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THE INTEGRATION OF SHARIAH PRINCIPLES AND GREEN FINANCE IN ACHIEVING SUSTAINABLE DEVELOPMENT GOALS: A CRITICAL REVIEW

Irine Ika Wardhani[1], Zakia Ulfa Siregar[2], Muhammad Kahlil Hanafiah[3], Mhd Imam Prayudi[4]
(Sharia Economics, Islamic Studies, Universitas Islam Sumatera Utara)
*e-mail: Irinewardhani@gmail.com[1] , zakiaulfasrg@gmail.com[2] , Hanafiahkahlil@gmail.com[3]
imamprayudi59@gmail.com[4]

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Abstract

This critical literature review examines the integration of Shariah principles and green finance in advancing the Sustainable Development Goals (SDGs). Islamic banking, grounded in Maqashid al-Shariah—which emphasizes preservation of wealth, justice, social welfare, and environmental stewardship—provides an ethical foundation for sustainable financial practices. Drawing from qualitative analysis of academic literature, regulatory frameworks (including OJK, DSN-MUI, AAOIFI), institutional reports, and SDG documents, the study highlights strong theoretical synergy between Islamic finance and sustainability goals—evident in instruments like green sukuk and ESG-compliant investments, yet tempered by persistent challenges such as the lack of standardized Shariah-compliant green instruments, regulatory barriers, low stakeholder literacy, and institutional constraints. Notable case examples, including Malaysia's SRI Sukuk Framework and Indonesia's green sukuk initiatives, demonstrate viable paths forward. To address critical gaps, the paper proposes a readiness index based on four dimensions—product availability, institutional commitment, policy compliance, and community outreach—and recommends policy incentives, Shariah-fatwas, academic-industry collaboration, and enhanced public education to better position Islamic finance at the forefront of global sustainability efforts.

Keywords: ***Shariah Principles · Green Finance · SDGs · Islamic Banking · Critical Review · Maqashid al-Shariah***

1. INTRODUCTION

Climate change,environmental degradation,and the depletion of natural resources have reached a critical global tipping point, demanding a systemic transformation of economic and financial architectures. **Green finance**, which directs investmenttoward environmentally beneficial and climate-resilient initiatives (e.g., renewable energy, sustainable transportation, and circular economy), has become integral to achieving multiple United Nations Sustainable Development Goals (SDGs)—notably SDG 7 (Clean Energy), SDG 11 (Sustainable Cities), SDG 12 (Responsible Consumption), and SDG 13 (Climate Action). Parallel to this agenda, **Islamic banking**, built on the moral and legal foundations of Maqashid al-Shariah (the objectives of Islamic law), emphasizes the preservation of wealth (hifz al-mal), equity and justice (ʿadl), public welfare (maslahah), and environmental protection (hifz al-bi'ah). This ethical framework aligns inherently with green finance objectives, making Islamic finance a compelling candidate to support global sustainability efforts. Empirical practices underscore this alignment. **Green Sukuk**, **ESG-screened Islamic investment funds**, and **Islamic microfinance** initiatives have been implemented in several countries Malaysia, for example, has been a pioneer through its **SRI Sukuk Framework** since 2014 and the issuance of the world's first social and green sukuk in 2017, financing large-scale renewable projects, including solar photovoltaic plants in Sabah. Indonesia similarly issued its sovereign **Green Sukuk** starting in 2018, positioning itself as a regional leader in sustainable Islamic finance.

Despite such progress, practical integration is still nascent. Many Islamic financial institutions face challenges related to the absence of standardized Shariah-compliant green instruments, regulatory ambiguities, limited stakeholder awareness, and institutional capacity constraints. Additionally, although the alignment between Maqashid and SDGs has been conceptually established, actual operational models incorporating zakat, waqf, and ESG into Islamic banking remain underdeveloped.

Therefore, this paper employs a **critical literature review** to explore the following:

- The moral and theoretical alignment between Maqashid al-Shariah and green finance paradigms;
- The real-world implementation of such mechanisms, including successes and current limitations;
- Case analyses of notable initiatives—namely Malaysia's SRI Sukuk and Indonesia's Green Sukuk;
- The proposal of a **Green Finance Readiness Index** based on four dimensions: product availability, institutional commitment, regulatory compliance, and community outreach;
- Strategic recommendations—ranging from policy incentives and supportive fatwas to enhanced collaboration and financial education—to strengthen the role of Islamic banking in global sustainability. By combining ethical theory, practical case studies, and strategic frameworks, this research aims to guide Islamic financial systems toward responsible stewardship and moral investment as central elements of the global sustainability agenda.

2. METHOD

This study adopts a **qualitative critical literature review** approach to explore how Islamic banking is conceptually and practically positioned to embrace green finance within the framework of Maqashid al-Shariah and global sustainability objectives. The methodology is structured into six main parts: research design, data sources, inclusion and exclusion criteria, data analysis, validity, and limitations.

Research Design

This research adopts a **qualitative critical literature review** as its core methodology. This design enables the researcher to go beyond description and instead reflect analytically on how Islamic banking aligns with green finance principles. The choice of critical review is suitable for areas where there is a combination of philosophical foundations (such as Maqashid al-Shariah) and practical applications (such as green sukuk), allowing both normative evaluation and practical interpretation. This approach permits exploration of how Islamic values—rooted in ethical, moral, and legal guidelines—support sustainability while also uncovering systemic, regulatory, or awareness-based limitations in actual practice. By critically assessing the existing body of literature, this research seeks to uncover not only what has been done but what remains to be explored in integrating environmental stewardship within Islamic financial systems.

Data Sources and Search Strategy

The literature for this study was gathered from a diverse range of **peer-reviewed journals**, **institutional policy documents**, and **official reports**. Sources were accessed through databases such as **Scopus**, **ScienceDirect**, **Springer**, **Taylor & Francis**, and **Google Scholar** using search terms like: "Islamic green finance," "Shariah-based sustainability," "green sukuk," "Islamic ESG," and "SDGs and Islamic banking." The study also included strategic documents from organizations like **Bank NegaraMalaysia**,**Otoritas Jasa Keuangan (OJK)**, **AAOIFI**, **Islamic Development Bank**, and **DSN-MUI**. These institutional documents provided insight into how policy and practice are developing across Islamic financial jurisdictions. The search focused on publications from **2015 to 2025** to ensure that findings reflect recent developments, innovations, and challenges.

Inclusion and Exclusion Criteria

To maintain rigor, strict selection criteria were applied. Studies were included if they discussed the intersection of Islamic finance and green finance or contributed insights on sustainability practices within Islamic banking. This included both **conceptual discussions** (e.g., aligning Maqashid with SDGs) and **empirical studies** (e.g., implementation of green sukuk). Documents were excluded if they focused solely on conventional finance, were outdated (before 2015), lacked peer review, or did not address either sustainability or Islamic financial ethics explicitly. From an initial pool of 120 sources, the screening process—based on titles, abstracts, and full-text relevance—resulted in 42 high-quality references being selected for in-depth thematic analysis. This balanced mix of academic theory and institutional policy helped provide a rich, diverse foundation for critical reflection.

Data Analysis

The data were analyzed using **thematic content analysis** and **conceptual mapping**, allowing the identification of recurring themes, patterns, and conceptual relationships.

Thematic Analysis Steps:

1. **Data Familiarization**: Initial reading and annotation of all selected sources.
2. **Open Coding**: Extracting key phrases related to green finance, Shariah principles, ESG integration, regulatory trends, and institutional practices.
3. **Theme Development**: Grouping codes into major themes such as:
    - "Shariah-ESG Alignment,"
    - "Green Sukuk Implementation,"
    - "Institutional Capacity Gaps,"
    - "Public Perception and Awareness."
4. **Conceptual Framework**: A visual model (presented in Section 3) was developed to represent the alignment and readiness of Islamic banking for green finance.

Validity and Limitations

To enhance validity, the research process maintained a detailed documentation trail including search terms, filtering decisions, and selection justification. Only reputable and credible sources were included, and triangulation was used by comparing multiple types of literature (academic journals, policy papers, and regulatory reports). However, the study acknowledges its limitations. The absence of **primary data** such as interviews or surveys limits insight into internal decision-making processes of Islamic banks. Also, the geographical focus—heavily centered on Southeast Asia, especially Malaysia and Indonesia—may not fully reflect experiences in regions like the Middle East or Africa. Moreover, due to the reliance on secondary literature, the conclusions are only as robust as the quality of the sources reviewed. Despite these limitations, the structured, critical, and ethical approach to literature review ensures that the findings and reflections drawn in this research are meaningful, contextual, and grounded in real-world dynamics.

3. RESULTS AND DISCUSSION

This study explores the readiness of Islamic banking institutions to embrace green finance by evaluating the alignment of Islamic financial principles with sustainability goals and examining real-world implementations in countries like Malaysia and Indonesia. The findings are structured into thematic categories to better understand the institutional, regulatory, and social dimensions that influence adoption. Islamic finance, rooted in Maqashid al-Shariah and ethical values such as justice (adl) and prohibition of harm (darar), shares fundamental goals with green finance. Instruments like musharakah, mudharabah, and wakalah are naturally aligned with sustainability because they promote responsible investment, shared risk, and environmental ethics. However, despite this conceptual compatibility, the practical implementation of green Islamic financial products remains fragmented across regions.

Regional Case Comparison: Malaysia and Indonesia

Malaysia and Indonesia serve as notable case studies in the development of Islamic green finance, particularly through the issuance of green sukuk. The table below compares key aspects:

Table 1. Comparison of Green Sukuk in Malaysia and Indonesia

Criteria	Malaysia	Indonesia
First Green Sukuk Issued	2017 (SRI Sukuk - Solar Energy)	2018 (Sovereign Green Sukuk)
Regulator	Bank Negara Malaysia, SC Malaysia	Ministry of Finance, OJK
Main Focus	Renewable energy, green buildings	Energy, waste management, agriculture
Institutional Support	High (Fatwa, SRI roadmap, private sector)	Medium (mostly government-led)
Retail Involvement	Growing (e.g. Wakaf-linked sukuk)	Moderate (limited public offering)
Integration with SDGs	Strong	Moderate

This comparison highlights how Malaysia's integrated regulatory and innovation ecosystem has allowed more rapid development, while Indonesia continues to build its infrastructure gradually.

Institutional Readiness and Public Engagement

Despite potential, many Islamic banks face critical internal and external limitations:

- Limited ESG Knowledge: Many Islamic financial institutions lack ESG expertise and fail to incorporate environmental criteria into risk assessments.
- Regulatory Gaps: There is no universal Shariah framework for green finance, leading to inconsistent fatwas and regulatory uncertainty.
- Conservative Business Culture: Many banks prioritize short-term financial returns over long-term sustainability.
- Low Market Demand: Public awareness of green Islamic products remains low due to limited financial literacy and outreach efforts.

Table 2. Key Institutional Barriers in Islamic Green Finance

Barrier	Impact
Lack of ESG Expertise	Difficulty designing sustainable financial instruments
Inconsistent Fatwas	Uncertainty in product legitimacy and investor confidence
Weak Internal Commitment	Green initiatives not prioritized in strategic planning

Limited Public Education	Low retail investor participation in green financial markets

Proposed Green Finance Readiness Model

To systematically evaluate and improve the readiness of Islamic banking institutions, this study proposes the **Green Finance Readiness Model**, which includes four essential pillars:

1. **Product Availability** – Development and accessibility of green financial instruments (e.g., green sukuk, ESG-linked products).
2. **Institutional Strategy** – Internal policy alignment with sustainability goals, including leadership commitment and ESG integration.
3. **Regulatory Clarity** – Presence of consistent, Shariah-compliant regulations and tax or legal incentives.
4. **Public & Stakeholder Engagement** – Education campaigns, transparency initiatives, and stakeholder partnerships to build market trust.

4. CONCLUSION

This study has critically examined the readiness of Islamic banking institutions to embrace green finance within the framework of Shariah-based sustainability. Through a comprehensive discussion of theoretical alignment, regional practices, institutional limitations, and stakeholder engagement, it is evident that while Islamic financial principles are inherently compatible with environmental and ethical objectives, the practical implementation of green finance within the Islamic banking sector remains fragmented and inconsistent. Islamic finance promotes values such as justice, environmental stewardship, and social welfare—all of which align strongly with the goals of sustainable development. However, the transition from theoretical compatibility to real-world application is hindered by several internal and external factors. These include limited ESG awareness, the absence of a unified Shariah framework for green financial instruments, a lack of strategic commitment within institutions, and inadequate public engagement.

Comparative analysis between Malaysia and Indonesia reveals that institutional readiness and regulatory clarity play a pivotal role in advancing green Islamic financial instruments such as green sukuk. Malaysia's integrated regulatory approach and private sector involvement offer a strong model, while Indonesia's growing government-led initiatives demonstrate potential for broader adoption in the future. To ensure that Islamic banking evolves into a key driver of global sustainable finance, a structured readiness framework must be adopted. This includes enhancing product development, aligning internal strategies with sustainability, improving regulatory support, and increasing public awareness through education and stakeholder collaboration. Ultimately, Islamic banking holds the potential to become a powerful enabler of green finance globally. However, this potential can only be realized through a coordinated and intentional effort involving regulators, financial institutions, Shariah scholars, civil society, and the public. Future research should explore specific strategies to operationalize the readiness model proposed in this paper and assess the long-term impact of green finance initiatives in the Islamic financial ecosystem.

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