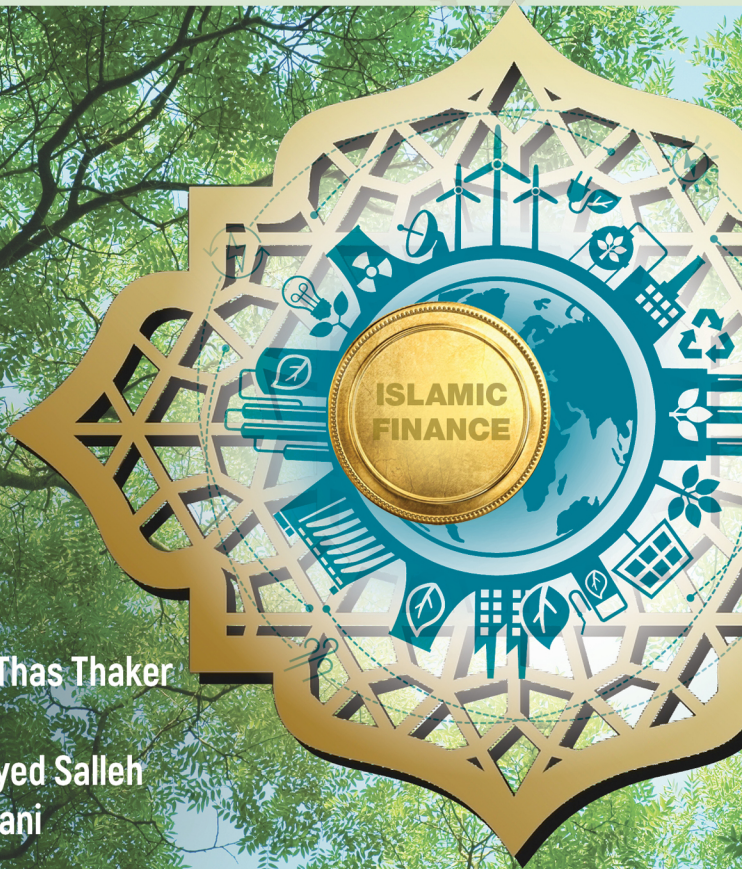


Series in Energy Transition, Carbon Neutrality, and Sustainability - Volume 4

ISLAMIC FINANCE, ENERGY TRANSITION AND SUSTAINABILITY

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Introduction

The impetus behind the idea of this book proposal which relates to the “Islamic Finance, Energy Transition, and Sustainability” stems from a deep-seated feeling of purpose and a pressing need to tackle worldwide issues such as climate change and energy security. Our book aims to offer inventive answers for a more environmentally friendly and fair future by examining the convergence of Islamic finance and sustainability. As noted in existing literature, Islamic finance prioritizes ethical investing, risk-sharing, and social justice and offers a distinct advantage in promoting sustainable development goals (SDGs). Thus, the proposed book focuses on the theoretical discourse of Islamic finance and sustainability, the global perspective on energy transition, and the use of Islamic financial instruments, such as sukuk and green bonds, to finance renewable energy projects and other sustainable initiatives. We also present successful case studies and emerging trends in Islamic finance which subsequently encourage policymakers, financial professionals, and investors to explore products of Islamic finance and incorporate these concepts into their plans and operations. Furthermore, this book assists in closing the knowledge disparity in this expanding domain, functioning as a significant asset for scholars, learners, and professionals. Personally, we are dedicated to creating a beneficial influence, firmly believing in the profound influence of information and the significance of disseminating ideas that might stimulate change. This book exemplifies the notion that finance has the potential to positively impact the world by promoting sustainability and creating a better planet and future for everyone in the country.

This book consists of 14 chapters in 4 parts: Part 1 focuses on the Islamic Perspectives on Climate Change and Energy Transition. Chapter 1 by Shahrul Azman Abd Razak explores how Islamic environmental ethics — such as *khalifah* (stewardship), *mizan* (balance), and *israf* (avoiding waste) — can inform climate change policies in Malaysia. It highlights the country’s vulnerability to rising sea levels, deforestation, and extreme weather, while examining initiatives such as green sukuk (Islamic bonds), eco-mosques, and sustainable *halal* practices. Challenges include economic reliance on fossil fuels, weak policy enforcement, and limited public awareness. The study calls for stronger integration of Islamic principles into national strategies, expanded green finance, and grassroots engagement through religious institutions. Ultimately, it advocates for a faith-based approach to complement scientific and policy efforts in addressing climate change. Chapter 2 by Muhammad Irwan Ariffin focuses on the integration of Islamic principles *khalifah* (stewardship), *mizan* (balance), and *wasatiyyah* (moderation) — with public economics to address climate change. It analyzes tools such as carbon taxes and energy pricing through an Islamic ethical lens, advocating for policies that align with sustainability and equity. The study bridges Quranic guidance with modern economic frameworks to offer actionable climate solutions rooted in Islamic values. Chapter 3 by Mohamed Aslam Akbar *et al.* provides an Islamic framework for transitioning to sustainable energy, drawing from Qur’anic teachings, legal maxims, and contemporary practices such as green sukuk. It highlights how Islamic finance principles align with global sustainability goals and proposes policy integration to promote renewable energy initiatives. Chapter 4 by Rafiq Murdipi and Norazuwana Shaari investigates the impact of Islamic financial development and institutional quality on the relationship between renewable energy production and sustainable development in 18 OIC countries from 2013 to 2023. It finds that Islamic financial tools, such as Sharia-compliant financing and sukuk, play a key role in advancing renewable energy, while strong institutions — including governance, political stability, and corruption control — are essential for maximizing its economic benefits. The research highlights the need for policymakers to enhance Islamic finance systems and institutional frameworks to drive renewable energy adoption and sustainable growth in OIC nations.

Part 2 looks at the Financing Energy Transition with Islamic Instruments. Chapter 5 by Maya Puspa Rahman *et al.* examines how

Islamic finance supports renewable energy projects in Muslim-majority regions (ASEAN, Central Asia, and the Maghreb). Key findings show Malaysia and Indonesia leading in green sukuk, Central Asia using Islamic finance for hydropower/solar, and the Maghreb needing stronger regulations. Islamic finance helps fund clean energy but requires better policies and regional cooperation. In Chapter 6 by Abrista Devi *et al.*, the study proposes a framework to optimize green sukuk (Islamic bonds for eco-friendly projects) in renewable energy financing using the Analytic Network Process (ANP). It evaluates benefits (carbon reduction, economic growth), opportunities (ESG demand, government incentives), costs (high administration, regulatory hurdles), and risks (market volatility, currency fluctuations). Key recommendations include boosting public awareness, enhancing transparency, and strengthening policy integration. Focusing on Indonesia — a global leader in green sukuk — the research offers actionable insights for policymakers and investors. Future work should validate findings with expert input and assess long-term impacts. Chapter 7 by Hazik Mohamed, the author, developed a Renewable Energy Transition (RET) sukuk, a Shariah-compliant financial instrument, to fund projects such as solar, wind, and smart grids, linking returns to sustainability targets (e.g., emission reductions). It highlights environmental benefits (lower emissions, cleaner energy) and social gains (job creation, economic growth) while addressing challenges such as regulatory compliance and investor appeal. The framework aims to bridge the financing gap for renewable energy, particularly in developing markets, aligning with global climate goals. Furthermore, Chapter 8 by Evania Herindar *et al.* examines Islamic Blended Finance (IBF) and green sukuk as solutions for Indonesia's renewable energy financing gap. While Indonesia aims for 23% renewable energy by 2025, challenges such as regulatory barriers, underdeveloped solar energy, and limited private sector engagement persist. The study highlights the potential of IBF but calls for stronger policies, stakeholder collaboration, and investor awareness to scale its impact effectively.

Part 3 is on Innovations in Islamic Finance for Sustainability. Chapter 9 by Gairuzazmi Mat Ghani examines the relationship between religiosity and pro-environmental behavior (*PEB*) in Malaysia, using data from the World Value Survey. It finds that the impact of religiosity on *PEB* varies based on the measure used: prioritizing environmental protection over economic growth is positively linked to the importance of God in life,

while active membership in environmental organizations is negatively associated with religiosity. Education consistently promotes *PEB*, whereas trust and political awareness encourage participation in environmental groups. The study highlights the need for Islamic finance to tailor green products to diverse motivations, aligning with both environmental goals and Islamic ethical values. Chapter 10 by Shahida Shahimi and Siti Aisyah Zahari offers Islamic finance aligns with Value-Based Intermediation (VBI) to drive sustainable development, supporting renewable energy and energy efficiency initiatives in Malaysia. By integrating Maqasid al-Shariah and SDGs, Islamic banks enhance financial resilience while promoting environmental stewardship and social well-being through impact-driven investments. While Chapter 11 by Noor Hazrin Hany Mohamad Hanif *et al.* argues that peer-to-peer (P2P) energy trading offers decentralized renewable energy solutions but faces social equity and ethical challenges. This study integrates Islamic finance principles — fairness, transparency, and risk-sharing — into P2P models, proposing an ethical framework to guide inclusive and sustainable energy markets, particularly in Muslim-majority regions.

Part 4 focuses on Islamic Social Finance and Energy Transition. Chapter 12 under this topic by Mushaddad Hasbullah and Zaharuddin Zakaria explores how waqf can be used to promote sustainable development, with a focus on supporting the global shift toward renewable energy. This chapter argues that waqf, when properly managed, can do more than just meet its traditional charitable purposes. It can also contribute to the global push for sustainability and help in the transition to cleaner, renewable energy. Chapter 13 by Ahmad Khaliq *et al.* focuses the feasibility of a Sustainable Waqf–Retakaful Model (SWRM) for Malaysia’s renewable energy sector, combining waqf’s perpetual funding with Retakaful’s risk-sharing to address climate-related vulnerabilities in solar and wind projects. Through qualitative analysis of industry and policy documents, it identifies regulatory, operational, and financial challenges while proposing climate-resilient infrastructure solutions. The SWRM framework aligns Islamic finance principles with sustainable development, offering a risk-managed approach to support Malaysia’s energy transition and environmental goals. Chapter 14 by Hassanudin *et al.* explores the demand drivers for residential greenhouses in Malaysia, analyzing economic incentives, environmental awareness, socio-psychological factors, and Islamic values as key influences on purchase intentions. It finds that religious principles, financial benefits, and social

perceptions collectively shape green housing adoption, with faith-based stewardship playing a moderating role. The proposed framework offers policymakers strategies — such as religious endorsements, subsidies, and awareness campaigns — to accelerate sustainable housing uptake in Malaysia.

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