 12 identifies the practice of Al-Rahnu that leads towards Islamic sustainable finance. Chapter 13 discusses Bay' Al-Salam that leads towards Islamic sustainable finance. Chapter 14 appreciates the practice of Al-Musharakah that leads towards Islamic sustainable finance. Chapter 15 evaluates Hibah al-Ruqba and its contribution to sustainable economy. Meanwhile, Chapter 16 evaluates the practice of SRI Sukuk that leads towards Islamic sustainable finance.

Part III looks at the issues and challenges that may exist within the Islamic banking and finance and Islamic capital markets in implementing Islamic sustainable finance. It consists of two main chapters. Chapter 17 explores issues and challenges of sustainable finance from the experience of Islamic banking industry. Finally, Chapter 18 identifies issues and challenges of sustainable finance in the Islamic capital market.

The motivation that triggers this research book is inspired by the realisation of the importance of exposing the practices of Islamic sustainable finance and its relevant instruments or mechanisms from the real related industry. While there is still an apparent scarcity of literature relating to Islamic sustainable finance, the collection of research works that can be found in this book may open up a richer discussion relating to the conceptual studies of Islamic sustainable finance and its practices in the real world. It is important to highlight that certain regions have preferences in selecting the classical instruments that can be used for modern practices of Islamic sustainable finance. Such trends are shown and explored here. In their applications, it is also important to appreciate the emerging issues and challenges in implementing Islamic sustainable finance where steps or processes should be considered in overcoming them. However, due to the inherent limitations of human perception, it is plausible to consider the presence of imperfections inside this book. Thus, we express our sincere gratitude for the readers who kindly notify us of any further enhancements.



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Introduction

History witnesses that there has been a consistent pattern of humanity's failure to effectively address the issue of sustainability in relation to available resources. This failure has resulted in a multitude of challenges, such as poverty, health disparities, educational deficiencies, social inequality, and hindered economic progress. In the contemporary period characterised by a multitude of uncertainty, our collective existence remains intricately entangled with a plethora of pressing and imperative challenges. One of the key concerns is the optimal use of resources in order to ensure their sustainability for the benefit of future generations. Achieving a harmonious equilibrium in resource utilisation is imperative to prevent adverse impacts on both human well-being and the environment. This necessitates the conservation of seas and forests while effectively utilising the existing resources and concurrently addressing the issue of climate change resulting from the disparity between economic and environmental endeavours.

The United Nations has acknowledged the relevance of this issue by adopting the 17 Sustainable Development Goals (SDGs) in 2015. These goals are also referred to as "Global Goals". By 2030, these objectives are intended to serve as an all-encompassing call to action for concerted group efforts to end world poverty, protect the environment, and ensure global peace and prosperity. The SDGs are interdependent, meaning that actions made in one area have repercussions on results in other domains. In addition, the pursuit of development calls for the integration of social, economic, and environmental sustainability. The fundamental concept of sustainability posits that present choices ought not to hinder the capacity to uphold or enhance future living conditions, including the administration of economic systems. In order to effectively accomplish the Sustainable Development Goals in any given environment, it is imperative to harness the collective potential of creativity, innovation, expertise, technological advancements, and financial resources from all sectors of society.

In light of the present issue, it is crucial to ascertain the manner in which Islam addresses the challenge of sustainability and the solutions it offers for its determination. Islam places significant emphasis on the concept of sustainability. Indeed, the concept of *Maqasid al-Shari'ah* aligns most closely with contemporary notions of sustainability. This can be taken from the evaluation of Islamic sustainable



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finance from its local to global initiatives and visible trends that can be traced from Islamic banking and finance. It can also be appreciated from the Islamic capital market's practices. Hence, the title "***Islamic Sustainable Impact Finance: Issues and Attainable Strategies***" has been selected with the intention of fulfilling the anticipated expectations.



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