

Preface

The mounting global challenges of climate change, environmental degradation, and unsustainable consumption of resources prompt an urgent need for innovation and application of ethical finance practices. In this regard, “Islam Finance” is an interesting canon for addressing these issues, being grounded on principles of justice, equity, and stewardship. This book, *Islamic Green Finance: Towards Ethical and Environmentally Responsible Investing*, aims to explore the intersection of Islamic finance and green finance, offering insights into how the Shari’ah-compliant financial system can contribute to environmentally responsible investing while fostering economic and social well-being.

This work is divided into five parts, each containing chapters authored by renowned researchers and practitioners in the field. Collectively, these chapters highlight the theoretical underpinnings, practical recommendations, policy frameworks, and future endeavours related to Islamic green finance.

This introduction begins with a chapter written by Muhammad Omer Rafique and Khwaja Masood. This chapter introduces the conceptual framework of Islamic green finance and explores its alignment with the Sustainable Development Goals (SDGs) through the lens of Qur’anic verses and *Sunnah*, grounded in the principles of *Maqasid al-Shari’ah* (Objectives of Shari’ah). It emphasizes the important role of Islamic finance in fostering sustainable development through justice, equity, and environmental care.

Part 2 delves into the fundamentals of Islamic green finance, beginning with Chapter 2 by Dr. Muhammad Azhari Wahid. The principles and guidelines highlighted here are designed to foster ethical and environmental sustainability in our investments, setting a constructive framework that encourages positive impacts on both society and the environment. Islamic green finance combines Shari’ah principles with eco-friendly investments. This chapter outlines the compliance framework for Islamic financial institutions, highlighting the need for Shari’ah boards, the prohibition of forbidden activities, adherence to Shari’ah contracts, and alignment with *maqasid al-Shari’ah*. This framework is vital for the development of Shari’ah-compliant green finance in the global market.

Chapter 3, authored by Shahida Shahimi and Siti Aisyah Zahari, highlights the integration of environmental, social, and governance (ESG) criteria into Islamic financial institutions’ (IFIs) operations and products. Through a

literature review and case studies, the chapter examines ESG practices and the importance of sustainability reporting for transparency and accountability. This reporting helps institutions showcase their contributions to the SDGs and identify areas for improvement, guiding policymakers and practitioners in creating effective strategies for a sustainable Islamic finance ecosystem.

Following this, Mohamed Aslam Akbar, Anasztasia Natasha Muhamad Ramlan, and Edib Smolo provide a detailed discussion on the *meezan* (balance or equilibrium) concept, presenting it as a holistic framework for financing sustainability. This chapter discusses the role of *meezan* in Islamic green finance and Islamic economics. Rooted in Qur'anic and Sunnah values, *meezan* symbolizes balance, as seen in the verse, "*The heaven He raised, and He imposed the balance*" (Qur'an, 55:7). It supports responsible resource use and sustainable projects, such as green *sukuk*, *waqf*-based funds, and eco-friendly investments. The chapter argues that *meezan* and *maqasid al-Shari'ah* principles enable Islamic finance to effectively address environmental challenges and promote a sustainable future.

Part 3 focuses on enabling green growth, with contributions that examine policy frameworks, technological innovations, and financial instruments. Raja Madihah Raja Alias, Nor Razinah Mohd. Zain, Ng See Teong, and Faisal Ahmadi start by examining how government action promotes green growth. Their chapter examines how Malaysia and Indonesia implement green policy frameworks to promote sustainable growth. Effective government policies are crucial for scaling sustainable practices and transitioning to a green economy through subsidies and incentives. ESG initiatives, along with Islamic banking and *sukuk*, play key roles in advancing sustainability. Despite benefits like increased green investments and job creation, challenges such as reliance on conventional practices and slow adaptation hinder progress in both countries.

Issa Hamadou and Ali Haruna explore technological innovation and green fintech in Chapter 6. Green fintech combines financial technology with environmental sustainability. They argue that this aims to improve transparency in fundraising and enhance sustainable finance using blockchain and Artificial Intelligence (AI). Furthermore, the chapter discusses how these technologies can support crowdfunding and predict environmental risks while addressing regulatory challenges.

In Chapter 7, Khairunnisa Musari and Edib Smolo track the historical evolution of Islamic finance instruments, from *esham* to perpetual green *sukuk*. The chapter highlights post-pandemic public finance challenges, the need for climate commitments, and funding for SDGs. It discusses Islamic blended finance, particularly *sukuk* and *esham*, the first Islamic securitization tool. The chapter proposes a framework for creating perpetual green *sukuk* and emphasizes maintaining *sukuk* market integrity in relation to Islamic sustainable finance.

Khalifah and Aslan, in Chapter 8, present a comprehensive review of the literature on *sukuk* in sustainable finance, analysing its development and integration of sustainability principles. Utilizing bibliometric analysis of Scopus

data from 1991 to 2024, the study examines research trends, gaps, and regional influences. The analysis of 3,237 papers reveals significant growth in research, particularly post-2016, with a peak in 2023. The study highlights the multidisciplinary nature of the field, notable early publications, and increased international collaboration, with a 32.13% co-authorship rate. The findings emphasize the need for robust policies, market development, and innovation in *sukuk* frameworks and educational programmes. These insights are crucial for scholars, policymakers, and practitioners to navigate the challenges and opportunities in *sukuk* and sustainable finance. This is followed by a chapter written by Budimanta which highlights the impact of *sukuk* on sustainable development in Indonesia. Since 2013, the country has issued USD 61.61 billion in *Sukuk*, funding over 6,100 projects that have reduced poverty and improved the Human Development Index (HDI) to 74.39. Indonesia is the largest issuer of Green *Sukuk*, raising USD 6.7 billion and significantly cutting CO₂e emissions. While *sukuk* shows positive effects on employment and income redistribution, there is potential to enhance its contribution to GDP growth.

The section is finally rounded up with a chapter by Ali, Rusydiana, and As-Salafiyah. They explore the role of green *sukuk* as a Shari'ah-compliant financial instrument for financing environmentally friendly projects. It highlights their alignment with Shari'ah objectives and reviews structures like *Murabahah*, *Istisna'*, and *Wakalah*. The research identifies challenges such as the lack of standardized taxonomy and high compliance costs, proposing regulatory harmonization and alignment with the SDGs. Overall, green *sukuk* presents an ethical financing solution for sustainable development in line with Islamic finance principles.

Part 4 discusses the opportunities and difficulties in Islamic green finance. In Chapter 11, Dridi and Ben Mdalla analyse the profitability of highly rated Shari'ah-compliant companies during the COVID-19 crisis, focusing on their ESG scores. Using a two-step GMM method on S&P 500 firms from 2002 to 2022, they find that while ESG practices enhance profitability, the pandemic negatively impacted performance, though less so for companies with high ESG ratings. The authors recommend promoting ESG integration for better resilience and suggest these companies as safer investment options. Future research could explore larger samples and other Islamic indices. This is followed by the study by Meskovic, Kozarevic, and Avdukic who study the incorporation of ESG factors in Bosnia and Herzegovina's only Islamic bank. They find that while the integration of ESG is still developing, challenges include a lack of standardized metrics and expertise, as well as unclear regulations. The research emphasizes the importance of ESG in sustainable Islamic banking and suggests improving metric standards, analysis capabilities, and collaboration among stakeholders to enhance ESG integration in financing decisions.

Part 5 of the book deals with impact measurement of Islamic green finance and future directions. In this regard, Shafi and Smolo explore the role of Malaysia's Islamic capital market in developing sustainable bonds and *sukuk*. With a strong regulatory framework, Malaysia leads in green and socially

responsible *sukuk*, particularly since the 2014 Sustainable and Responsible Investment (SRI) *Sukuk* Framework. The study highlights that sustainability *sukuk* differ from traditional ones by requiring projects to demonstrate environmental and social benefits. Keys to building investor trust are clear reporting and Shari'ah compliance. Malaysia's strategic financial approach and international partnerships have fuelled growth in its Islamic capital market, serving as a model for other countries pursuing sustainable finance.

In order to investigate the potential of Islamic green finance in accomplishing the SDGs, Napitupulu and Rusydiana offer fresh concepts and workable solutions. The study examines the role of Islamic green finance in advancing the SDGs through bibliometric analysis using Biblioshiny in R Studio and VoS Viewer. It identifies two main clusters: the red cluster, focusing on ethical investment, *sukuk*, and green *sukuk*, and the green cluster, emphasizing Islamic green banking and green *Waqf* financing. Indonesia and Malaysia are highlighted as key contributors to this research. The study provides insights for governments and Islamic Financial Institutions (IFIs) on leveraging Islamic green finance to achieve the SDGs.

Finally, Alabi, Issa, and Ubandawaki investigate the link between Islamic green finance and the SDGs through *maqasid al-Shari'ah*. Their systematic literature review reveals that integrating Islamic green finance with *maqasid al-Shari'ah* aligns with the SDGs, promoting human welfare and environmental sustainability. This research highlights the important role of Islamic green finance in fostering sustainable development.

In short, this book seeks to provide valuable insights for academics, practitioners, policymakers, and students interested in the intersection of Islamic finance and sustainability. By aligning the principles of Islamic finance with modern environmental and social challenges, it aims to enrich the broader dialogue on fostering a greener and more equitable world. I hope that the ideas and frameworks presented in this work will inspire innovation, collaboration, and action towards achieving sustainable development.

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