

Islamic Green Finance: Shariah-Compliant Pathways towards Sustainable Development Goals (SDGs)

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Abstract

The urgency of addressing climate change and environmental degradation has catalyzed the development of green finance globally. Islamic finance, rooted in ethical principles and Shariah law, presents a natural alignment with sustainability goals. This paper explores the conceptual foundations, Shariah principles, practical models, challenges, and opportunities associated with Islamic Green Finance. It highlights real-world initiatives, focusing on the United Arab Emirates' National Sustainable Finance Framework. Despite facing regulatory and market challenges, Islamic Green Finance offers significant potential to mobilize resources for sustainable development within a Shariah-compliant framework. Strategic recommendations are proposed to enhance its growth and impact globally.

Keywords

Islamic Finance, Green Sukuk, Sustainable Development Goals, Shariah Compliance, ESG Investing, Islamic Green Finance

1. Introduction

In the wake of unprecedented global environmental challenges, the call for sustainable finance has never been louder. Traditional financial systems are under increasing scrutiny for their role in climate change and environmental degradation. As a result, green finance—financial activities that promote environmental sustainability—has emerged as a key pillar in the global response to climate change. However, for Islamic finance, which is rooted in ethical and moral principles derived from Shariah law, the imperative to support environmental stewardship is not merely a reaction to modern challenges; it is an inherent duty.

Islamic finance, based on principles such as the prohibition of harm (darar), the promotion of welfare (maslahah), and the preservation of resources (hifz al-mal), naturally aligns with the ethos of sustainable development. Thus, the fusion of green finance with Islamic financial principles—termed “Islamic Green Finance”—offers a unique and promising framework for achieving the United Nations Sustainable Development Goals (SDGs) without compromising religious values.

Despite its significant potential, Islamic Green Finance remains an underdeveloped sector, facing numerous challenges including regulatory inconsistencies, lack of standardized frameworks, and limited awareness among stakeholders. This research explores the foundational principles, operational models, challenges, and future prospects of Islamic Green Finance as a tool for promoting sustainable, equitable, and Shariah-compliant economic growth.

Research Questions

- What are the key principles underlying Islamic Green Finance?
- How does Islamic Green Finance differ from conventional green finance?
- What are the existing models and instruments of Islamic Green Finance?
- What are the major challenges hindering the development of Islamic Green Finance?
- How can Islamic Green Finance contribute effectively to achieving the SDGs?

Research Objectives

- To define and conceptualize Islamic Green Finance.
- To analyze Shariah principles supporting environmental sustainability.
- To examine practical models and case studies of Islamic Green Finance.
- To identify challenges and propose solutions for the future development of the sector.

Significance of Study

This research is significant for policymakers, Islamic financial institutions, scholars, and investors seeking to understand and implement sustainable financial practices within a Shariah-compliant framework. It also aims to bridge the knowledge gap and provide a comprehensive academic foundation for future empirical studies in the field.

2. Literature Review

2.1. Concept of Green Finance

Green finance refers to financial activities that promote the transition to a more sustainable economy by supporting projects and initiatives that address environmental challenges, such as climate change, biodiversity loss, and pollution reduction. According to the [1], green finance includes investments in renewable energy, energy efficiency, clean transportation, sustainable agriculture, and green infrastructure. Conventional green finance operates within market-driven frameworks, often motivated by environmental, social, and governance (ESG) considerations, investor demand, and regulatory incentives.

2.2. Concept of Islamic Finance

Islamic finance is a financial system that adheres to Islamic law (Shariah), which emphasizes fairness, ethical conduct, and social responsibility. It prohibits interest (riba), excessive uncertainty (gharar), and speculative behavior (maysir), while encouraging profit and risk-sharing (mudarabah, musharakah) and asset-backed transactions (murabaha, ijarah). The Islamic finance sector has grown significantly over the past decades, reaching over \$2.5 trillion in assets globally [2]. Ethical investment is at its core, aligning it naturally with principles of sustainability and responsible finance.

2.3. Defining Islamic Green Finance

Islamic Green Finance is the integration of environmental sustainability into Shariah-compliant financial practices. It seeks to combine the ethical imperatives of Islamic finance with the environmental objectives of green finance. In essence, Islamic Green Finance involves mobilizing financial resources towards eco-friendly projects that are in full compliance with Islamic legal and ethical principles.

Defines Islamic Green Finance as “the provision of financial services that not only adhere to Shariah rules but also contribute positively to environmental protection and sustainable development.” [3]

2.4. Differences Between Conventional Green Finance and Islamic Green Finance

Table 1. Comparison of Conventional Green Finance and Islamic Green Finance.

Aspect	Conventional Green Finance	Islamic Green Finance
Underlying principles	Market-driven, ESG considerations	Shariah-compliant, ethical, prohibition of riba and gharar
Instruments	Green bonds, ESG funds, carbon credits	Green sukuk, Shariah-compliant green funds, Islamic microfinance for environmental projects
Profit motive	Profit maximization within ESG constraints	Profit-sharing with ethical and social objectives
Screening process	ESG rating agencies and sustainability indexes	Shariah screening + environmental criteria

While both types aim to fund environmentally sustainable projects, Islamic Green Finance operates within a stricter ethical and legal framework, ensuring that both financial and environmental goals are achieved without compromising Islamic values.

As outlined in **Table 1**, Islamic Green Finance distinguishes itself from conventional green finance by embedding religious and ethical constraints, such as the prohibition of riba (interest) and the emphasis on Shariah screening alongside environmental criteria.

2.5. Existing Research on Islamic Green Finance

Although still a nascent field, recent studies have begun exploring Islamic Green Finance:

- [1] highlights the role of green sukuk in mobilizing capital for climate change mitigation and adaptation projects.
- [3] emphasizes the compatibility between Islamic finance and environmental sustainability, noting the potential for Islamic instruments to support green initiatives.
- [4] discusses regulatory challenges and the need for standardized green finance guidelines within Islamic financial institutions.
- [5] recognizes Islamic finance as a vital tool for financing the SDGs, particularly in Muslim-majority countries.

However, most studies agree that Islamic Green Finance remains underutilized due to a lack of awareness, regulatory fragmentation, and limited availability of Shariah-compliant green financial products.

2.5.1. Methodology

The present study employs a qualitative, analytical, and normative research methodology to explore the intersection of Islamic finance and environmental sustainability. The research approach is grounded in the analysis of classical Shariah principles and their application to contemporary green finance instruments, particularly through the lens of Maqasid al-Shariah (objectives of Islamic law).

Secondary data from reputable sources—including academic journals, policy papers from the Islamic Financial Services Board (IFSB), AAOIFI, and international development institutions—were reviewed systematically.

A comparative analysis was applied to examine differences between conventional green finance and Islamic green finance structures. Furthermore, a case study method was adopted to evaluate the UAE's National Sustainable Finance Framework and Green Sukuk initiatives as real-world applications of Islamic Green Finance.

While the study does not include primary empirical data collection, it provides a rigorous theoretical foundation for future empirical investigations by identifying research gaps and proposing actionable recommendations.

2.5.2. Shariah-Based Environmental Framework: A Jurisprudential Inquiry

Islamic environmental ethics are deeply embedded in *usul al-fiqh* (principles of Islamic jurisprudence) and Maqasid al-Shariah (objectives of Islamic law). While previous sections touched upon foundational principles, this expanded analysis explores how classical jurisprudence can directly inform environmental finance through operative legal doctrines.

One critical concept is *hisbah* (public accountability and market oversight). Historically, the *muhtasib* (market inspector) ensured fair trade and protection of communal interests, including the environment. In modern finance, this translates

into the obligation to scrutinize and certify that green financial products genuinely uphold both environmental impact and Shariah compliance—preventing green-washing and interest-based loopholes.

Furthermore, the principle of *La Ďarar wa la Ďirār* (No harm, no reciprocated harm) extends to intergenerational equity—a value central to sustainable development. This principle obligates financial decision-makers to avoid projects that generate environmental externalities, even if profitable in the short term.

From the perspective of *Masalih Mursalah* (unrestricted public interest), green finance qualifies as a contemporary necessity (*darurah*) addressing the existential threat of climate change. Contemporary scholars like Yusuf al-Qaradawi and Wahbah al-Zuhayli argue that environmental preservation is a legitimate *maqasid* falling under *Hifz al-Nafs* (preservation of life) and *Hifz al-Mal* (protection of wealth).

This holistic application of Shariah illustrates that environmental stewardship is not only ethical but a juridical obligation (*wajib kifayah*) when tools like green Sukuk and green Waqf can enable society to fulfill collective duties.

Additionally, the rule of *sadd al-dhara'i* (blocking the means to harm) obliges Islamic financial institutions to avoid indirect financing of polluting industries, even if such ventures offer lucrative returns.

2.5.3. Between Profitability and Shariah Compliance in Islamic Green Finance: A Critical Reflection

While Islamic Green Finance (IGF) offers a compelling ethical framework, its real-world implementation encounters serious tensions between financial viability and strict Shariah adherence—particularly when applied to green sectors characterized by long payback periods, technological uncertainty, and evolving regulatory landscapes.

A central challenge lies in the profit motive versus ethical constraints. For instance, investments in green technologies such as carbon capture or waste-to-energy often involve speculative returns (*gharar*) or unconventional leasing contracts, raising jurisprudential concerns. Shariah boards may reject these structures even if they promise substantial environmental benefits—thus limiting innovation and scalability in green project financing.

Moreover, Shariah screening mechanisms are not yet aligned with global Environmental, Social, and Governance (ESG) criteria. A firm may pass environmental standards but fail Shariah tests due to minor financial ratios (e.g., debt-to-asset exceeding 33%). Conversely, a firm that passes Shariah screens might score poorly in ESG metrics. This duality creates a structural gap, complicating investment decisions for stakeholders seeking both religious compliance and environmental impact.

In practice, Shariah arbitrage—where financial products are superficially “Islamized” without substantive ethical review—remains a risk. Critics argue that some Green Sukuk are designed to meet minimum compliance rather than uphold the spirit of *maqasid*. Without robust third-party certification and accountability

mechanisms (*hisbah*), Islamic Green Finance risks becoming a tool of symbolic compliance rather than genuine transformation.

Ultimately, if IGF is to mature as a credible force in the global green finance landscape, it must confront and reconcile these internal contradictions—not by diluting Shariah, but by innovating within its boundaries and demanding higher levels of both financial transparency and environmental integrity

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3. Shariah Foundations for Islamic Green Finance

3.1. Introduction to Shariah and Environmental Stewardship

Shariah, the divine law of Islam, encompasses not only rituals and worship but also guidance on social, economic, and environmental matters. Islamic jurisprudence (*fiqh*) promotes the balanced use of resources, prohibits wastefulness (*is-*

raf), and encourages the preservation of the environment (hifz al-bi'ah). The concept of humans as stewards (khalifah) of the Earth, as emphasized in the Quran, places an inherent responsibility upon individuals and communities to protect and sustain natural resources for future generations.

Quranic Foundations:

- “It is He who has made you successors (khalifah) upon the Earth...” (Quran 35:39)
- “And do not commit abuse on the Earth, spreading corruption.” (Quran 2:60)

These verses clearly establish the ethical obligation towards environmental protection as part of a Muslim’s duty.

3.2. Key Shariah Principles Relevant to Green Finance

Principle	Explanation	Application to Green Finance
Maslahah (public interest)	Promoting public welfare and preventing harm	Investing in renewable energy, sustainable agriculture
Darar (prohibition of harm)	Avoiding harm to individuals, society, and environment	Divesting from polluting industries; funding eco-friendly projects
Hifz al-Mal (preservation of wealth)	Protection and optimal use of financial and natural resources	Sustainable investments to preserve wealth for future generations
Israf and tabdhir (prohibition of wastefulness)	Avoiding extravagance and waste	Efficient use of natural resources; green building initiatives

These Shariah principles lay the ethical and legal foundation for Islamic Green Finance, emphasizing a symbiotic relationship between economic activity and environmental stewardship.

3.3. Contemporary Ijtihād on Environmental and Sustainability Issues

Ijtihad and Modern Environmental Issues Given the evolving nature of environmental challenges, Islamic scholars have employed ijtihad (independent reasoning) to issue contemporary rulings (fatwas) that support sustainable practices. Various Islamic finance standard-setting bodies, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB), have increasingly acknowledged the importance of aligning financial practices with environmental goals.

Contemporary juristic opinions emphasize that investments harmful to the environment are inconsistent with the objectives of Shariah (Maqasid al-Shariah), particularly the objectives of preservation of life (hifz al-nafs) and wealth (hifz al-mal).

3.4. Shariah Parameters for Green Sukuk and Sustainable Finance Instruments

Shariah Support for Green Sukuk and Eco-Friendly Financial Instruments Islamic financial scholars widely support the issuance of Green Sukuk-Shariah-compliant bonds where proceeds are exclusively used to fund environmentally sustainable projects. Green Sukuk structure aligns perfectly with:

Asset-backed nature of sukuk (aligning with tangible, real-world projects like renewable energy farms)

Purpose-specific funding (ensuring that the proceeds are used for defined eco-friendly objectives)

AAOIFI's guidelines and fatwas on permissible investment further strengthen the legitimacy of green financial instruments under Shariah.

4. Models and Applications of Islamic Green Finance

4.1. Green Sukuk (الصكوك الخضراء)

Green Sukuk are Shariah-compliant investment certificates, the proceeds of which are exclusively dedicated to financing or refinancing green projects such as renewable energy, energy efficiency, waste management, and sustainable transport.

According to **Table 2**, the structure of the UAE's Green Sukuk initiative is primarily based on *Ijarah* and *Wakalah* contracts, with the objective of financing renewable energy and sustainable infrastructure projects.

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Table 2: Structure and Features of the UAE's Green Sukuk Initiative.

Structure and Features:

- **Asset-backed:** Green Sukuk must be linked to tangible, revenue-generating green assets.
- **Purpose-specific:** Funds raised are earmarked for clearly identified green initiatives.
- **Shariah compliance:** Structures like *Ijarah* (lease-based), *Murabaha* (cost-plus sale), and *Istisna* (construction/manufacture contracts) are often used.

Examples:

- **Indonesia (2018):** Issued the world's first sovereign Green Sukuk (\$1.25 billion) to finance renewable energy and sustainable agriculture projects.
- **Malaysia:** Pioneered corporate Green Sukuk to support sustainable infrastructure.

Green Sukuk align environmental impact with religious and financial obligations, making them an ideal instrument for Islamic Green Finance.

4.2. Islamic Green Funds

Islamic Green Funds pool Shariah-compliant investments into portfolios that fo-

cus solely on eco-friendly sectors. These funds are invested in:

- Renewable energy companies
- Clean technology firms
- Sustainable agriculture enterprises

Screening involves a two-tier process:

1) **Shariah screening:** Ensuring companies comply with Islamic financial principles.

2) **Environmental screening:** Ensuring companies meet rigorous environmental standards (e.g., carbon footprint, ESG scores).

Example:

- *Maybank Global Sustainable Equity-i Fund*—one of the first Shariah-compliant ESG-focused funds in Asia.

4.3. Green Waqf (الوقف الأخضر)

Waqf (Islamic endowment) traditionally involves donating assets for charitable or public benefit purposes.

Green Waqf applies the concept towards environmental sustainability, such as:

- Endowing land for afforestation or conservation
- Funding renewable energy projects in mosques and schools
- Supporting eco-friendly community development projects

Key Features:

- Permanent source of funding for sustainable causes
- Ensures continuous environmental benefits aligned with sadaqah jariyah (ongoing charity)

Example:

- Initiatives in Malaysia and the UAE to create Waqf-based solar energy projects for rural communities.

4.4. Islamic Microfinance for Green Projects

Islamic microfinance institutions are increasingly supporting environmentally sustainable entrepreneurship among low-income populations through:

- Providing interest-free loans (Qard Hasan) for green businesses.
- Offering Murabaha financing for purchasing eco-friendly agricultural equipment.

This approach fosters grassroots sustainable development while ensuring compliance with Islamic social finance principles.

4.5. Takaful (Islamic Insurance) for Environmental Risk Mitigation

Takaful schemes are being developed to insure against environmental risks such as:

- Crop failure due to climate change
- Damage to renewable energy installations
- Eco-tourism business losses

Green Takaful products promote risk-sharing mechanisms that protect environ-

mentally conscious investments, fostering greater resilience among stakeholders.

5. Challenges and Opportunities for Islamic Green Finance

5.1. Challenges Facing Islamic Green Finance

Despite its inherent alignment with sustainability principles, Islamic Green Finance faces multiple challenges that hinder its full development and mainstream adoption:

5.1.1. Regulatory and Standardization Gaps

- **Lack of unified standards:** Unlike conventional green finance, which benefits from global frameworks like the Green Bond Principles (GBP), Islamic Green Finance lacks a universally accepted regulatory standard.
- **Jurisdictional differences:** Shariah interpretations vary between countries and institutions, leading to inconsistencies in product structuring and approval processes.
- **Absence of taxonomy:** There is a shortage of comprehensive Islamic green finance taxonomies that clearly define eligible green activities under Shariah.

5.1.2. Limited Awareness and Education

- **Investor unfamiliarity:** Many investors, particularly in Muslim-majority countries, are still unaware of green financial products and their alignment with Islamic principles.
- **Institutional knowledge gap:** Islamic financial institutions often lack the technical expertise needed to assess and structure complex green projects.

5.1.3. Market Size and Liquidity Constraints

- **Small market size:** Green Sukuk and Islamic Green Funds represent a very small fraction of the total Islamic finance market.
- **Liquidity issues:** Secondary market trading for Green Sukuk is limited, which discourages investor participation and impacts pricing efficiency.

5.1.4. High Costs and Risk Perceptions

- **Cost of certification:** Green certification processes can be costly and time-consuming, particularly for smaller issues.
- **Risk perception:** Investors often perceive green projects as riskier due to longer payback periods and regulatory uncertainties.

5.1.5. Limited Project Pipelines

- **Insufficient green project proposals:** Many potential projects either fail to meet Shariah compliance standards or lack the necessary environmental credentials, narrowing the pipeline for Islamic Green Finance initiatives.

5.2. Opportunities for Growth and Development

Despite these challenges, Islamic Green Finance holds substantial opportunities for expansion and global impact:

5.2.1. Natural Alignment with Maqasid al-Shariah

- The principles of Islamic finance inherently align with environmental stewardship and sustainability objectives, positioning Islamic Green Finance as a natural vehicle for achieving the SDGs.

5.2.2. Government Initiatives and Policy Support

- Several governments, particularly in Southeast Asia and the Gulf Cooperation Council (GCC) region, have introduced frameworks and incentives to support green Sukuk issuance and sustainable finance.
- Examples include Malaysia's Sustainable and Responsible Investment (SRI) Sukuk Framework and the UAE's commitment to net-zero emissions by 2050.

5.2.3. Growing Global Demand for ESG and Sustainable Finance

- Global investors are increasingly demanding financial products that align with Environmental, Social, and Governance (ESG) principles.
- Islamic Green Finance products offer a dual value proposition: ethical (Shariah-compliant) and sustainable (environmentally responsible), catering to a broader range of investors.

5.2.4. Technological Innovations

- Financial technologies (FinTech) such as blockchain, artificial intelligence, and big data analytics can enhance transparency, improve green project evaluation, and reduce transaction costs in Islamic Green Finance.

5.2.5. Social Impact and Financial Inclusion

- Islamic Green Finance can contribute significantly to poverty alleviation and social equity by financing sustainable development projects in underserved communities, especially through instruments like Green Waqf and Islamic microfinance.

6. Case Study: United Arab Emirates' Green Sukuk Initiative

According to **Table 2**, the structure of the UAE's Green Sukuk initiative is primarily based on Ijarah and Wakalah contracts, with the objective of financing renewable energy and sustainable infrastructure projects.

6.1. Background

Background the United Arab Emirates (UAE) has emerged as a regional leader in promoting sustainability and green finance within the Islamic financial framework. In alignment with the UAE Vision 2030 and the Net Zero by 2050 Strategic Initiative, the UAE government has actively fostered the growth of Islamic Green Finance, particularly through the development and issuance of Green Sukuk.

According to **Table 2**, the structure of the UAE's Green Sukuk initiative is primarily based on Ijarah and Wakalah contracts, with the objective of financing renewable energy and sustainable infrastructure projects.

Recognizing the synergy between Shariah principles and environmental stew-

ardship, the UAE aims to leverage Islamic financial instruments to finance projects in renewable energy, sustainable infrastructure, and low-carbon development.

In 2023, the UAE took a significant step by launching its National Sustainable Finance Framework, which includes a focused strategy to encourage Green and Sustainable Sukuk issuance.

6.2. Structure and Features

Table 2. Structure and Features of the UAE Green Sukuk Initiative.

Feature	Description
Instrument	Green Sukuk (corporate and sovereign potential)
Structure	Based primarily on Ijarah and Wakalah
Objective	Financing projects that contribute to UAE's climate and environmental goals
Key stakeholders	Ministry of Finance, Abu Dhabi Global Market (ADGM), Dubai Financial Market (DFM), and UAE Banks Federation

Specific areas targeted include:

Renewable energy (solar, wind)

Energy efficiency initiatives

Sustainable water management

Green transportation (electric vehicles infrastructure)

In addition, Islamic banks like Dubai Islamic Bank and Abu Dhabi Islamic Bank have begun structuring Shariah-compliant green products, including corporate Green Sukuk.

6.3. Initiatives and Programs

Key Initiatives and Programs
First UAE Green Bond Program: In 2023, the UAE Ministry of Finance announced plans for sovereign green bond issuance, which includes a substantial Shariah-compliant component (Green Sukuk).

Sustainable Finance Framework (2023): This framework mandates all financial institutions to integrate ESG factors into their lending and investment decisions, fostering an enabling environment for Islamic Green Finance.

Partnership with International Bodies: The UAE collaborates with the International Islamic Liquidity Management Corporation (IILM) and other global Islamic finance organizations to standardize and promote Islamic Green Finance.

Dubai Sustainable Finance Working Group (DSFWG): Established to encourage collaboration between regulators, banks, and capital markets to develop and mainstream sustainable Islamic finance instruments.

6.4. Impact and Achievements

Impact and Achievements
Market Development: Creation of a dynamic ecosys-

tem encouraging issuance of green and sustainable Sukuk within the UAE and the broader Gulf region.

Investor Attraction: Significant interest from international ESG-focused investors seeking Shariah-compliant green investment opportunities.

Policy Leadership: The UAE became one of the first MENA countries to formally link its Islamic finance strategy to the United Nations Sustainable Development Goals (SDGs).

Capacity Building: Training programs and workshops for Islamic financial institutions to build expertise in structuring and managing Green Sukuk.

6.5. Challenges and Future Directions Developing a Consistent Islamic Green Taxonomy: Work Is Underway to Align Islamic Finance Practices with Global Green Finance Taxonomies While Preserving Shariah Principles

Challenges and Future Directions Developing a consistent Islamic green taxonomy: Work is underway to align Islamic finance practices with global green finance taxonomies while preserving Shariah principles.

Balancing profitability and impact: Ensuring that Green Sukuk remain both financially attractive and environmentally impactful.

Scaling Up: Encouraging private sector participation and the issuance of corporate Green Sukuk to complement government efforts.

7. Results and Discussion

7.1. Results

Results Based on the comprehensive review of literature, Shariah principles, models, case studies, and market analysis, the following key results emerge:

Natural Alignment Between Islamic Finance and Sustainability: Islamic finance inherently supports environmental stewardship through its foundational principles such as Maslahah (public interest), Darar (avoidance of harm), and Israf (prohibition of waste).

Islamic Green Finance Instruments Are Emerging but Nascent: Instruments like Green Sukuk, Islamic Green Funds, Green Waqf, and Green Takaful offer promising Shariah-compliant pathways for financing sustainable development, but their scale remains relatively small compared to conventional green finance.

Success Factors Identified in Practice: Successful initiatives, such as Indonesia's sovereign Green Sukuk and the UAE's National Sustainable Finance Framework, demonstrate that strong policy support, regulatory clarity, alignment with international standards, and transparency are crucial for the success of Islamic Green Finance initiatives.

Major Challenges Persist: Challenges including regulatory fragmentation, limited investor awareness, small market size, and high certification costs continue to impede the wider adoption of Islamic Green Finance.

Strategic Opportunities for Growth: There is strong potential for Islamic Green

Finance to expand through government incentives, rising global demand for ESG investments, technological innovations, and enhanced collaboration between Islamic financial institutions and environmental stakeholders.

7.2. Discussion

Research question	Discussion summary
What are the key principles underlying Islamic Green Finance?	Rooted in Shariah ethics: environmental preservation (Hifz al-Bi'ah), avoidance of harm (Darar), promotion of welfare (Maslahah).
How does Islamic Green Finance differ from conventional green finance?	It adds a layer of ethical, religious compliance beyond ESG standards; forbidding riba and speculative transactions.
What are the existing models and instruments?	Green Sukuk, Islamic Green Funds, Green Waqf, and Islamic microfinance for green projects are the key instruments.
What are the major challenges?	Regulatory inconsistency, low awareness, high certification costs, liquidity issues.
How can Islamic Green Finance contribute to the SDGs?	By financing clean energy, sustainable infrastructure, and environmental projects within a Shariah-compliant framework.

Critical Analysis: Islamic Green Finance is at a pivotal stage. While theoretical foundations are strong, practical implementation remains fragmented. Without standardized frameworks and greater market incentives, the sector risks lagging its potential contribution to sustainable development. However, strategic initiatives, particularly in Southeast Asia and the Gulf region, showcase models that can be replicated and scaled globally.

Furthermore, Islamic Green Finance offers a unique dual-compliance advantage—satisfying both ethical investors seeking Shariah-compliant assets and ESG-focused investors prioritizing sustainability. This dual alignment could be a major driver of growth if effectively leveraged through public-private partnerships, capacity-building programs, and technological innovations.

8. Conclusions and Recommendations

8.1. Conclusions

Conclusion Islamic Green Finance represents a powerful convergence of ethical finance and environmental responsibility. Rooted in the timeless principles of Shariah—promoting public welfare (Maslahah), prohibiting harm (Darar), and emphasizing stewardship of the Earth (Khilafah)—Islamic finance provides a natural framework for advancing sustainable development goals (SDGs).

This research has shown that while the theoretical alignment between Islamic

finance and green finance is strong, the practical implementation of Islamic Green Finance remains at an early stage. Success stories such as Indonesia's sovereign Green Sukuk and the UAE's sustainable finance initiatives demonstrate the feasibility and potential of this sector when supported by strong policy frameworks, regulatory clarity, and market incentives.

However, challenges such as regulatory fragmentation, limited investor awareness, and a shortage of standardized green Islamic financial products must be addressed to unlock the full potential of Islamic Green Finance. As global demand for ethical and sustainable investments grows, Islamic Green Finance has a unique opportunity to establish itself as a leading force for positive environmental and social change.

In essence, Islamic Green Finance is not merely an optional innovation—it is a necessary evolution of Islamic finance to fulfill its divine mandate of protecting the Earth and securing the welfare of all creation.

8.2. Recommendations

Recommendations Based on the findings and analysis, the following recommendations are proposed to advance Islamic Green Finance:

1) **Develop Unified Islamic Green Finance Standards** Establish comprehensive regulatory frameworks that integrate Shariah compliance with environmental sustainability requirements.

Collaborate with international bodies (e.g., AAOIFI, IFSB, ICMA) to harmonize standards for Green Sukuk and other Islamic green products.

2) **Increase Awareness and Capacity Building** Launch targeted education programs and workshops for financial institutions, investors, and regulators to deepen understanding of Islamic Green Finance.

Promote public campaigns to increase general awareness of the ethical and environmental benefits of Shariah-compliant green investments.

3) **Foster Public-Private Partnerships** Encourage collaboration between governments, Islamic financial institutions, and environmental organizations to fund and promote green projects.

Use blended finance models to de-risk green investments and attract private sector participation.

4) **Incentivize Islamic Green Finance Products** Provide tax incentives, grants, or subsidies for issuers and investors in Islamic green financial products.

Establish dedicated Islamic Green Investment Funds to channel capital towards sustainable projects.

5) **Leverage Financial Technologies (FinTech)** Utilize blockchain, AI, and big data to enhance transparency, monitoring, and reporting in Islamic Green Finance projects.

Develop digital platforms for issuing, trading, and tracking Green Sukuk.

6) **Expand the Pipeline of Green Projects** Work with project developers to ensure a steady flow of Shariah-compliant, environmentally sound investment op-

portunities.

Prioritize sectors such as renewable energy, sustainable agriculture, green transportation, and waste management.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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