Cambridge Elements

Economics of Emerging Markets

Islamic Finance and Sustainable Development

M. Kabir Hassan, Aishath Muneeza and Rashedul Hasan

ISSN 2631-8598 (online)
ISSN 2631-858X (print)

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Elements in Economics of Emerging Markets
edited by
Bruno S. Sergi
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ISLAMIC FINANCE AND SUSTAINABLE DEVELOPMENT

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www.cambridge.org
Information on this title: www.cambridge.org/9781009465007

DOI: 10.1017/9781009464963

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When citing this work, please include a reference to the DOI 10.1017/9781009464963

First published 2025

A catalogue record for this publication is available from the British Library

ISBN 978-1-009-46500-7 Hardback
ISBN 978-1-009-46497-0 Paperback
ISSN 2631-8598 (online)
ISSN 2631-858X (print)

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Islamic Finance and Sustainable Development

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DOI: 10.1017/9781009464963
First published online: February 2025

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Abstract: Islamic finance is rooted in Shariah or Islamic law, which promotes the well-being of humanity and discourages harmful practices. This Element highlights the nexus between Islamic finance and sustainable development, emphasizing the ethical and socially responsible nature of Islamic finance. It discusses how Islamic financial institutions contribute to sustainable development through the achievement of sustainable development goals (SDGs), environmental, social, and governance (ESG) criteria, and socially responsible investment (SRI) practices. Case studies from different parts of the world demonstrate practical applications of Islamic finance principles in supporting SDG. It suggests reforms that can unlock the full potential of Islamic finance. These reforms include: institutionalize Islamic social finance, improve coverage with commercial finance, leverage technology, integrate Shariah-based financial products, consider social return as a benchmark for approving products, introduce blended finance, and collaborate with humanitarian agencies. The potential of Islamic finance for sustainable development provides valuable insights for academicians, practitioners, and policymakers.

Keywords: Islamic Finance, Ethical Finance, Social Impact, Sustainable Development, Maqasid al-Shariah

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ISBNs: 9781009465007 (HB), 9781009464970 (PB), 9781009464963 (OC)
ISSNs: 2631-8598 (online), 2631-858X (print)

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1 Introduction: The Nexus between Islamic Finance and Sustainable Development

1.1 What is Islamic Finance?

Islamic finance can be described as financial transactions that are conducted in compliance with the principles of Shariah (Islamic law). There are two types of sources of Islamic law: primary and secondary sources. Primary sources of Shariah include the Quran (the holy book), the Sunnah (the traditions of the Prophet, peace be upon him [PHUH]), and *ijma*' (consensus of scholars) while the secondary sources include '*uruf* (custom), *maslahah* (public interest), and *istihsan* (equity). To ensure that Shariah is adhered to in Islamic finance transactions, Shariah governance mechanisms are adopted by the institutions offering Islamic financial products and services. The fundamental characteristic of Islamic finance lies in the compliance of all transactions with Shariah principles. Failure to maintain Shariah compliance can result in various consequences for Islamic financial institutions. These consequences encompass both financial and nonfinancial aspects, as well as statutory implications.

Financial consequences arise when Islamic financial institutions are obligated to allocate profits derived from transactions to charitable causes that do not comply with Shariah. This act of giving back, a means of purification, is intended to rectify any noncompliant income that has been received, directly impacting the institution's financial standing. Beyond these financial repercussions, Islamic financial institutions face another significant threat, which is nonfinancial risks, particularly reputational damage. Such incidents can cause loss of customer and stakeholder trust in a financial institution and its products and services. Once the reputation of an Islamic financial institution is affected adversely, regaining the public and stakeholders' trust becomes very challenging. Financial loss can also occur through depleting the market share of the customers or even legal penalties for failing to adhere to Islamic law. Regaining such trust will also be tough, especially in the era of social media as news may spread quite quickly and bring disfavor to the institution. In countries like Malaysia, Shariah noncompliance by an Islamic financial institution can lead to statutory consequences as it is one of the strongest and most developed Islamic financial jurisdictions. Legal frameworks in these jurisdictions impose penalties, including fines and imprisonment, on individuals responsible for noncompliant actions. These legislative consequences portray how significant and critical maintaining Shariah compliance can be as it is the fundamental value of an Islamic financial institution to be different from a conventional counterpart.

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In ensuring the adherence of Islamic financial institutions to Shariah, rigorous governance and procedures are implemented. These can include establishing an independent Shariah committee within the organizational structure of the institution for monitoring and oversight of Shariah-related matters. Additionally, internal Shariah control functions such as risk management, reviews, and audits are in place to ensure ongoing compliance; however, all of these governance functions are often not required by law in most Islamic financial jurisdictions.

Though Islamic financial products and services are mainly offered by dedicated Islamic financial institutions, other entities, such as companies issuing *sukuk* (Islamic bonds) in the Islamic capital markets, also play a role in this sector (see Table 1). However, the Shariah requirements for these entities may vary from those applied to dedicated Islamic financial institutions. Instead of establishing internal Shariah organs and control functions, they are typically required to appoint a Shariah adviser to ensure the proper structuring of Shariah-compliant financial instruments and to adhere to the guidelines provided by the appointed adviser until the maturity of the product.

It is important to note that the institutionalization of Islamic finance has occurred gradually over time. The journey began in 1963 with the establishment of Mit Ghamr Savings Bank in Egypt, although its operation was short-lived due to political turmoil. Subsequently, in 1975, Dubai Islamic Bank and Islamic Development Bank (IsDB) were founded, marking significant milestones. The institutionalization of *takaful* (Islamic insurance) followed in 1979 with the incorporation of the first *takaful* company in Sudan. Other key developments include the issuance of the first corporate *sukuk* by Shell MDS in Malaysia in 1990, the introduction of Shariah screening for stocks by the Securities Commission of Malaysia in 1995, the launch of the first global *sukuk* by Malaysia in 2002, and the introduction of the first Islamic real estate investment trust in Malaysia in 2005.

Conventional finance encompasses financial activities that aim to generate profit by utilizing money as the underlying asset. The primary method employed in conventional financial transactions involves loans with stipulated interest rates, allowing for the capture of the time value of money. Both simple and compound interest can be charged in this process. However, from a Shariah perspective, conventional finance presents a challenge as it involves *riba* (interest), which is strictly forbidden. In Shariah, loan contracts are known as *qard* and are meant to be acts of benevolence or gratuitous assistance, without any additional charges beyond the principal amount. Loans should not be conducted for profit, as they serve a social purpose in Shariah. If any amount is stipulated above the principal in a loan transaction, whether up front or later, it is considered *riba al Jahiliyyah*. Two types of *riba* are recognized: *riba al Jahiliyyah*, which refers to *riba* arising from charging simple or compound interest on a loan, and *riba al Fadl*, derived

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Table 1 Major Islamic financial products

Sector	Products	Shariah contracts
Islamic banking	Deposit products	*Qard*, commodity *murabahah*, *wadiah*
	Financing products (asset financing)	*Ijarah*, *istisna*, *ijarah muntahiya bit tamlik*, *musharakah mutanaqisah*
	Financing products (equity financing)	*Musharakah*, *mudarabah*
	Financing products (sales-based financing)	*Murabahah*, *salam*, service *ijarah*
	Guarantee products	*Kafalah*
Islamic insurance (*takaful*)	Family *takaful*	*Tabarru*', *ta'awun*, *mudarabah*, *wakalah*, *waqf*
	General *takaful*	*Tabarru*', *ta'awun*, *mudarabah*, *wakalah*, *ju'alah*
Islamic capital market	Equity products (shares)	*Musharakah*
	Islamic bond (*sukuk*)	*Musharakah*, *mudarabah*, *ijarah*, *wakalah bil-istithmar*, *istisna*, *salam*
	Islamic money market products	Commodity *murabahah*, *wakalah*, *mudarabah*
Islamic wealth management	Wealth-management products	*Waqf*, *zakat*, *wasiyyat*
Islamic microfinance	Interest-free lending, t*awarruq*	*Qard hasan*, commodity *murabahah*

Authors' own compilation based on Ahmad et al. (2023), Hassan (2019), Muneeza and Mustapha (2020), and Yustiardhi et al. (2019)

from the Sunnah, where *riba* is triggered if the exchange of *ribawi* commodities (gold for gold, silver for silver, etc.) does not occur simultaneously and in equal amounts, introducing delay or an extra amount.

To circumvent *riba* in conventional financing, Muslim scholars endeavored to eliminate it by replacing loan transactions with *bai*' (sale) transactions. The Quran explicitly prohibits *riba* but permits *bai*'. Therefore, Islamic finance transactions employ *bai*' activities to generate profit, ensuring that all involved parties share risks equitably. However, there are fundamental Shariah rules that must be adhered to when conducting *bai*'. Regardless of the type of *bai*'

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transaction, the parties involved must possess legal capacity, and there should be no excessive *gharar* (uncertainty) in the transaction. The subject matter of the sale must exist and be owned and possessed by the seller at the time of the contract, except in *istisna*' (manufacturing contracts) and *salam* (forward sales). Transactions should not involve *maysir* (gambling), and the subject matter must comply with Shariah guidelines. Additionally, specific conditions may apply to different sale transactions.

As stated, one of the key principles of Islamic finance is the prohibition of *riba* while another principle of Islamic finance is the prohibition of *gharar*, which refers to uncertainty, risk, or excessive speculation in transactions. Islamic financial rules eventually intend to establish transparency and certainty in the financial transactions and dealings and make sure that the contractual agreements are on clear, fair, and mutually agreed terms. The primary reasons for the elimination of *gharar* allow for a stable and expected financial environment that is deemed ethical.

One of the major principles of Islamic finance is that money shall not be used to generate more money, treating it like a commodity, but rather shall only be used as a medium of exchange. Therefore, money is not meant to be used to offer interest-bearing loans, which ensure an income to the lender merely through their money. In Islam, money being the medium of exchange protects different social groups with different income levels, and its value is derived from real economic activities and tangible assets in existence. Similarly, Islamic finance also encourages making investments in productive real economic activities, which ultimately circulate money and wealth within the economy, which feels realistic to attain from one's own effort. This concept also ensures the meaningful participation of various parties in the economy rather than leaving room for exploitive practices within the financial system.

An alternative to interest-bearing means in Islam is through trade and partnerships that actively engage in economic activities that provide goods and services. This results in encouraging individuals to earn through legitimate trade and investments for their earnings. Islamic financial laws and principles discourage the nature of fixed guaranteed earnings without taking any equitable risk and effort, resulting in fair and equitable distribution of wealth among the society and economy.

All types of financial activities and operations in Islamic finance shall adhere to Islamic law, which also provides ethical guidelines and rulings on how transactions shall be conducted. As such, the institutions of Islamic banks designate Shariah committees consisting of knowledgeable Shariah scholars to oversee all the transactions and banking operations. The main purpose of these committees unique to Islamic banks and financial institutions is to

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guarantee that financial activities align with Islamic laws, rules, and principles, thus giving validation to their users and stakeholders.

By following these guidelines, Islamic finance seeks to offer financial services that are socially and ethically accountable in addition to being economically viable. It aims to develop a financial system that advances equity, justice, and the welfare of society.

Furthermore, a variety of contracts founded on the tenets of Islamic commercial law are essential to Islamic finance. The contract of exchange, which deals with the exchange of goods, cash, or a mix of the two, is among the most prevalent. These contracts must not contain any of the following: exploitation, fraud, *gharar*, *riba*, or excessive risk. These transactions' guiding principles emphasize the immediate, simultaneous transfer of products or services as well as the equality of the items being exchanged. Nonetheless, certain contracts, such as '*uqud al-tabarru'at* (gratuity contracts), which include *hibah* (gift) and *wasiyyat* (will), would not necessitate strict details or the identification of the property.

In Islamic finance, '*uqud al-tawthiqat* (contracts of security) are another significant category intended to guarantee the payment of debts or commitments. *Rahn* (promise), *kafalah* (guarantee), and *hiwalah* (transfer of debt) are a few examples. On top of an existing duty, *kafalah* entails an extra guarantee that can be applied to a person, a financial institution, or an action; nevertheless, it does not relieve the original debtor of their obligations. A *hiwalah* involves the transfer of a debt from one debtor to another; upon acceptance of the obligation by the transferee, the transferor is released from liability. *Al-Rahm* is also a significant contract in Islamic finance that is often used as a supporting contract for guaranteeing financing facilities that take Shariah-compliant assets such as real estate, motor vehicles, and even machinery.

Partnership contracts, or *shirkah*, are trust- or equity-based contracts that are a significant part of Islamic finance and are based on profit and loss sharing. The major contracts in forms of partnership include *musharakah* (partnership financing), where all parties contribute capital, and *mudarabah*, where one party, *rabbul mal* (capital investor), will invest monetary capital and a *mudarib* (manager) will invest their skill and knowledge in the partnership. Among the major differences between these contracts is how the profit and loss are distributed, whereas in *musharakah*, profit is distributed according to the agreed ratio; loss is based on the capital contributed. In *mudarabah*, profit is similar to the profit-sharing ratio between *rabbul mal* and *mudarib*, where in cases of incurring loss, it will fully be borne by the *rabbul mal* unless the *mudarib* is negligent. Islamic banks often use these contracts on the banking financing

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side as well as on the deposit side, as *mudarabah* is a favorable contract on the deposit side that treats depositors as *rabbul mal*.

The *wadiah* (contract of safe custody) is a trust-based agreement used for assets and property safekeeping. It involves the *muwaddi*' (depositor) leaving their property with the *wadi*' (depositee) for custodianship. The depositee is not obligated to guarantee the property's safety or compensate for its loss, unless there is negligence on their part. The depositor has the right to request the return of the deposited property at any time. However, the depositee can be considered a guarantor and held responsible for loss or damage if they deposit the property with another person without permission, act against the depositor's instructions, neglect their duty of care, mix the property with the property of others, or use the property without authorization.

The *uqud al-manfa'at* (contract of utilization of usufruct) involves the transfer of the right to use a property, either with or without consideration. *Ijarah* is a bilateral contract where the usufruct is leased for a rental price, similar to modern leasing arrangements. The lessor must be the owner or authorized agent, and the purpose and period of lease should be specified. *Mudarabah*, on the other hand, is a unilateral contract where the property is lent for gratuitous use, with the borrower responsible for maintenance and the lender having the right to withdraw the loan. The borrower is not permitted to lease or pledge the borrowed property.

Islamic financial contracts form the basis of Islamic finance transactions that ensure that Islamic principles and rules are being followed while additionally promoting ethical business practices. By following these contracts, Islamic financial institutions are able to eliminate prohibited elements such as *riba*, *gharar*, and other elements, while encouraging cooperation, risk sharing, and fair distribution of wealth. The primary differences between Islamic finance and conventional finance are shown in Table 2.

According to the ICD-Refinitiv Islamic Finance Development Report (2022), the Islamic finance industry demonstrated impressive resilience in 2021, with its total assets surpassing US$4 trillion, a 17% increase compared to the previous year. This growth, observed across multiple sectors, highlighted the ability of the industry to rebound from the challenges posed by the COVID-19 pandemic in 2020. Looking ahead, there is optimism for sustained double-digit growth, particularly as emerging markets in Central Asia and North Africa continue to strengthen their regulatory frameworks and financial infrastructure. Countries such as Kazakhstan, Tajikistan, and Algeria made notable strides in 2021, contributing to the industry's global expansion.

Meanwhile, more established Islamic finance markets, including Malaysia, Indonesia, and the Gulf Cooperation Council (GCC) countries, remain at the

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Table 2 The differences between Islamic finance and conventional finance

Aspect	Islamic finance	Conventional finance
Riba	Prohibited: Interest-free	Allows charging and receiving interest
Gharar	Avoids uncertainty and excessive risk	May involve speculative elements and uncertainty
Profit sharing	Emphasizes profit and loss sharing	Interest-based lending and borrowing
Asset backing	Requires tangible assets or real economic activities	May involve lending based on creditworthiness
Investments	Focuses on ethical and Shariah-compliant investments	No specific restrictions on investment types
Shariah compliance	Transactions must adhere to Islamic principles	No religious or ethical restrictions
Moral dimension	Promotes social and economic justice	Primarily driven by profit maximization

Source: Author's own.

forefront, leading in key areas such as Islamic FinTech, regulatory advancements, and sustainability initiatives. These markets deemed as mature markets for Islamic finance help drive innovation, set examples for other jurisdictions, and also contribute to the long-term and overall growth of the Islamic finance sector. Furthermore, Islamic finance is also gaining popularity in non-Muslim majority countries through its unique values and differentiation from its conventional counterpart. Non-Muslim-majority countries such as the UK have been actively participating in the industry across all sectors. In 2021, the UK made significant developments, including the government's second issuance of *sukuk* in March. Additionally, Australia's first full-fledged Islamic bank obtained its license to operate in July 2022, indicating the increasing appeal and continued growth of Islamic finance globally. Overall, it can be said that the Islamic finance industry has demonstrated substantial growth and development over the years.

It is also reported that growth was observed across all sectors of the Islamic finance industry in 2021. Islamic banking, the largest sector holding 70% of industry assets, experienced significant growth as provisions for credit losses eased, leading to a substantial increase in net income. The growth drivers for

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Islamic banking included extended government support to pandemic-affected sectors, operational efficiencies through branchless banking and partnerships with FinTechs, and continued high demand for Islamic banking services. Notably, the highest growth in Islamic banking came from noncore Islamic finance jurisdictions, indicating the expansion of new markets and the stabilization of more mature jurisdictions. Tajikistan, Burkina Faso, and Ethiopia were highlighted for their impressive growth rates of 84%, 27%, and 26%, respectively, contributing to the overall 17% growth of the global Islamic banking sector, which reached US$2.8 trillion.

Sukuk, the second-largest sector by assets, also experienced growth in 2021, with outstanding *sukuk* reaching US$713 billion, a 14% increase. New *sukuk* issuances rose by 9% to a record US$202.1 billion, with a notable shift toward long-term *sukuk* with tenures of five years or longer. Sovereigns and quasi-sovereigns continued to dominate new issuances, particularly in the issuance of environmental, social, and governance (ESG) *sukuk*, which reached a new high of US$5.3 billion. Saudi Arabia, Indonesia, and Malaysia emerged as leaders in the ESG *sukuk* segment, which is expected to continue growing as ESG investments become mainstream and demand for green and sustainability projects remains strong. Islamic funds, the third-largest sector, saw standout growth of 34%, reaching US$238 billion in assets under management in 2021. However, this sector is concentrated in a few countries, with Iran, Saudi Arabia, and Malaysia accounting for 81% of total global Islamic funds. Money market and equity were the largest asset classes, but exchange-traded funds (ETFs) gained traction in different countries. The development of ESG funds was another significant milestone in 2021, with Malaysia's Employee Provident Fund (EPF) announcing its transition to a sustainable investor with a fully ESG-compliant portfolio by 2030 and a climate-neutral portfolio by 2050.

Other Islamic financial institutions (OIFIs), including financial technology companies, investment firms, financing companies, leasing and microfinance firms, and brokers and traders, grew by 5% to reach US$169 billion in assets. Kazakhstan, Egypt, and the Maldives recorded some of the fastest growth rates in this sector. Financial technology, or FinTech, was a headline segment within OIFIs, with Saudi Arabia aiming to significantly increase its number of FinTech firms from 82 to 230 by 2025. *Takaful*, the smallest sector in the Islamic finance industry, experienced a strong 17% growth, reaching US$73 billion in 2021. The sector is undergoing consolidation in the GCC countries to streamline operations and reduce costs. Southeast Asia is also witnessing regulatory changes that will strengthen governance in countries like Indonesia and Malaysia and potentially attract new participants in the Philippines.

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ICD-Refinitiv (2022) also states that different countries around the world have adopted various strategies to develop and promote Islamic finance within their jurisdictions. For example, Saudi Arabia has implemented the Financial Sector Development Program for Vision 2030, with commitments to increase the share of global Islamic finance assets and enhance governance, international positioning, education, and research and development. Malaysia has launched the Financial Sector Blueprint for 2022–6, focusing on advancing value-based finance through Islamic finance leadership. In Labuan, Malaysia, the strategic roadmap for 2022–6 aims to promote international Islamic finance by creating thought leadership, complementing the global Islamic infrastructure, and digitizing Islamic social finance. While Indonesia has put in place a 2020–5 strategy that aims to improve licensing and regulatory frameworks, promote synergy within the Islamic economic ecosystem, and strengthen the identity of Islamic banking, Oman is currently finalizing its medium-term Islamic banking strategy. Similarly, Pakistan has developed a strategic plan for its Islamic banking industry that emphasizes raising public awareness, enhancing liquidity management, and strengthening the legal environment. In order to raise the share of Islamic finance assets in the overall financial assets, Kazakhstan has laid out its Islamic Finance Master Plan for 2020–2025. All of these strategies and initiatives indicate the dedication of different countries around the world in the development of the Islamic financial sector domestically as well as globally.

As per ICD-Refinitiv (2022), multiple countries are actively trying to develop their Islamic financial regimes. In order to effectively promote Islamic finance, the Securities Commission of Pakistan (SECP) established a consultative group that will play a key role in developing a strategy and roadmap for the future of Islamic finance. The committee will draw on professional ideas. Furthermore, the government must switch to Shariah-compliant activities within five years after the Federal Shariat Court of Pakistan (FSC) rendered a landmark decision on the Islamic ban on *riba*. By bringing financial operations into compliance with Shariah ethics and principles, this directive hopes to support the expansion and uptake of Islamic finance in Pakistan. Though specifics are still pending, the Central Bank of Afghanistan has declared ambitions to introduce an Islamic financial system. This pledge demonstrates Afghanistan's intention to incorporate Islamic banking principles into its banking industry, improving the financial environment by offering Shariah-compliant services. Using cooperation between the public and commercial sectors, the BIMP-EAGA Business Council and Greenpro Capital are attempting to create a digital finance and economic zone in Brunei that complies with Shariah. The goal of this project is to establish an atmosphere that is favorable to Islamic financial operations and

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economic growth. In order to support their Islamic finance sectors and create a strong basis for future growth and development in their respective regions, Pakistan, Afghanistan, and Brunei are showcasing their dedication to Islamic finance through these initiatives. They are also building strategic partnerships, regulatory bodies, and judicial systems.

1.2 The Concept of Sustainable Development

In 1992, the United Nations Conference on Environment and Development in Rio de Janeiro established the concept of sustainable development. This pivotal conference, which drew participation from more than 100 heads of state and representatives from 178 countries, represented the first major global initiative aimed at tackling environmental degradation. It also served as a foundational event for establishing comprehensive action plans targeted at promoting sustainable development, marking a significant milestone in international environmental policy. It was a response to growing concerns about the negative impacts of human activity on the planet.

The Brundtland Commission, formed in 1983, played a crucial role in shaping the concept of sustainable development (Sustainable Development Commission, n.d.). Their report, "Our Common Future," emphasized the need for sustainable patterns of growth and development to ensure the well-being of future generations. Prior works such as Rachel Carson's *Silent Spring*, Garret Hardin's "Tragedy of the Commons," and the Club of Rome's *Limits to Growth* report also contributed to raising awareness about the unsustainability of existing practices.

While the term "sustainable development" gained recognition in 1972 at the UN Conference on the Human Environment in Stockholm, it was the Rio Summit in 1992 that solidified its significance as a global challenge (Sustainable Development Commission, n.d.). In 2002, the World Summit on Sustainable Development took place in Johannesburg to evaluate progress since Rio. This summit resulted in key outcomes such as the Johannesburg Plan of Implementation and commitments to sustainable consumption and production, water and sanitation, and energy.

Sustainable development is commonly defined as development that meets present needs without compromising the ability of future generations to meet their own needs (Sustainable Development Commission, n.d.). It takes a holistic approach, balancing environmental, social, and economic considerations. While living within environmental limits is a fundamental principle of sustainable development, it also aims to create a strong, healthy, and equitable society. This involves addressing the diverse needs of all individuals and promoting well-being, social cohesion, inclusion, and equal opportunities.

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Sustainable development is not solely focused on the future; it strives to find better ways of doing things in both the present and the future. It can yield short- to medium-term benefits, such as cost savings through improved efficiency and improvements in health and transportation by encouraging alternatives like walking and cycling. The decisions we make as a society regarding development have tangible impacts on people's lives. Poor community planning can diminish quality of life, and reliance on imports instead of local food production can leave countries vulnerable to food shortages. Sustainable development provides an approach to making better decisions in these areas.

Achieving sustainable development requires collective action. While individual actions can contribute to significant change, effective government leadership is essential. Organizations like the Sustainable Development Commission (SDC) work to support the government in implementing sustainable development through scrutiny, advice, and capacity-building.

It would not be wrong to state that sustainable development is a multifaceted concept that addresses environmental, social, and economic challenges, with the aim of creating a better present and future for all. It emerged from global efforts to address environmental degradation and has been reinforced through subsequent conferences and reports. By adopting a sustainable development approach, we can strive for a more balanced and prosperous society while ensuring the well-being of future generations.

1.3 Relationship between Shariah and Sustainable Development

The principles of Shariah furnish a holistic framework for Muslims, guiding them toward sustainable development in alignment with the teachings of the Qur'an and Sunnah. The Qur'an extensively underscores environmental stewardship and mankind's duty toward the Earth. For example, it states, "And [God] it is who has made you successors upon the Earth and has raised some of you above others in degrees [of rank] that He may try you through what He has given you. Indeed, your Lord is swift in penalty; but indeed, He is Forgiving and Merciful" (Qur'an 6:165). This verse indicates that humans should make judicious use of the worldly resources.

In another verse in the Qur'an Allah says,"Do not cause corruption on the Earth after it has been set in order but call on Him with fear and longing. Indeed, the mercy of Allah is near to the doers of good" (Qur'an 7:56). This verse also indicates that as humans we shall not engage in destructive behaviors on earth that include environment, social, and other nonhuman affairs that create harm.

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Prophet Muhammad's (PBUH) teachings further illuminate this link between Shariah and sustainable practices. His admonition on water conservation – "Do not waste water, even if you are at a flowing river" – stresses efficient resource use. His encouragement of afforestation, evidenced by his statement, "If the Hour (Day of Judgment) is about to be established and one of you has a sapling in his hand, let him plant it," underscores the value of planting and emphasizes protecting the environment. Additionally, his directive on animal welfare – "Whoever kills a sparrow or anything bigger than that without a just cause, Allah will hold him accountable on the Day of Judgment" – highlights the imperative to preserve biodiversity.

In addition to this specific evidence and guidance, sustainable development is largely supported by the general Islamic principles of justice, equity, and balance. One of the main principles of Islam is *maslahah*, which translates to public interest, and human beings as *khalifa*, which translates to the guardian or caretaker of the land. These ideologies encourage Muslims to implement intergenerational justice among communities and the environment, which aligns with the contemporary concept of sustainable development. The teachings of the Quran and Sunnah encourage Muslims to be responsible in their decision-making to preserve resources, prevent pollution, safeguard wildlife, and advance social justice, which any Islamic financial initiative also shall take into account in their operations.

Stewardship and social responsibility are evident as fundamental principles of Islamic law, which also achieve sustainable development objectives by advancing the welfare of people and the environment. Therefore, Muslims are urged to embrace these Islamic teachings in their daily lives and business affairs to attain their religious objectives as well as to contribute to the sustainable development that the current world is urging.

1.4 Relationship between Maqasid al-Shariah and Sustainable Development

Maqasid al-Shariah (higher objectives of Islamic law) and sustainable development complement each other. However, Maqasid al-Shariah is not limited to one single aspect which also goes above and beyond the sustainable development aspect, rather protects individual rights and values, protects the environment, and discourages wastefulness. Maqasid al-Shariah underlines five core elements: protection of faith, protection of life, protection of intellect, protection of one's property, and protection of lineage. These five elements are the

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foundation of the establishment of justice, equity, and balance, which are also integral to the concept and idea of sustainable development.

The natural world and its resources are divine endowments in Islam and must be respected and conserved. Moreover, humans are given the responsibility of stewarding the planet as per the Quran, which emphasizes the interdependence of all creation. In the Quran Allah says, "and do no mischief on the earth after it has been set in order: that will be best for you, if ye have Faith" (Surat Al A'raf, 'the Heights', verse 85).

God commands people to abstain from mischief and waste because these actions harm the ecosystem. In order to prevent unchecked exploitation, this stewardship requires a balanced relationship between human activity and nature.

According to Baharuddin (2021), industrial cultures are characterized by a widespread man-centered worldview (MCW) that assumes an infinite supply of resources for human use and views humans as distinct from and superior to nature. The importance of sustainable practices and environmental well-being is frequently overlooked by this viewpoint. On the other hand, Islamic viewpoints emphasize the interdependence of all creation's components and the responsibility of humans to preserve and sustain the well-being of nature.

Implementing the teaching and values of Islam via the concept of Maqasid al-Shariah would considerably strengthen efforts toward sustainable development. Maqasid al-Shariah promotes the idea of preservation or protection of life, which applies to all living things and emphasizes the prudent use of resources. Islamic principles, especially the idea of *adab* (right conduct), encourage moderation, conservation, and responsible environmental interactions.

Furthermore, Maqasid al-Shariah promotes equitable resource distribution and supports justice, particularly environmental justice. This goal is reflected in sustainable development, which places a high priority on social justice and the well-being of all communities. Religious leaders must actively work to raise awareness, educate their communities, and incorporate environmental stewardship into their teachings and practices in order to achieve sustainable development in line with Maqasid al-Shariah. This entails promoting waste minimization, biodiversity preservation, and a sustainable culture of consumption.

The fundamental principles of justice, balance, and a shared responsibility to protect the environment are essentially shared by sustainable development and Maqasid al-Shariah. Muslims may make a substantial contribution to international sustainable development projects by living according to these ideals, opening the door to a fair and sustainable future for humanity.

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2 The Islamic Social Finance Tools Used to Achieve Sustainable Development

2.1 *Zakat*

Zakat is the third pillar of Islam, and it is compulsory for a Muslim to give *zakat al-fitr* to the eight receptions of the *zakat* that are mentioned in the Quran. There are two types of *zakat*, which are *zakat al-maal* and *zakat al-fitr*. *Zakat al-maal* is normally calculated as 2.5% of the income or wealth of a person who has reached a *nisab*. *Unlike zakat al-maal*, *zakat al-fitr*, which is equivalent to the cost of a meal, is obligatory upon all Muslims, and it is paid during Ramadan. The purpose of this is to make sure that all Muslims have the means to celebrate Eid and aim to help the poor and needy. The Quran (9:60) specifies the beneficiaries of *zakat al-maal* to include the poor, the needy, those employed to collect *zakat*, new converts to Islam, those in bondage, debt-ridden individuals, fighters in the cause of Allah, and wayfarers.

For *zakat* collection, administration, and distribution, some countries have adopted a centralized system, whereas other countries use a decentralized system. The use of technology like online payment options, mobile applications, and online *zakat* calculators have made it easier for *zakat* management and *zakat* payers to make the payments of *zakat* more accessible, convenient, and efficient.

As per the estimates by the IsDB, the global annual *zakat* collection ranges between $230 billion and $560 billion. However, in various countries, there is a huge gap between potential and actual *zakat* collected because *zakat* administration bodies are not effectively convincing and raising awareness among the potential *zakat* payers due to a lack of trust and effective distribution of *zakat* money to the recipients. For instance, Indonesia's potential *zakat* collection was estimated at approximately 286 trillion rupiah per year; the actual amount collected in 2019 was only about 9.5 trillion rupiah ($577.3 million). This disparity emphasizes the need for stronger and more efficient procedures for administering *zakat*.

In Islamic social finance, *zakat* is viewed as a sustainable source of finance, as *zakat* is paid annually and it is compulsory for all Muslims to fulfill the *zakat* as it is one of the important pillars of Islam. The funds collected from *zakat* are distributed among recipients, particularly among the poor and needy. Hence, it plays a vital role in reducing poverty, providing justice, and supporting the welfare of the community.

The significance of *zakat* as an Islamic social finance tool has been particularly evident during the COVID-19 pandemic. *Zakat* funds have been used to provide assistance to poor, needy, and debt-ridden individuals who suddenly

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found themselves in dire circumstances due to job losses and economic hardships. Examples include Muslims in the UK relying on *zakat* for support during Ramadan, the *zakat* fund in Abu Dhabi providing aid to eligible families affected by the pandemic, an increase in the number of *zakat* recipients in Selangor, Malaysia, due to the pandemic, and various initiatives worldwide disbursing *zakat* to assist families and individuals affected by the crisis.

The United Nations High Commissioner for Refugees (UNHCR) has also established the Refugee Zakat Fund, which follows a 100% *zakat* distribution policy based on Islamic rulings (*fatwa*) and provides support to refugees in need. According to their 2020 Annual Impact Brief, the Refugee Zakat Fund has helped more than 1 million beneficiaries in eight countries through *zakat*-compliant cash and in-kind distributions. The fund has addressed basic needs such as shelter, food, education, healthcare, and debt repayment. *Zakat* also helps strengthen community welfare by encouraging women to address the cultural and legal barriers in the working environment and childcare. The fund also helps reduce child labor where children get the chance to have access to education and enjoy their childhood.

A notable example of *zakat*'s transformative power in a humanitarian crisis is evident in the transfer of *zakat* funds from Perlis, Malaysia, to drought-stricken regions in Kitui, Kenya. This initiative, a collaboration between Perlis, the International Federation of Red Cross and Red Crescent Societies (IFRC), and the Kenya Red Cross, dramatically improved the lives of 1 million people in Kitui. Remarkably, the beneficiaries of this project eventually became contributors themselves, underscoring a significant shift from reliance on aid to financial self-sufficiency. This project is lauded for its innovative approach to implementing Islamic social finance in new contexts, providing sustainable, long-term support over mere temporary relief, and utilizing forecast-based financing effectively. Overall, *zakat* has been a pillar of Islam and an extremely important tool in Islamic social finance in providing sustainable methods of funding to benefit society, especially during times of humanitarian crisis and emergencies for those who are in need.

2.2 *Sadaqat*

Sadaqat is a voluntary act that is given to the poor and needy, and it is not obligatory upon a Muslim like *zakat*. It can also be known as *infaq*, which means unconditional spending without expecting anything in return. *Sadaqat* can be given to beneficiaries directly or through charitable organizations, and it can be given with money, food, clothing, or other resources that can be used by the beneficiaries.

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Over past years, especially with the COVID-19 pandemic, like *zakat*, people can make *sadaqat* payments online using mobile apps and online platforms, which encourages more people to pay *sadaqat*. Social media is also an effective tool used to promote the charitable campaign and raise the finance for charitable courses. For example, in the United Arab Emirates (UAE), Facebook groups like "Stop and Help" and "UAE Fusion Socialites" have enabled more community-driven efforts, promoting the anonymous giving of food and other necessities to individuals in need.

Global Sadaqah is one of the innovative platforms for *sadaqat*, and it is a web-based charity crowdfunding platform that functions as a corporate social responsibility (CSR), *zakat*, and *waqf* (endowment) management system. They partner with religious institutions, businesses, and the general public to enhance the effectiveness and transparency of charitable efforts. They have offices in Singapore, Indonesia, and Malaysia and run various campaigns aimed at providing funds to those in need and the *sadaqat* funds, which are a sustainable source of funds in Islamic social finance.

Another example is a collaboration between the IsDB and UNICEF on the establishment of the Global Muslim Philanthropy Fund for Children (GMPFC). The purpose of this fund is to harness the power of Muslim philanthropy to support humanitarian aid and child-focused sustainable development goals (SDGs) across the fifty-seven member countries of the Organization of Islamic Cooperation (OIC). With founding partners like the Abdul Aziz Al Ghurair Refugee Education Fund and the King Salman Humanitarian Aid and Relief Centre (KSrelief), the GMPFC started with seed funding of US$20 million. It had approved US$12 million in grants for projects in Bangladesh, Jordan, and Pakistan, supporting healthcare, education, and nutrition for vulnerable children by 2021.

The *sadaqat* remains a vital tool for Muslims to make voluntary contributions to charity and assist people who are in need. The practice of giving *sadaqat* continues by using modern digital platforms, reaching its positive impact all over the world, including those who are affected by the wars and natural disasters in current times.

2.3 *Waqf*

Waqf is where individuals or institutions voluntarily allocate portions of their wealth, either in cash or other assets, for the benefit of the community. It is also a religious endowment in Islam that involves transferring private ownership of property to a charitable trust, ensuring that the benefits derived from the cash flow are allocated to charitable initiatives for projects that comply with Shariah.

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There are typically three main conditions of *waqf* where the *waqf* asset must be irrevocable, perpetual, and inalienable. Common forms of *waqf* include real estate such as land and buildings, as well as forms like corporate and cash *waqf*, which have become well known in Malaysia in recent years. These endowments act as tools for saving and investment, channeling funds into ventures that yield social benefits, including the construction of hospitals, orphanages, social housing, and educational institutions.

Waqf can be categorized into two major types, which are immovable (like land) and movable (such as cash). The times of the Ottoman Empire showcase the pivotal role of immovable *waqf* used for financing charitable causes for public welfare initiatives. The income from these *waqf* includes a large portion of the empire's total income. In current times, normally the *waqf* founder appoints a manager or an institution to manage and administer the *waqf* asset, usually under the supervision of a regulatory body in the jurisdictions.

There have been numerous efforts to modernize the management of *waqf*, raise awareness, and increase the engagement of the public with these endowments. For instance, the United Nations Development Programme (UNDP) in Indonesia has partnered with the Indonesian Waqf Board (BWI) to develop a digital platform for *waqf*, improving transparency and trust. Additionally, *waqf*-based crowdfunding is gaining popularity, especially as a means of drawing in and involving younger, tech-savvy demographics.

The establishment of the Islamic Solidarity Fund for Development (ISFD) by the IsDB, which functions as a *waqf* fund, focused on poverty alleviation, improving productivity, and combating diseases. This fund operates financially through the returns on its invested capital. The IsDB has also initiated the World Waqf Foundation (WWF) and the Awqaf Properties Investment Fund (APIF). These entities support *waqf* institutions by coordinating activities, offering expertise, and financing projects that develop *waqf* properties or establish new charitable trusts. The APIF also focuses on financing revenue-generating real estate projects that support sustainable and social initiatives.

Innovation in *waqf* financial products has also been notable around the world, where in Indonesia it has seen the issuance of cash *waqf*-linked *sukuk*, while Malaysia has introduced *waqf* unit trusts. Other innovative approaches include *waqf* share schemes, compulsory cash *waqf*, mobile *waqf* models, corporate *waqf*, *waqf takaful*, and online *waqf* platforms like MyWakaf in Malaysia. The blockchain technology is used to manage *waqf* funds and make the *waqf* management more efficient. In order to supply and allocate resources to philanthropic and social development causes in a sustainable manner, the *waqf* remains an essential part of Islamic social finance.

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2.4 *Qard al-hasan*

Qard al-hasan, which translates to "good loan" in Arabic, is a foundational concept in Islamic finance, emphasizing benevolence and social responsibility. It is when a lender provides a loan without any profit or interest, aiming solely to ease the financial burden of the borrower and provide just in financial transactions.

In *qard al-hasan*, the lender of money does not seek any financial gain, and it aligns with Islamic principles. The *qard al-hasan* is to facilitate the borrower to get money or liquidity for his personal use or business use where it provides an alternative to conventional loans, which involve *riba*, and ensures that only the principal amount is repaid by the debtor. This feature makes *qard al-hasan* a crucial tool for financial inclusion, providing accessible financing to those usually excluded from conventional banking, enabling them to undertake business activities and generate some income from the business operation.

Along with providing individual borrowers with finance, *qard al-hasan* plays a vital role in promoting equitable wealth distribution in the community. It also transfers the surplus funds and resources to deficit units to get access to the funds without the interest rate. Hence, it creates a more balanced, just economic system and enhances social harmony.

In Indonesia, Islamic microfinance institutions such as Baitul Mal Wat Tamwil (BMT), often use *qard al-hasan* to assist underprivileged communities where they provide essential financial services, supporting various needs from business start-ups to personal finance such as educational expenses and healthcare. Additionally, *qard al-hasan* also intersects with Islamic *waqf* (endowment) practices. For instance, the Fael Khair Waqf Program in Bangladesh utilizes these loans to facilitate financial inclusion by enabling individuals to start businesses or meet urgent needs by using *waqf* funds.

According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the lenders cannot charge interest on *qard al-hasan*, but they are permitted to charge a fee to recover direct expenses incurred in managing these loans. This fee helps maintain the *qard al-hasan*'s interest-free nature while allowing for the coverage of administrative costs incurred by the lender.

The Quran elaborates on the virtues of providing *qard al-hasan*, associating it with potential divine rewards and forgiveness. This highlights how the use of *qard al-hasan* contributes to spiritual and social value within the broader Islamic ethical framework.

In essence, *qard al-hasan* significantly impacts economic development and social welfare. By providing interest-free loans, it promotes financial inclusion for

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underserved communities, supports equitable wealth distribution, and enhances community cohesion, reflecting the deeply rooted ethical principles of Islamic finance.

2.5 Islamic Microfinance

Islamic microfinance plays a crucial role in providing financial services to the unbanked, underserved, and economically marginalized communities. It employs various models tailored to meet the specific needs of different demographics, grouped into charity-based and profit-based instruments to address their unique financial needs under different circumstances.

Charity-based microfinance instruments like *zakat*, *sadaqat*, *waqf*, and *qard al-hasan* focus on aiding those who are extremely impoverished and those who are in need to provide necessary funds and resources to encourage them to be an active member in the economy without expecting any profit in return. These tools provide essential financial support for individuals. It has the principles of Islamic social finance, emphasizing altruistic support for those in dire need of finance in a community.

Conversely, profit-based microfinance instruments are designed for individuals engaged in or aspiring to undertake economic activities needing capital. These tools, including *murabahah* (cost-plus financing) and *musharakah*, operate on profit-sharing principles to facilitate finance for start-up businesses and working capital for entrepreneurial ventures that are Shariah compliant.

Globally, Islamic microfinance institutions cater to approximately 140 million low-income people, offering critical savings and credit services. They apply both charitable and profit-oriented financing methods to provide innovative and inclusive financial solutions to the needy. In Indonesia, Islamic finance services are offered through Islamic cooperatives and Baitul Maal wat Tamwil (BMT), which adapt to local contexts. Baitul Maal wat Tamwil, a community-owned institution, manages both charitable contributions and profit-oriented activities, and provided financial relief and flexible financing methods during the COVID-19 pandemic, alleviating the financial burden to low- and middle-income people. Islamic microfinance institutions have been crucial in supporting those impacted by economic disruptions during the COVID-19 pandemic. For example, initiatives like the Akhuwat-Dunya Interest-Free Emergency Loan program have provided financial support to thousands of people, helping them to cover essential expenses such as food, medicine, and housing in Pakistan.

Islamic microfinance significantly contributes to poverty reduction and economic empowerment by enabling sustainable income generation and equitable

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wealth distribution within communities. It ensures that surplus funds are utilized to support those less fortunate.

Leveraging technological improvements is critical to improving the effectiveness and accessibility of microfinance services, as is bridging the digital divide to enable access for all community segments. Adapting disbursement mechanisms to include remote channels like doorstep delivery can help make financial services accessible to those with limited technological means. In brief, Islamic microfinance is a crucial tool for financial inclusion, helping individuals manage economic obstacles, improve living standards, and create long-term economic growth through a variety of financing instruments and programs.

2.6 Social *Takaful*

Social *takaful* provides support and protects those in vulnerable situations against unforeseen challenges, and it is a part of Islamic social finance that plays an important role in providing tailored social *takaful* for targeted low-income and underserved communities in the economy, and it offers protection against various risks and adversities. Moreover, micro *takaful* significantly extends financial protection to economically vulnerable individuals and communities, which aligns with Shariah principles.

During the COVID-19 pandemic, the importance of social *takaful* was emphasized, as dependence on these instruments enabled us to support those in need, especially for healthcare. In crises, social *takaful* becomes an essential resource for providing financial aid and support to individuals and families grappling with economic difficulties. This support fosters a sense of security and stability and enhances social integration.

Many countries have adopted social guarantee schemes within their Islamic social finance frameworks to provide substantial aid to those living in poverty. For example, the "Takaful and Karama" initiative in Egypt ensures that impoverished families have access to vital resources while also offering crucial support. During the pandemic, the scope of this program was expanded to offer additional aid to those impacted by economic downfall (IMF, 2020).

In Malaysia, the mySalam program serves as a significant national health protection initiative. Introduced by the government, mySalam provides complimentary *takaful* coverage to 8 million qualifying individuals, targeted at economically disadvantaged individuals and families. The scheme offers financial relief for critical illnesses, acting as a crucial support during medical emergencies. MySalam has expanded its health *takaful* coverage to cover 3.8 million people who are beneficiaries of the Bantuan Sara Hidup (BSH) and Bantuan Prihatin Nasional (BPN) programs in response to the pandemic. Plans are also in place to extend

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coverage further to an additional 8 million people earning under RM100,000 annually, aged between eighteen and sixty-five years (*Malay Mail*, 2020).

The goals of Islamic social finance are also effectively achieved by using social *takaful* schemes. These initiatives focus on safeguarding the welfare and security of vulnerable groups during the most essential times while ensuring they receive necessary financial aid, healthcare coverage, and social support. Through such measures, social *takaful* not only addresses immediate needs but also contributes to the broader, long-term welfare and builds a resilient community.

2.7 Social *Kafalah*

Social *kafalah* focuses on providing financial and social support to vulnerable groups such as orphans, widows, and those without adequate family support. It is a principle in Islamic social finance that places strong emphasis on collective responsibility and communal welfare. In practice, social *kafalah* involves entities or individuals who support those in need through both financial help and mentorship.

An illustration of social *kafalah* in action is seen in the Baitulmaal Malaysia OrphanCare Program managed by Baitulmaal Malaysia. This initiative provides orphans with extensive support, including funds for education, healthcare, and daily living expenses. Appointed caregivers serve as guardians, providing ongoing guidance to the children while ensuring they have the resources needed for well-rounded development. Similarly, Dubai Cares, a charity based in the United Arab Emirates, embodies the spirit of social *kafalah* through its “Educate a Child” program. This initiative supports orphaned children by covering costs associated with schooling such as tuition, books, and uniforms. By facilitating access to education, Dubai Cares helps these children escape poverty cycles and become active contributors to their communities in the future.

Islamic Relief Worldwide is also an example of the practice of social *kafalah* globally through its orphan sponsorship program. Through this program, sponsors can help orphans by making sure they get emotional support, medical attention, and education, which improves their well-being and chances of success.

These examples highlight the effective application of social *kafalah*, showcasing its critical role in fostering social welfare and sustainable development. By upholding values of collective responsibility and compassion, various organizations and individuals significantly impact the lives of vulnerable people. Such initiatives strive to guarantee that all individuals receive the support and opportunities needed to live a prosperous life and positively impact society. Table 3 shows the differences between the Islamic social finance tools.

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Table 3 The main differences between the Islamic social finance tools

Term	Meaning	Purpose	Mode of operation	Recipients
Zakat	Obligatory almsgiving in Islam	To purify one's wealth and provide for the poor and needy	Compulsory and regulated by Islamic law	Eight designated recipients outlined in the Quran
Sadaqah	Voluntary charity given in Islam	To help the poor, support various causes, and gain spiritual rewards	Voluntary, can be given in any form	Can be given to anyone in need
Waqf	Endowment of property or wealth for charitable purposes	To provide ongoing benefits for a specific cause or beneficiaries	Establishes a perpetual charitable foundation	Specific beneficiaries or public welfare
Qard al-hasan	Interest-free benevolent loan	To assist individuals in need or support community development	Loan given on a goodwill basis without interest	Individuals in need or community development
Islamic microfinance	Providing financial services to the underprivileged	To support entrepreneurship, poverty alleviation, and economic growth	Utilizes Islamic financial principles	Underprivileged individuals or small businesses
Social *takaful*	Mutual assistance through a cooperative system of insurance	To provide financial protection against specific risks	Participants contribute to a shared pool of funds	Participants sharing risk and financial losses
Kafalah	Guarantee or sponsorship of an individual's rights or obligations	To provide support and ensure fulfillment of legal or social duties	Guaranteeing the rights and obligations of an individual	Specific individuals requiring sponsorship or support

Source: Author's own.

3 Practice of Islamic Financial Institutions in Achieving Sustainable Development

3.1 How SDGs are Achieved Using Islamic Finance

In 2015, the United Nations established the seventeen United Nations Sustainable Development Goals (UNSDGs) as a universal call to action for countries and individuals around the world to work together. These goals include ending poverty, protecting the planet, and ensuring peace and prosperity for all by the year 2023. The UNSDGs are an extension of the Millennium Development Goals (MDGs) and address the challenges faced in terms of sustainable development at a much broader level. Table 4 defines and briefly explains the seventeen UNSDGs.

The overall UNSDGs cover the major issues and challenges faced in current times around the world and promote all the dimensions of sustainable development. The goals call for collaborative actions and partnership among different stakeholder groups, including governments, corporations, intuitions, and individuals, in creating a more equitable, inclusive, and sustainable world for the current and future generations.

Similarly, Islamic finance uniquely has the potential to achieve the UNSDGs through its objectives in the development of societal and economic values, environmental preservation, and sustainable development (see Table 5). The following analysis examines the specific areas where Islamic finance can contribute to the SDGs as per the Organisation for Economic Co-operation and Development (OECD) (2020):

- **Asset Creation and SDGs:** Islamic finance and its operations are based on a real asset-based and risk-sharing nature that suits supporting economic growth and the real sector. The assets created through the financing modes ensure that entrepreneurs and finance providers engage in risk-taking behavior or put an effort into their earnings rather than earning through fictitious means that do not actually contribute to the real sector. Moreover, Islamic finance provides financing to sustainable projects in renewable energy, infrastructure, education, and healthcare; it contributes to job creation, environmental sustainability, and overall growth of the economy, which also aligns with SDGs. Additionally, this also complements achieving SDGS related to clean energy, industry and innovation, quality education, and good health and well-being.
- **Financial Inclusion:** Islamic finance also promotes the financial inclusion of citizens, especially by promoting underserved communities and people in need. Islamic microfinance and Islamic financing products can empower individuals and small enterprises to get access to financial services that will improve their livelihood and eliminate poverty. Moreover, Islamic financial

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Table 4 Overview of the United Nations Sustainable Development Goals (UNSDGs)

SDG No	SDG Title	Objective and Key Emphasis
1	No Poverty	Aims to eradicate poverty in all its forms and dimensions. Emphasizes access to basic services, education, and opportunities, considering both income levels and other poverty indicators.
2	Zero Hunger	Focuses on ending hunger, achieving food security, and promoting sustainable agriculture. Stresses the importance of ensuring sustainable farming practices and nutritious food are accessible to all.
3	Good Health & Well-Being	Seeks to ensure healthy lives and promote well-being for all at every age. Highlights the necessity of healthcare access, disease prevention, and mental health support for everyone.
4	Quality Education	Ensure inclusive and equitable quality education and promotes lifelong learning opportunities for all. Stresses the need for fair and effective educational settings, regardless of background or physical condition.
5	Gender Equality	Intends to achieve gender equality and empower all women and girls. Addresses societal issues such as discrimination, violence, and economic disparities based on gender.
6	Clean Water & Sanitization	Ensure availability and sustainable management of water and sanitation for all. Focuses on sustainable management and availability of water resources and sanitation facilities.
7	Affordable & Clean Energy	Ensure access to affordable, reliable, sustainable, and modern energy for all. Promotes renewable energy sources and energy efficiency to meet modern energy needs sustainably.

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Table 4 (cont.)

SDG No	SDG Title	Objective and Key Emphasis
8	Decent Work & Economic Growth	Promote sustained, inclusive, and sustainable economic growth, full and productive employment and decent work for all. Emphasizes the role of infrastructure development and innovation in achieving sustainable economic growth.
9	Industry, Innovation & Infrastructure	Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation. Aims to create a foundation for sustainable industrial growth and technological innovation.
10	Reduced Inequalities	Reduce inequality within and among countries. Addresses income inequality, social exclusion, and discrimination to foster inclusive societies.
11	Sustainable Cities & Communities	Make cities and human settlements inclusive, safe, resilient, and sustainable. Advocates for the development of cities that offer safety, resilience, and sustainability for all residents.
12	Responsible Consumption & Production	Ensure sustainable consumption and production patterns. Calls for minimizing environmental impact through sustainable consumption and production practices.
13	Climate Action	Take urgent action to combat climate change and its impacts. Urges comprehensive measures to combat climate change and mitigate its effects on natural and human systems.
14	Life Below Water	Conserve and sustainably use the oceans, seas, and marine resources for sustainable development. Focuses on conserving oceanic ecosystems to support marine biodiversity and sustainable practices.

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Table 4 (cont.)

SDG No	SDG Title	Objective and Key Emphasis
15	Life on Land	Addresses deforestation, land degradation, and biodiversity loss, promoting sustainable land use. Addresses deforestation, land degradation, and biodiversity loss, promoting sustainable land use.
16	Peace, Justice & Strong Institutions	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels. Aims to establish societies that are just, inclusive, and peaceful with strong institutional frameworks.
17	Partnerships for the Goals	Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development. Highlights the necessity of global partnerships and collaborative efforts to achieve all SDGs effectively.

Source: Author's Complication from United Nations (2023) and Solène Guenat et al. (2022).

tools do not involve any interest elements, which often use interest-free loans (*qard hasan*) for people in financial need, whereas other Islamic financial tools ensure that the financing amounts do not fluctuate and also can use collateral to guarantee their financings. With the aspect of financial inclusion that aligns with SDGs, it contributes to the SDS on poverty alleviation, decent work and economic growth, and reduced inequalities.

- **Social Welfare and Human Capital Development:** Islamic finance also has a special emphasis on social and human development through social instruments such as *zakat* and *awqaf* (endowment). Funds generated through these instruments can be used in projects related to poverty alleviation, healthcare services, education, and vocational training. This empathizes with the potential contribution of Islamic finance to the SDGs, specifically no poverty, good health and well-being, quality education, and reduced inequalities. Additionally, *awqaf* can

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Table 5 Mapping Islamic Finance to SDGs

Reference to Islamic finance & Shariah	SDG	Explanation
Zakat, *waqf*, microfinance	SDG 1: No Poverty	Islamic finance tools like *zakat*, *waqf*, and microfinance directly support poverty alleviation by providing essential financial resources to the needy and underserved.
Zakat and *waqf* for food security	SDG 2: Zero Hunger	Islamic finance encourages the redistribution of wealth through *zakat* and *waqf*, contributing to food security and the fight against hunger.
Waqf for healthcare	SDG 3: Good Health and Well-Being	Islamic finance supports healthcare infrastructure and services through long-term *waqf* endowments, improving health and well-being.
Waqf and *sukuk* for education	SDG 4: Quality Education	Islamic finance tools like *waqf* have historically funded educational institutions, contributing to quality education for all.
Microfinance for women entrepreneurs	SDG 5: Gender Equality	Islamic finance provides targeted financial inclusion for women, promoting gender equality and economic empowerment.
Green *sukuk* for clean energy	SDG 7: Affordable and Clean Energy	Green *sukuk* is used to finance renewable energy projects, promoting access to sustainable energy.
Musharakah and *mudarabah*	SDG 8: Decent Work and Economic Growth	Islamic finance supports entrepreneurship, job creation, and sustainable economic growth through profit-sharing mechanisms.

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Table 5 (cont.)

Reference to Islamic finance & Shariah	SDG	Explanation
Sukuk for infrastructure development	SDG 9: Industry, Innovation, and Infrastructure	Islamic finance tools like *sukuk* fund infrastructure projects that support sustainable industrialization and innovation.
Islamic social finance (*zakat*, *sadaqah*)	SDG 10: Reduced Inequalities	Islamic finance contributes to reducing inequalities through wealth redistribution and inclusive financial systems.
Islamic finance for sustainable urban development	SDG 11: Sustainable Cities and Communities	*Waqf* and other Islamic finance tools support sustainable urban development through the funding of public infrastructure and services.
Value-based intermediation (VBI)	SDG 12: Responsible Consumption and Production	Islamic finance encourages ethical consumption and production practices through sustainable and responsible financial products.
Green *sukuk* for climate action	SDG 13: Climate Action	Islamic finance promotes environmental sustainability through the issuance of green *sukuk* to fund climate-resilient projects.
Waqf for marine preservation	SDG 14: Life below Water	Islamic finance can support marine conservation efforts through philanthropic funding mechanisms like *waqf*.
Waqf for environmental protection	SDG 15: Life on Land	Islamic finance encourages the protection of natural resources and biodiversity through charitable initiatives like *waqf*.

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Table 5 (cont.)

Reference to Islamic finance & Shariah	SDG	Explanation
Islamic governance and ethical finance	SDG 16: Peace, Justice, and Strong Institutions	Islamic finance promotes transparency, ethical practices, and governance, contributing to just, peaceful, and inclusive societies.
Collaboration between Islamic finance institutions	SDG 17: Partnerships for the Goals	Islamic finance emphasizes cooperation and partnerships, particularly through collaborative financing tools like *sukuk* and *waqf*, to achieve sustainability goals.

Source: Authors compilation based on *Islamic Finance: Shariah and the SDGs* (Djafri & Soualhi 2021).

support the establishment of social infrastructure such as schools, hospitals, and community centers, further enhancing social welfare.

- **Stability and Resilience:** Islamic finance's stability and long-term orientation make it a suitable funding source for partner countries, especially during times of economic downturn or crises like the COVID-19 pandemic. Islamic finance offers countercyclical funding and can help ensure stability, resilience, and sustainable development. By providing stable funding sources, Islamic finance can safeguard progress toward the SDGs and support economic recovery, particularly in Muslim-majority countries. This aligns with SDGs related to sustainable economic growth, industry and infrastructure, and partnerships for the goals.

To fully utilize the potential of Islamic finance for sustainable development, challenges such as increasing transparency, improving data availability, and enhancing awareness and expertise need to be addressed. Collaborative efforts between Arab, Muslim-majority donors, and the Development Assistance Committee (DAC), which is a forum of major donor countries under the OECD, can facilitate knowledge-sharing, research, and partnership development around Islamic finance concepts and tools (OECD, 2020). By working together, both communities can leverage the strengths of Islamic finance to accelerate progress toward the SDGs, particularly in fragile contexts where Islamic financing can have a significant impact.

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In conclusion, Islamic finance offers unique opportunities to support sustainable development and the achievement of the SDGs. Through its principles and instruments, such as asset-based financing, financial inclusion initiatives, social finance mechanisms, and countercyclical funding, Islamic finance can contribute to economic, social, and environmental dimensions of sustainable development. Collaborative efforts and strategic utilization of Islamic finance tools can further enhance its role in promoting a more inclusive, resilient, and sustainable future.

Case 1 Malaysia's CIMB Islamic Bank's Sustainable TIA-i Tranche: Advancing the SDGs through Islamic Finance

This case highlights the efforts of CIMB Islamic Bank Berhad, an Islamic bank based in Malaysia, in advancing the UNSDGs through its Sustainable Term Investment Account-i (Sustainable TIA-i) Tranche (CIMB, 2022). This initiative exemplifies the bank's commitment to sustainable finance and its contribution to the global sustainability agenda.

CIMB Islamic's Sustainable TIA-i Tranche is a purpose-driven investment offering designed to support businesses, particularly small and medium enterprises (SMEs), in alignment with CIMB Group's priority SDGs. The funds raised through this investment product are directed toward eligible Shariah-compliant sustainable financing assets that contribute to the achievement of the SDGs (MIFC, 2021).

The primary focus of the Sustainable TIA-i Tranche is on financing assets related to SDG 8, which aims to promote Decent Work and Economic Growth (CIMB, 2022; MIFC, 2021). In particular, the initiative targets micro, small, and medium enterprises as defined by Bank Negara Malaysia. The financing activities supported by the program include those that foster sustainable job creation, economic growth, and societal well-being. Additionally, it aims to enhance access to affordable and responsible financial products and services for vulnerable segments in the start-up and SME sectors.

In the fourth quarter of 2022, CIMB Islamic launched the first Sustainable TIA-i, specifically targeting business clients. After the initial tranche's success, a second tranche was introduced in the fourth quarter of 2023, broadening the range of competitive investment options available to corporate clients (MIFC, 2022; CIMB, 2023).

The Sustainable TIA-i Tranche offers a variety of investment choices, with placement amounts ranging from RM10,000 to RM20 million per transaction. Investors can choose from tenures of six or twelve months, each providing competitive profit rates. The product also features the flexibility of early upliftment before maturity, allowing investors to

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Case 1 (cont.)

receive a partial payout of accrued profits, thus offering greater adaptability within the stipulated terms (CIMB, 2022). However, in 2023, the total balances of Sustainable TIA-i stood at approximately RM309 million, reflecting a decline from the previous year. This reduction is primarily due to increased market competition for deposits and a shorter campaign duration compared to 2022 (CIMB, 2023).

By directing Shariah-compliant funds into low- to moderate-risk assets in its financing portfolio, CIMB Islamic adheres to Islamic principles while ensuring competitive returns. This strategy enables investors to support sustainable development initiatives while benefiting from ethical and profitable investment opportunities.

CIMB Islamic's introduction of the Sustainable TIA-i Tranche reflects its dedication as a financial intermediary to drive positive impacts in vulnerable segments and the wider community. It aligns with the principles of value-based intermediation, supporting the long-term sustainability of micro, small, and medium enterprises (MSMEs), which are vital for economic growth. Through this initiative, CIMB Islamic Bank demonstrates its commitment to inclusive financial services and the SDGs, as outlined in its Forward23+ strategic plan.

Notably, CIMB Group, of which CIMB Islamic Bank is a part, has already achieved significant milestones in sustainable finance. With its Green, Social, Sustainable Impact Products and Services (GSSIPS) Framework, the group has mobilized RM30 billion in sustainable financing, surpassing its target ahead of schedule. Furthermore, CIMB Group has committed to reaching net zero greenhouse gas emissions, including Scope 3 financed emissions, by 2050 (CIMB, 2022).

As part of its commitment to sustainability, CIMB Group also hosts the annual Cooler Earth Sustainability Summit. This flagship event brings together stakeholders to discuss climate action and social development, with a focus on ensuring inclusivity, equity, and justice for all stakeholders.

It can be said that CIMB Islamic Bank's Sustainable TIA-i Tranche exemplifies how Islamic banks can actively contribute to the achievement of the SDGs. Through its investment offerings and focus on sustainable financing assets, the bank promotes economic growth, financial inclusion, and the overall well-being of society. The case demonstrates CIMB Islamic Bank's commitment to sustainable finance and its role as a responsible financial intermediary.

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Case 2 Empowering Women and Preserving and Environment: Nigeria's Jaiz Bank's Green Account Initiative

Jaiz Bank's Green Account initiative has been a remarkable success, empowering women and protecting the environment. Through partnerships with organizations such as the UNDP, the Abuja Environmental Protection Board (AEPB), and Chanja Datti, Jaiz Bank has implemented the Green Account program to divert waste from landfills and reduce greenhouse gas emissions. In less than a year, the initiative successfully diverted 113.226 tons of waste and saved 12.285 million kilograms of greenhouse gases, equivalent to taking 1,011 cars off the road (Jaiz Bank, 2020).

Furthermore, Jaiz Bank's commitment to responsible banking practices and the SDGs is evident. The bank is a founding signatory of the UN Principles for Responsible Banking, and it actively engages with the SDGs through its products and initiatives. In addition to its environmental impact, Jaiz Bank has focused on empowering rural women through a dedicated economic empowerment scheme. This initiative has lifted 2,239 women out of poverty, providing them with opportunities for financial independence and improved livelihoods (Jaiz Bank, 2020). In 2021, the initiative led to the creation of 1,590 Green Accounts and the establishment of twelve active recycling hubs. It also provided employment for 109 waste pickers. Through partnerships with recycling companies, more than 100 women were empowered as waste pickers, propelling the Green Initiative forward. As a result, 507,578 kilograms of waste was successfully diverted from landfills and recycled (Jaiz Bank, 2022).

The bank's participation in a virtual meeting convened by the Islamic Finance Council UK (UKIFC) further demonstrates its alignment with Islamic finance principles and the SDGs. The meeting aimed to explore the role of Islamic finance in bridging the significant funding gap required to achieve the SDGs. With Islamic finance projected to reach assets of US$3.8 trillion by 2022, it presents a significant opportunity to drive sustainable development and address the financing gap, which currently stands at around $2.5 trillion per year.

The global nature of the SDGs and the importance of collaboration were highlighted during the meeting, which brought together Islamic finance leaders, international organizations, and government representatives from various regions. The need for collective action and cooperation between

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Case 2 (cont.)

the public and private sectors was emphasized to achieve the SDGs by 2030.

Overall, Jaiz Bank's Green Account initiative showcases the power of responsible banking, collaborative partnerships, and the potential of Islamic finance to contribute significantly to sustainable development. By integrating environmental protection with women's empowerment, Jaiz Bank exemplifies how financial institutions can create positive social and environmental impacts while working toward the SDGs.

3.2 How ESG is Achieved Using Islamic Finance

Environmental, social, and governance (ESG) is a framework used to evaluate and assess the organizations or businesses' sustainability and ethical impact. The ESG is a holistic approach that takes sustainability beyond environmental issues and financial considerations. It includes nonfinancial factors with broader implications for the society in which businesses operate, environmental factors, and corporate behavioral factors.

The environmental aspect of ESG takes the impact of organizations or businesses on the natural world by taking factors such as carbon emissions, energy consumption, waste management, pollution levels, and climate change. Those companies that prioritize and promote sustainable practices such as minimizing their ecological footprint through renewable energy and less environmentally impacting facilities will be considered as better-performing entities in measuring their environmental element of the ESG framework.

The social aspect of ESG takes the impact of organizations or businesses on society and stakeholders by taking factors such as employee relations, labour standards, human rights, diversity and inclusion, consumer protection, community engagement, and product safety. Organizations and businesses that are socially responsible will prioritize fair treatment of their employees, respect human rights, and make an effort to contribute positively to the communities they engage in their operations.

The governance aspect of ESG takes the impact of organizations or businesses' internal policies, practices, and leadership structure by taking factors such as board composition, executive compensation, transparency, ethics, shareholder rights, and risk management policies. Organizations and businesses with strong governance practices will ensure integrity, accountability, and responsible decision-making within an organization while making proper disclosure among their stakeholders.

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The ESG disclosure factors are often useful for investors, asset managers, and financial institutions to evaluate the sustainability of a company when making investment decisions. It is also believed that companies with better risk management, higher resilience, and improved financial performance in the long run have strong ESG performance. Moreover, integrating ESG into the investment strategies of investors at individual and corporate levels promotes the sustainable development of the financial sector and corporations while making a positive impact on the environment and society through the responsible initiatives taken by companies.

The expansion of the usage of ESG is primarily due to its recognition in businesses that consider contributing sustainable actions for the future. Additionally, investors also widely use ESG factors in their investment decisions in order to engage with companies on ESG issues or allocate funds that prioritize ESG initiatives and criteria. With the intention of generating income through a responsible means for their investments, many investors seek to create value for broader society and the planet.

The ESG investing principles are also complementary to Islamic finance principles that incorporate sustainability, accountability, transparency, and avoiding harm to the contracting parties. The following are some ways that ESG can be achieved using Islamic finance (PWC, 2022).

- **Avoidance of Harm:** Islamic finance and ESG investing stress the avoidance of harmful activities to any of their stakeholders. Specifically, Islamic finance prohibits making investments related to alcohol, tobacco, gambling, and non-*halal* food items, whereas ESG investing also stresses eliminating similar elements that are harmful to health and the environment, violating human rights, and engaging in unethical practices such as smoking.
- **Real Asset Backing:** The Islamic financial mechanism is also based on real assets, where lending money as a commodity is not acceptable, promoting stability among income groups and reducing speculative activities. This aligns with ESG investing since investments in companies that have tangible assets contribute positively to society and the environment through their contribution to the real sector.
- **Shared Benefit and Partnership:** Islamic finance is also based on a risk-and-reward relationship between investors and the entrepreneur, making active efforts by the investors to make the right decisions for their income. Likewise, ESG investing also considers that investments that engage active partnerships with proper risk lead to the creation of better job opportunities while contributing to communities and the environment through the ventures established.

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- **Accountability and Transparency:** Both Islamic finance and ESG investing place a special emphasis on providing accountability and transparency across various stakeholders of the business or investment. Similarly, Islamic financial institutions have a unique governance function that requires them to have a Shariah board committee to oversee Shariah compliance that also incorporates accountability and transparency as a condition to meet. These are also similar to ESG investing, which requires proper reporting of ESG practices of the business entities.
- **Focus on Social Factors:** Islamic finance fundamentally includes elements such as ensuring societal justice through fair practices and mutual understandings and societal well-being through their purification of income as *zakat*, *sadaqah*, and free lending options upon need to individuals. Similarly, ESG investing also takes social factors, including human rights and labour standards, into account, which positively contribute to society.

Therefore, in order to achieve ESG goals using Islamic finance, it would be essential to integrate ESG criteria into the screening and selection processes of Islamic financial products. This would include the development of ESG standards specific to Islamic finance and providing certification for Shariah-compliant ESG investments. Additionally, collaboration between ESG experts and Islamic finance professionals is essential to bridge the gaps and align the principles of both approaches, creating investment products that are ESG compliant and suitable for the growing global ESG market.

Case 3 Malaysia's Maybank Islamic: Integrating ESG in Islamic Finance for a Sustainable Future

Maybank Islamic, a subsidiary of Maybank, has demonstrated a strong commitment to ESG practices in its operations and financing activities (Maybank, n.d.). By integrating ESG considerations, Maybank Islamic aligns its Islamic finance offerings with sustainable and responsible principles, fulfilling its mission of humanizing financial services.

Maybank Islamic recognizes the importance of addressing climate change and promoting sustainable practices. The bank incorporates environmental criteria into its lending decisions, ensuring that financed projects consider factors such as climate impact, land and water usage, energy efficiency, emissions, waste management, and natural resource conservation. By supporting low-carbon businesses and transactions, Maybank Islamic contributes to a greener and more sustainable economy.

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Case 3 (cont.)

In terms of social responsibility, Maybank Islamic places a strong emphasis on human rights, employee rights, and benefits, fostering a diverse and inclusive workforce. The bank upholds responsible supply chain management and ensures that its products and services meet high ethical standards. Maybank Islamic actively engages with the community, making investments that have a positive social impact and building strong community relations.

Maybank Islamic maintains robust corporate governance practices and adheres to ethical standards. The bank emphasizes transparency and reporting, ensuring that its financial sustainability is aligned with international best practices. It actively engages stakeholders to foster dialogue and better understand their needs. Maybank Islamic also has a strict policy against financing activities that are deemed illegal, exploitative, or harmful, such as money laundering, terrorism activities, forced labor, and the production or trade of prohibited goods.

Maybank Islamic has developed an ESG risk management framework aligned with the group's sustainability strategy. This framework guides the bank's lending decisions and investment behavior, incorporating key ESG principles and global best practices. It ensures that Maybank Islamic's activities are consistent with its core values and mission while managing ESG risks effectively. The bank also reviews and assesses transactions against applicable requirements to ensure compliance with its ESG commitments.

Maybank Islamic is actively integrating ESG principles into its offerings through sustainable investment products like the Maybank Global Sustainable Equity-I Fund. This fund invests in Shariah-compliant companies that adhere to ESG criteria, striving to achieve financial returns while generating positive environmental and social outcomes. It targets companies with robust commitments to sustainability, including efforts in climate change mitigation, renewable energy, and ethical corporate practices. Through these initiatives, Maybank Islamic aims to align its operations with global sustainability goals, promoting both ethical and responsible investing in accordance with Shariah principles (Maybank, 2020).

Maybank Islamic extends its ESG commitments to its investment practices. Through Maybank Asset Management, the bank considers ESG factors in its investment decisions. It has invested in the Malaysian ESG Opportunity Fund, which focuses on ESG equity growth. Maybank Islamic

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Case 3 (cont.)

incorporates ESG risk assessments when evaluating the activities to be involved in, further reinforcing its commitment to sustainable finance.

Maybank Islamic's ESG commitments cover a wide range of areas, including climate change, land and water usage, energy and emissions, human rights, employee benefits, diversity, community relations, supply chain management, corporate governance, transparency, and stakeholder engagement. By implementing this comprehensive framework, Maybank Islamic ensures that its operations align with its core values and contribute to a sustainable future.

Maybank Islamic actively collaborates with its customers to meet applicable ESG guidelines and regulations specific to their industries. The bank aims to create awareness among its customers about the importance of adopting sustainable practices, promoting responsible business conduct, and fostering a culture of sustainability within the Islamic finance sector. Through its ESG integration efforts, Maybank Islamic exemplifies how an Islamic bank can contribute to environmental and social well-being while upholding strong governance practices.

Case 4 Sri Lanka's Amana Bank's OrphanCare Trust: Empowering Orphaned Children for a Sustainable Future

This case focuses on Amana Bank's flagship CSR venture, the OrphanCare Trust, launched in 2019 to address the critical yet often overlooked needs of orphaned children in Sri Lanka (Amana Bank, 2019). The initiative aims to secure the fate of orphans once they reach the age of eighteen and must leave institutional care. By providing support, opportunities, and a comprehensive framework, the OrphanCare Trust empowers orphaned children and aligns with the principles of sustainability and Maqasid al-Shariah emphasizing the social principles of ESG. According to OrphanCare (2024), their mission extends beyond providing temporary relief, focusing on long-term empowerment through education and skill development. These efforts have been genuinely empowering. Many orphans who were part of the program have continued their education and are now engaged in small businesses or vocational training (OrphanCare, 2024).

With over 14,000 registered orphans in the country, Amana Bank recognized the urgency of addressing this social issue and established the independent OrphanCare Trust. The trust operates under a team of

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Case 4 (cont.)

dedicated trustees known for their track record of passionate social service. Led by Mr. Ruzly Hussain, the chairman of the trust, the team ensures the highest standards of integrity and long-term sustainability. The primary objective of the OrphanCare Trust is to provide orphaned children with a secure and promising future. By enrolling more than 3,120 orphans from ninety-one orphanages as of 2024, the initiative strives to reach out to every orphan in Sri Lanka (OrphanCare, 2024). The trust adheres to the principles of Article 2 of the United Nations Convention on the Rights of the Child, ensuring equal opportunities for all children irrespective of their background (Amana Bank, 2019).

The OrphanCare Trust embodies sustainability principles by addressing the social and economic dimensions of sustainability. By offering support, education, and life skills training, the initiative enables orphaned children to break the cycle of poverty and build sustainable livelihoods. By empowering them with resources and opportunities, the trust contributes to the overall well-being and development of orphaned children, creating a positive impact on society.

The OrphanCare Trust aligns with Maqasid al-Shariah. One of the primary objectives of Shariah is to protect and preserve human life. By caring for orphaned children, the trust fulfills this objective and exemplifies the compassion and responsibility encouraged by Islamic teachings. Through their efforts, the trust ensures that these vulnerable individuals receive the care, support, and guidance necessary for their physical, emotional, and intellectual development.

The case of Amana Bank's OrphanCare Trust highlights a remarkable initiative that addresses the needs of orphaned children in Sri Lanka. By providing a comprehensive framework of support, the trust empowers orphaned children, ensuring their well-being and enabling them to create sustainable futures. The initiative demonstrates the integration of sustainability principles by promoting social inclusivity and economic empowerment. It also aligns with the principles of Maqasid al-Shariah by fulfilling the objective of preserving and protecting human life. Through the OrphanCare Trust, Amana Bank sets an inspiring example of sustainable and socially responsible action that positively impacts the lives of orphaned children and contributes to the greater welfare of society.

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Case 5 Islami Bank Bangladesh Limited (IBBL): Embracing Sustainable Finance and Environmental Stewardship

Islami Bank Bangladesh Limited (IBBL) has been committed to practicing sustainable and environment-friendly banking since its inception. The bank has formulated green banking policy and strategies in accordance with the guidelines provided by Bangladesh Bank. Furthermore, the introduction of a sustainable finance policy by Bangladesh Bank emphasizes not only green taxonomy but also sustainable finance taxonomy, which includes areas like sustainable agriculture, socially responsible funding (SRF), green finance, and green banking (IBBL, 2021).

Islami Bank Bangladesh Limited has set annual targets for green and sustainable finance, and the achievements for 2021 were notable. The bank surpassed the target for green term investment disbursement and sustainable finance disbursement. The sectors supported by IBBL's sustainable financing include renewable energy, energy and resource efficiency, liquid waste management, recycling and manufacturing of recyclable goods, and environment-friendly brick production, among others. These investments contribute to the overall environmental sustainability and promote green and eco-friendly practices in various sectors.

In addition to financing activities, IBBL has implemented measures to reduce its own environmental footprint. The bank has embraced technological advancements and digitalization to provide efficient and paperless banking services, reducing the use of paper and minimizing clients' physical movements. Islami Bank Bangladesh Limited has also implemented environmental and social risk rating systems to assess project feasibility and ensure adherence to environmental and social standards.

Employee training and capacity-building programs in green and sustainable finance are conducted regularly to enhance the skills and knowledge of bank officials. Furthermore, IBBL actively engages in CSR activities, including allocating funds from the CSR budget for supporting environmental disaster management.

Looking ahead, IBBL aims to achieve higher targets for green and sustainable finance, maintain its position as a high performer in sustainability ratings, introduce its own sustainable finance policy, and further reduce its environmental impact. The bank is committed to promoting environmentally friendly practices, supporting green initiatives, and contributing to the overall well-being of the environment and society.

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Case 5 (cont.)

In conclusion, IBBL's approach to green and sustainable finance reflects its dedication to environmental stewardship and responsible banking practices. By integrating environmental considerations into its operations, supporting sustainable sectors, reducing its own environmental footprint, and fostering employee awareness, IBBL sets an example as a sustainable entity in the society and contributes to the broader goals of ESG principles.

3.3 How SRI Is Implemented in Islamic Finance

Socially responsible investing (SRI) is a financial practice that involves choosing investment based on social impact while generating financial return. It involves eliminating investments based on specific ethical criteria such as global issues of pollution, child labor, and economic injustice. Investors in SRI use ESG factors to assess the sustainability and social impact of an investment where both are often used interchangeably.

The concept of SRI aims to aligns the investments with principles values that promotes responsibility of corporations and promoting social justice and environmental sustainability. With the well-established ESG criteria that measure companies' performance or impact on ESG incorporated into SRI, it avoids those engaging in harmful and unethical activates in trying to meet the expectations of the investors with social return.

Several strategies are employed in SRI in order to achieve these objectives, where a positive screening is usually conducted in selecting investments based on ESG criteria. For instance, companies that use or finance renewable energy, promote social justice, and maintain highly accountable and well-functioning corporate governance structures are favorable for SRI. Negative screening is also conducted to exclude investments that involve harmful production or financing, such as tobacco, fossil fuels, and weapon manufacturing.

In addition to the screening of investments, companies that maintain an active engagement with their shareholders are an element considered in SRI. This allows investors to utilize their right of ownership to impact corporate behavior and make a positive change; this active engagement would also facilitate the investor or shareholder to make the entity more socially responsible and help investors communicate with the company's management so as to express their opinions and concerns related to ESG issues existing in the business or potential contributions the enterprise could make toward sustainable development of the

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community. Areas such as environmental impact and labor practices can also be discussed at the annual general meeting of the company when the company is actively engaging with the shareholders by giving their rights and conducting a well-rounded annual general meeting.

Socially responsible investing has gained the attention of investors across the globe who recognize the significance of responsible practices and sustainably and proven that can make an impact through their investment choices. It provides all forms of investors an opportunity to create and align their portfolios with values and support to companies that prioritize ESG and overall sustainability rather than the conventional approach of making only profit regardless of their adverse impact. Therefore, actively engaging the ESG factors in investors' decision-making will create a more responsible future in the future financial sectors as well as in the corporate world.

Furthermore, SRI has expanded from a niche investment strategy over the years and is now supported by the growing body of research and data across financial analysts. Ratings and benchmarks based on EGS also have emerged to measure the business sustainability performance, helping investors make more informed decisions through the readily available information to compare between companies and investments. Financial institutions and asset management companies are also integrating ESG analysis into their investment processes, and government and regulatory authorities are requiring and promoting the maintenance of disclosures related to ESG to companies, indicating its great potential and significance in global attention.

Socially responsible investing acknowledges that investment decisions can play a significant role in addressing the challenges faced globally, as capital investments are the essential element of an economy to create jobs, generate income, and maintain stability. Table 6 shows the difference between SRI, ESG, and SDGs.

Socially responsible investing and Islamic finance share mutual and common goals that incorporate ethical and responsible principles into financial decision-making (Eurekahedge, 2009). While SRI involves ESG criteria, Islamic finance is operated under the rules and principles of Islamic law, which guide people to be socially responsible for their actions, promote peace among communities, engage in gratuitous activities by helping each other, eliminate wastefulness, and preserve the environment in which we live.

Socially responsible investing involves noneconomic factors in addition to the financial analysis when it comes to investment decisions. With the emergence of social issues in the late 1960s, including the Vietnam War

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Table 6 Differences between SRI, ESG, and SDGs

	Socially responsible investing (SRI)	**Environmental, social, and governance (ESG) factors**	**Sustainable development goals (SDGs)**
Definition	Investment approach aligning values with social change	Criteria used to assess a company's sustainability and ethical impact	Global goals adopted by the United Nations to address social, economic, and environmental challenges
Focus	Integrating ethical and social considerations alongside financial factors	Evaluating a company's ESG performance	Ensuring sustainable development and addressing global challenges
Investment approach	Selecting investments based on specific ESG criteria (positive screening) or excluding investments in harmful activities (negative screening)	Incorporating ESG factors into investment decision-making processes	Supporting investments aligned with the SDGs
Scope	Broader concept that encompasses the integration of ESG criteria	Specific criteria used to evaluate a company's nonfinancial performance	Addressing broader global challenges and promoting sustainability

Indicators	Considers a company's impact on social issues, ethical practices, and values alignment	Evaluates a company's carbon emissions, labor practices, board diversity, executive compensation, community relations, data security, etc.	Aligning investments with specific SDGs based on indicators and targets
Purpose	Align investments with specific values and promote social change	Assess a company's sustainability practices, identify risks and opportunities, and encourage responsible corporate behavior	Contribute to achieving the SDGs through investments and responsible business practices
Implementation	Considers investor preferences and values through screening methods	Conducts analysis and assessment of ESG factors for investment decision-making	Integrates SDGs into investment strategies and corporate practices
Overall goal	Generate financial returns while considering ethical and social factors	Promote sustainable and responsible investing practices by evaluating nonfinancial performance	Contribute to global sustainability and development goals through investments and business operations

Source: Author's own.

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and apartheid in South Africa (Eurekahedge, 2009), religious groups and institutional investors played a vital role in driving the SRI initiatives that evolved and shifted toward sustainable development and ESG issues that the current financial and corporate world is adopting as best practices.

On the other hand, Islamic finance is deeply rooted in Shariah laws and principles, which were established 1,400 years ago to guide human life as a manual to create harmony and justice among mankind. The prohibition of usury (interest) in Islamic finance reflects the objective of sharing profits and risks more equitably. Islamic finance also emphasizes stewardship of the environment, considering nature, humans, and society as part of God's creation entrusted to humans.

While SRI may explicitly exclude companies engaged in unethical practices, Islamic finance does not have the same exclusions. However, there is compatibility between the principles of Islamic finance and the United Nations' Global Compact, which promotes human rights, labor rights, environmental sustainability, and anti-corruption efforts. The ethical standards upheld by Islamic finance align with the principles of the Global Compact, despite having stricter ethical standards of their own.

In practice, the compatibility and complementarity between SRI and Islamic finance are observed in certain investment products. Asset management firms like Pictet and Sustainable Asset Management (SAM) have launched separate SRI and Shariah-compliant funds, respectively, and SAM has collaborated with Gatehouse Bank to create a Shariah-compliant fund focused on water, combining SRI strategies with Islamic finance principles.

While there are differences in expertise and target clientele between SRI and Islamic finance, the integration of ESG criteria can offer both ethical and financial value. Islamic finance, although not subject to ESG screening, aligns with the norm-based exclusions defined by the Global Compact. By considering the mutual areas shared by ESG, SRI, and Islamic finance, it can develop jointly criteria for new markets, including Islamic financial markets.

Combined efforts from financial experts, research centers, rating agencies, nongovernmental organizations, and regulatory bodies further enhance the convergence of SRI and Islamic finance by focusing on their shared objectives that intend to promote ethical, responsible, and transparent practices that mutually benefit sustainable development. The following case examines the role of Bank Muamalat Indonesia, in collaboration with seven other banks, in launching Indonesia's Sustainable Financial Initiative (IKBI).

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Case 6 Bank Muamalat Indonesia Collaboration with Seven Other Banks Launches Indonesia's Sustainable Financial Initiative (IKBI)

Inisiatif Keuangan Berkelanjutan Indonesia (IKBI), which translates to Indonesia's Sustainable Financial Initiative (ISFI), was launched in collaboration with Bank Muamalat Indonesia with other seven banks in 2015 from an initiative of the Financial Services Authority (OJK), the central bank of Indonesia, to support sustainable financial initiatives. The pilot project with the name "First Movers on Sustainable Banking" was introduced and was voluntarily supported by eight banks representing 46% of national banking assets through their commitment to become pioneers in the field of sustainable banking (Bank Muamalat Indonesia, 2018; WWF, 2018).

Bank Muamalat, one of the eight banks, has participated in a series of capacity building and technical assistance programs related to ESG integration as well as the refinement of sustainable palm oil financing policies by encouraging participation in sustainable finance. One of major initative of Bank Muamalat includes collaborating with the palm oil industry, which has been proven to contribute to the environment, to assist 10,000 plasma farmers over the past two years (Bank Muamalat Indonesia, 2018).

In 2018, IKBI was introduced as a multi-stakeholder platform to encourage the implementation of sustainable finance in Indonesia to support the implementation of Financial Services Authority Regulation (POJK) number 51 of 2017 concerning sustainable finance and encouraging the active contribution of LJKs to the government's achievement targets in terms of SDGs and controlling climate change (IKBI, 2022). By 2020, IKBI had increased to fourteen banks in Indonesia, representing more than 64% of the national banking assets, one infrastructure financing company, and one civil society (WWF, 2020). The platform is still active and conducts multiple workshops, roundtable discussions, and leadership programs throughout the year, connecting and guiding the financial sector toward sustainable and socially responsible initiatives.

It aspires to support the implementation of a sustainable financial road map that aims to enable the financial sector to contribute to the achievement of the National Long-Term Development Plan (2005–25) and the National Action Plan for the Reduction of Greenhouse Gas Emissions (2011). It also helps achieve Indonesia's Intended Nationally Determined Contributions (INDC) and reduce emissions by 29% by 2030 – a 41% reduction is conditional upon international support (Green Finance Platform, 2018).

The establishment of IKBI as part of achieving the SDG and SRI initiative is expected to enhance its positive impact on Indonesia, where

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Case 6 (cont.)

it shows the commitment of Bank Muamalat and other financial institutions to sustainable and responsible investment practices.

4 Examples from Different Parts of the World Showing How Sustainable Development via Islamic Finance is Achieved

4.1 Malaysia

Case 7 Sukuk Prihatin, Malaysia

Sukuk Prihatin, introduced by the Malaysian government as part of its post-COVID-19 economic recovery efforts, is a subcomponent of the National Economic Recovery Plan (PENJANA). The *sukuk* aims to involve Malaysians in supporting the government's recovery measures by channeling funds to a consolidated COVID-19 fund. These funds are then utilized for various development programs, including rural school connectivity, support for small/micro enterprises (with a focus on women entrepreneurs), and grants for infectious diseases research. Sukuk Prihatin is based on the Shariah principle of *tawarruq* via commodity *murabahah*.

Initially targeted at a nominal value of RM500 million, the *sukuk* received an oversubscription of RM166 million, leading to an upsizing of the issuance to RM666 million. Eligible subscribers include individual Malaysians, entities incorporated and operating in Malaysia (excluding financial institutions), capital markets and services entities engaged in fund management, and registered trustees of eligible subscribers/investors. The *sukuk* was made available to both retail and corporate investors, with a minimum subscription of RM500. It was subscribed from August 18, 2020, until September 17, 2020, and issued on September 22, 2020. With a two-year tenure, the *sukuk* carried an annual profit rate of 2%, paid quarterly, and matured on September 22, 2022. It is non-tradable, nonassignable, and nontransferable.

Sukuk Prihatin holds the distinction of being the first digital *sukuk* in Malaysia. Maybank Berhad was appointed as the primary distribution bank, with twenty-seven other banks participating as authorized distribution banks and/or through their respective e-channels. The *sukuk* was subscribed and invested in through internet and mobile banking platforms,

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Case 7 (cont.)

utilizing e-payment platforms such as JomPay and DuitNow operated by PayNet. JomPay allows customers to pay registered billers through mobile or internet banking, while DuitNow enables instant payments to any bank account in Malaysia using various identification means.

Applicants and investors were required to have accounts with authorized distribution banks that offered mobile and/or internet banking access. The subscription and payment process involved using specific biller codes or business registration numbers (BRNs) assigned to the *sukuk*. The instrument itself was dematerialized and scripless, with investors receiving notifications and proof of application via email and on their banking platforms. Subscription notices, quarterly profit payment notifications, and e-statements were delivered electronically, with profits credited directly to the *sukuk* holders' bank accounts. On the maturity date, the final settlement of the principal amount invested was conducted through the primary distribution bank using the same channels and processes. The proof of application, subscription notice, and monthly e-statements served as evidence of ownership and investment in the *sukuk* (Ministry of Finance Malaysia, 2020).

4.1.1 How Sukuk Prihatin Contributed to Sustainable Development

Sukuk Prihatin, as part of Malaysia's PENJANA, contributes to several UNSDGs.

- SDG 3: Good Health and Well-Being. The funds raised through Sukuk Prihatin are utilized for grants in infectious diseases research. This investment supports efforts to improve healthcare systems, promote research and development, and enhance disease prevention and treatment, ultimately contributing to the goal of ensuring good health and well-being for all.
- SDG 4: Quality Education. Sukuk Prihatin funds are allocated to enhance rural school connectivity, aiming to provide quality education opportunities for children in remote areas. By improving access to education, the *sukuk* helps promote inclusive and equitable quality education, one of the key targets of SDG 4.
- SDG 5: Gender Equality. The *sukuk* focuses on supporting small and micro enterprises, with a particular emphasis on women entrepreneurs. By providing funding and support to women-led businesses, Sukuk Prihatin contributes to promoting gender equality and empowering women economically.

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- SDG 8: Decent Work and Economic Growth. The *sukuk* aims to stimulate the economy by facilitating the participation of Malaysians in post-recovery economic measures. By providing funding for small enterprises and promoting economic activities, Sukuk Prihatin contributes to sustainable and inclusive economic growth, job creation, and income generation.
- SDG 9: Industry, Innovation, and Infrastructure. The investment in rural school connectivity and support for small enterprises aligns with SDG 9, which emphasizes the development of resilient infrastructure, the promotion of inclusive and sustainable industrialization, and fostering innovation.
- SDG 17: Partnerships for the Goals. The issuance of Sukuk Prihatin involves collaboration between the government, financial institutions, and investors. This public–private partnership contributes to SDG 17 by fostering partnerships to achieve SDGs, mobilizing resources, and promoting effective implementation of development plans.

By looking at the impact and contribution of Sukuk Prihatin, it is evident that *sukuk* actively plays and has the potential to support sustainable development, especially in the stage of pandemic recovery by addressing key social and economic problems faced in Malaysia, which undoubtedly contributes to the UNSDGs. The impact of Sukuk Prihatin on sustainable development reflects how actually *sukuk* issuers as well as financial institutions can incorporate *sukuk* for overall economic growth and social development, together with other uplifting sustainable practices.

4.2 Indonesia

Case 8 Cash Waqf Linked Sukuk (CWLS), Indonesia

In 2020, Indonesia took the lead in introducing and implementing Cash Waqf Linked Sukuk (CWLS), initially as part of its National Waqf Movement aimed at promoting social investment through productive *waqf*. The CWLS structure was utilized to meet the Indonesian government's short-term investment requirements, particularly for the construction of social infrastructure and other public-beneficial social causes. This initiative involved multiple stakeholders, including the *waqif* (donor), Ministry of Finance (*sukuk* issuer), Badan Wakaf Indonesia (Waqf Board Indonesia) (BWI) as the *waqf* supervisor and *nazir*, Lembaga Keuangan Syariah Penerima Wakaf Uang (Islamic financial institutions receiving cash *waqf*), non-LKS PWU (non-Islamic financial institutions), BWI partners managing the *waqf* assets,

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Case 8 (cont.)

and other BWI partners responsible for distributing *sukuk* coupons to beneficiaries or social causes.

To ensure collaboration and commitment among these stakeholders, a memorandum of understanding (MOU) was signed between BWI, Bank Indonesia, the Ministry of Finance, and the Ministry of Religious Affairs. The roles of each institution were clearly defined to facilitate the successful implementation of CWLS. The BWI acted as the single buyer of Sukuk Wakaf Indonesia (SWI) and played a crucial role in operationalizing transactions with the Ministry of Finance and LKS-PWU. They were also responsible for designing the CWLS business model, determining the *nazir* partner, and allocating the returns from CWLS. Bank Indonesia recorded SWI in the Bank Indonesia – Scripless Securities Settlement System (BISSSS), contributed to the design of the CWLS business model, and facilitated product marketing and training. The Ministry of Finance served as the issuer of SWI, designed the CWLS business model, set the corpus benefit of *waqf*, and supported product marketing and training. Islamic financial institutions played a vital role in settling *waqif*/investor transactions, facilitating investments in CWLS, and marketing the CWLS product.

The collaboration and coordinated efforts of these institutions showcased the successful deployment of CWLS for social and developmental causes in Indonesia. This collective approach highlights the importance of cooperation and coordination among various stakeholders in achieving the desired objectives of such financial initiatives.

The modus operandi of CWLS involves several steps and parties to facilitate the flow of funds and utilization for social projects. The process can be summarized as follows (Badan Wakaf Indonesia, 2021; Bank Indonesia, 2021):

- *Waqf* funds collection: *Wakif*s (donors) have the option to donate cash *waqf* temporarily or permanently. Islamic financial institutions (LKS PWUs) and non-Islamic financial institutions (non-LKS PWUs) act as *nazir* partners and collect the cash *waqf* from the donors.
- Partnership and MOU: *Nazir* partners enter into an MOU with BWI and place the collected funds with BWI.
- *Sukuk* acquisition: Badan Wakaf Indonesia purchases *sukuk* or Government Islamic Securities (SBSN) from the Ministry of Finance

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CASE 8 (cont.)

through a private placement mechanism. *Sukuk* ownership documents are then given to BWI.

- Funding government projects: The funds received by the government from CWLS issuances are used to finance government projects aimed at providing public services. Bank Indonesia, as the SBSN administrator, records the ownership and engages in SBSN clearing and settlement.
- Returns distribution: The government pays returns to BWI in the form of discounts or coupons. The initial discount received is used to develop *waqf* assets, such as religious schools, health clinics, and social infrastructure. The coupons received periodically are used to implement nonphysical social programs, including support for orphans, the poor, free healthcare, economic empowerment, and other social initiatives. The generated returns are competitive, as BWI enjoys tax exemption.
- Repayment and refunds: At maturity, the Ministry of Finance repays the cash to BWI. Badan Wakaf Indonesia then refunds the temporary cash *waqf*s to the *nazir* partners, who return it to the donors who opted for temporary *waqf*. In the case of permanent cash *waqf*, BWI manages the funds further.

Through this modus operandi, CWLS enables the flow of funds from donors to government projects, with BWI acting as an intermediary. The system ensures that the funds are utilized for social programs and activities, promoting sustainable development in areas such as education, healthcare, and infrastructure. It also allows for the return of funds to donors who opted for temporary *waqf*, ensuring transparency and accountability in the process.

4.2.1 How the CWLS Contributed to Sustainable Development

The implementation of CWLS in Indonesia aligns with several UNSDGs, contributing to the broader global agenda for sustainable development. Here's how this case can be linked to specific SDGs:

- SDG 1: No Poverty. By utilizing CWLS funds for social investment and infrastructure development, Indonesia addresses poverty reduction efforts. The improved social facilities and infrastructure contribute to poverty eradication by providing better access to essential services for disadvantaged communities.

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- SDG 3: Good Health and Well-Being. The construction of social facilities supported by CWLS can enhance healthcare access, leading to improved health and well-being. Better healthcare infrastructure enables communities to receive proper medical care, contributing to the achievement of SDG 3 targets.
- SDG 4: Quality Education. The CWLS funds can be directed toward educational infrastructure such as schools and educational facilities. By improving access to quality education, Indonesia supports SDG 4 by ensuring inclusive and equitable education opportunities for all.
- SDG 9: Industry, Innovation, and Infrastructure. The deployment of CWLS for infrastructure development aligns with SDG 9, which emphasizes resilient infrastructure and sustainable industrialization. The funds contribute to the construction and improvement of infrastructure, fostering economic growth and promoting sustainable industries.
- SDG 17: Partnerships for the Goals. The collaborative efforts of various stakeholders involved in the CWLS implementation exemplify the spirit of SDG 17. Through partnerships and cooperation, Indonesia strengthens its capacity to achieve sustainable development, leveraging the expertise and resources of multiple entities.

By linking CWLS to specific SDGs, Indonesia's implementation demonstrates its commitment to addressing key social and developmental challenges outlined in the United Nations' sustainable development agenda. The focus on poverty reduction, healthcare, education, infrastructure, and collaboration reflects a holistic approach to sustainable development, contributing to the overall achievement of the SDGs.

4.3 Saudi Arabia

Case 9 Saudi Electricity Company's Green *Sukuk*: Tapping into Sustainable Finance in Saudi Arabia

Saudi Arabia's green *sukuk* is a notable financial instrument that combines the principles of Islamic finance with the objective of promoting sustainable development. Green *sukuk* are Islamic bonds specifically designed to raise funds for environmentally friendly projects (Azhgaliyeva, 2021; Al Taitoon, 2022). This case study examines the issuance of a green *sukuk* by Saudi Electricity Company, the electric transmission monopoly in Saudi Arabia. The company successfully raised $1.2 billion through a ten-year green *sukuk*, demonstrating its commitment to sustainable finance and the growing interest in green bonds in the country.

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Case 9 (cont.)

Saudi Electricity recognized the importance of sustainable finance and the increasing demand for environmentally friendly investments. In line with its commitment to sustainability, the company decided to tap into the green *sukuk* market to raise funds for green projects and initiatives. The issuance aimed to attract investors interested in supporting sustainable development and aligning their portfolios with environmentally responsible investments.

Saudi Electricity launched a $1.2 billion ten-year green *sukuk*, specifically designed to finance environmentally friendly projects. The proceeds from the *sukuk* issuance were allocated toward eligible green projects, such as renewable energy development, energy efficiency initiatives, and other environmentally sustainable activities.

The green *sukuk* issuance by Saudi Electricity received significant investor interest, with orders totaling $9.2 billion. This overwhelming response reflects the strong demand for sustainable investments in Saudi Arabia. The successful issuance not only allowed Saudi Electricity to raise funds for green projects but also demonstrated the market's appetite for environmentally responsible financial instruments.

The green *sukuk* issuance by Saudi Electricity was structured in line with internationally recognized green bond principles and guidelines, ensuring transparency and credibility. The company provided clear reporting and tracking mechanisms to ensure the proper allocation of proceeds to eligible green projects, demonstrating its commitment to environmental stewardship and accountability.

Several factors contributed to the success of Saudi Electricity's green *sukuk* issuance. The company's reputation as a key player in the energy sector and its commitment to sustainability attracted investor confidence. Additionally, the support and expertise of the joint lead managers, including HSBC, JPMorgan, and Standard Chartered, played a crucial role in facilitating the issuance and reaching a broad investor base.

Saudi Electricity's green *sukuk* issuance exemplifies the growing interest in sustainable finance and green investments in Saudi Arabia. The successful issuance not only allowed the company to raise funds for green projects but also demonstrated its commitment to environmental responsibility. This case highlights the potential of green *sukuk* as a financing tool to support sustainable development and underscores Saudi Arabia's progress in promoting environmentally friendly investments.

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4.3.1 How Green *Sukuk* Contributed to Sustainable Development

The issuance of the green *sukuk* by Saudi Electricity aligns with several UNSDGs:

- Affordable and Clean Energy (SDG 7): The financing of renewable energy projects through the green *sukuk* contributes to SDG 7, which aims to ensure access to affordable, reliable, sustainable, and modern energy for all. By supporting the development of clean energy sources, Saudi Electricity promotes the transition to renewable energy and helps increase the share of clean energy in the national energy mix.
- Climate Action (SDG 13): The green *sukuk* issuance contributes to SDG 13 by supporting climate action and mitigating the impacts of climate change. By funding green projects, such as renewable energy generation and energy efficiency initiatives, Saudi Electricity helps reduce greenhouse gas emissions, enhance resilience to climate-related hazards, and support the global transition to a low-carbon economy.
- Industry, Innovation, and Infrastructure (SDG 9): Investing in green projects through the green *sukuk* promotes sustainable infrastructure development, which is a key component of SDG 9. By financing renewable energy infrastructure and energy efficiency projects, Saudi Electricity contributes to the development of sustainable and resilient infrastructure, supporting economic growth and fostering innovation in the energy sector.
- Decent Work and Economic Growth (SDG 8): The financing of green projects through the green *sukuk* has the potential to create job opportunities and stimulate economic growth, aligning with SDG 8. By supporting renewable energy development and energy efficiency initiatives, Saudi Electricity contributes to the growth of green industries, which can generate employment and promote sustainable economic development.
- Partnerships for the Goals (SDG 17): The successful issuance of the green *sukuk* by Saudi Electricity demonstrates the importance of partnerships for achieving SDGs. Collaboration between the company and investors, as well as joint lead managers, highlights the significance of partnerships in mobilizing capital toward sustainable projects and advancing the SDGs.

Overall, the green *sukuk* issuance by Saudi Electricity contributes to multiple SDGs, including affordable and clean energy, climate action, industry, innovation, and infrastructure, decent work and economic growth, and partnerships for the goals. It showcases the potential of Islamic finance instruments in driving sustainable development and addressing global challenges outlined by the United Nations.

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4.4 United Arab Emirates

Case 10 Shams Dubai Initiative

In the UAE, there is an initiative called Shams Dubai that encourages people to use renewable energy and adopt sustainable practices (DEWA, 2022). It promotes the installation of solar panels on rooftops to generate clean energy. To make this more affordable, Islamic banks like Dubai Islamic Bank and Emirates Islamic Bank offer Shariah-compliant financing options for individuals and businesses to invest in solar energy systems.

Shams Dubai helps achieve goals like affordable and clean energy and taking action against climate change. By using renewable energy, it reduces harmful emissions and contributes to a more sustainable energy sector in Dubai. This initiative shows how Islamic finance can support sustainable development. It demonstrates that Islamic banks can play a role in funding renewable energy projects and helping individuals and businesses switch to clean energy sources.

How this program operates is explained as follows by Dubai Electricity and Water Authority (DEWA) (2022). The Shams Dubai program involves different categories of participants who play specific roles in the implementation of solar energy systems:

- Customers and residents: They have the opportunity to become producers and owners of electricity generated from solar systems installed in their buildings. By investing in solar panels, they can generate their own clean energy and potentially contribute surplus electricity back to the grid.
- Consultants and contractors: These professionals provide services related to solar panel installation, connection, maintenance, and inspection. They need to be enrolled in the DEWA system to ensure compliance with quality standards and guidelines.
- Suppliers and manufacturers: They supply the electrical equipment required for the solar systems. To participate in the program, the supplied equipment needs to meet specific quality standards set by the program.

The process of participating in the Shams Dubai program involves several steps:

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Case 10 (cont.)

- No Objection Certificate (NOC) application: The consultant or contractor submits the NOC for building solar installation to DEWA.
- Design approval: Upon receiving the NOC, the consultant submits the solar photovoltaic design for approval.
- Inspection and connection: After the installation is completed, the consultant notifies DEWA to schedule a site inspection. Once the system passes inspection, the connection agreement is signed and the solar photovoltaic system is connected to the grid.
- System installation: Once connected, the customer can start generating electricity from the solar system and export surplus energy to the grid.
- Billing: The customer's electricity bill is offset by DEWA based on the amount of solar energy generated and consumed.

In short, it can be said that the Shams Dubai program enables customers to become solar energy producers, while consultants and contractors ensure the quality installation and maintenance of solar systems. Suppliers and manufacturers provide the necessary equipment. The program follows a process of NOC application, design approval, inspection, connection, system installation, and billing. Overall, the success of Shams Dubai is an example of how Islamic finance can contribute to sustainable development, not just in the UAE but also in other places where Islamic finance is used. It shows that Islamic finance and environmental sustainability can go hand in hand, providing a promising model for integrating Islamic finance into broader sustainability efforts.

4.4.1 How the Shams Dubai Initiative Contributed to Sustainable Development

The impact of initiatives like Shams Dubai, which promotes the use of renewable energy through Islamic finance, aligns with several UNSDGs and contributes to sustainable development in the following ways:

- Affordable and Clean Energy (UNSDG 7): By encouraging the adoption of solar energy systems, Shams Dubai contributes to the goal of ensuring access to affordable, reliable, sustainable, and modern energy for all. It promotes clean energy generation, reducing reliance on fossil fuels and decreasing greenhouse gas emissions.
- Climate Action (UNSDG 13): Shams Dubai plays a role in addressing climate change by promoting the use of renewable energy sources. By reducing

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carbon emissions, it contributes to efforts to mitigate climate change and minimize the environmental impact of energy production.

- Industry, Innovation, and Infrastructure (UNSDG 9): Shams Dubai fosters innovation in the energy sector by promoting the use of solar panels and encouraging the development of infrastructure for renewable energy generation. It supports the growth of sustainable industries and contributes to the advancement of clean and resilient infrastructure.
- Sustainable Cities and Communities (UNSDG 11): The widespread adoption of solar energy systems through initiatives like Shams Dubai helps create sustainable cities and communities. It reduces the carbon footprint of buildings and enhances energy efficiency, contributing to the development of environmentally friendly and resilient urban areas.
- Partnerships for the Goals (UNSDG 17): Shams Dubai exemplifies the importance of partnerships in achieving sustainable development. Collaboration between Islamic banks, government entities, and the private sector is crucial for implementing renewable energy initiatives and expanding access to sustainable financing options.

By promoting renewable energy, Shams Dubai demonstrates how Islamic finance can be used as a tool for sustainable development, addressing multiple UNSDGs simultaneously. It serves as a model for other regions and industries, showcasing the potential of Islamic finance in driving positive environmental and social change.

4.5 Pakistan

Case 11 Islamic Finance Initiatives Carried out by Pakistan Poverty Alleviation Fund (PPAF)

The Pakistan Poverty Alleviation Fund (PPAF) is a leading institution focused on community-driven development in Pakistan. It operates across 147 districts, providing essential services and resources to marginalized rural households. Its mission is to create a more equitable and prosperous Pakistan by empowering the poor through financial and nonfinancial services. The organization is guided by core values of social inclusion, participation, accountability, transparency, and stewardship.

Since 2019, PPAF has been implementing Phase-II of the Government of Pakistan's Interest-Free Loan (IFL) program. The primary objective of this program is to support the productive microenterprise activities of marginalized and vulnerable households across the country. Over

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Case 11 (cont.)

a period of four years, the program aims to provide 3.8 million interest-free loans to approximately 2.28 million households, facilitating income diversification and the expansion of small businesses (PPAF, 2022).

As part of its approach to poverty graduation, PPAF has established loan centers that not only disburse interest-free loans but also offer valuable business advisory services. These centers play a crucial role in strengthening the overall entrepreneurship ecosystem by providing guidance and support to loan recipients. Additionally, they help establish connections with input suppliers, markets, and skills training institutions, thereby enhancing the prospects of success for the borrowers.

In 2022, the program achieved significant milestones by disbursing a total of 1,937,628 interest-free loans (PPAF, 2022). Notably, half of the loan recipients were women, reflecting a commitment to gender inclusion and empowerment in the program's implementation (PPAF, 2022).

4.5.1 How PPF's IFL Program Contributed to Sustainable Development

The impact of PPAF and its implementation of the Government of Pakistan's IFL program has several positive implications for the UNSDGs and sustainable development:

- Goal 1: No Poverty. The focus of PPAF on community-driven development and provision of essential services and resources to marginalized rural households directly contributes to the eradication of poverty in Pakistan.
- Goal 5: Gender Equality. The program's commitment to gender inclusion is evident in the fact that 50% of the interest-free loans disbursed in 2022 were given to women. This helps promote gender equality and empowerment.
- Goal 8: Decent Work and Economic Growth. By supporting the productive microenterprise activities of marginalized households, the program aims to diversify income sources and expand small businesses. This contributes to creating decent work opportunities and fostering economic growth.
- Goal 10: Reduced Inequalities. The mission of PPAF to create a more equitable Pakistan aligns with the goal of reducing inequalities. The provision of financial and nonfinancial services to marginalized communities helps bridge the gap between the haves and have-nots.
- Goal 17: Partnerships for the Goals. The collaboration of PPAF with the Government of Pakistan and its implementation of the IFL program demonstrate

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the importance of partnerships in achieving sustainable development. The organization's core values of participation, accountability, transparency, and stewardship also promote effective partnerships for sustainable development.

Overall, PPAF's initiatives, including the implementation of the IFL program, contribute to poverty alleviation, gender equality, economic growth, reduced inequalities, and the fostering of partnerships, thus supporting several UNSDGs and sustainable development in Pakistan.

5 Reforms Required to Untap the Potential of Islamic Finance to Achieve Sustainable Development

5.1 Institutionalization of Islamic Social Finance

To fully realize the true impact and power of Islamic social finance in revolutionizing sustainable development, it is recommended to formally institutionalize the Islamic social finance sector into an economic system. Because current social finance products are not properly regulated, the entities that run social financial institutions are listed as nongovernmental organizations (NGOs) or nonprofit organizations. When it comes to Islamic social finance, ensuring Shariah compliance, ethical practices, and proper transparency is mandatory; however, without proper institutionalization, it creates doubt, and the initiatives are often viewed as less impactful and small. Therefore, clear regulatory guidelines are needed that acknowledge and enforce the unique features of Islamic social finance tools and entities.

Incorporating Islamic social finance into national development strategies, particularly in Muslim nations, is imperative. Allocated financial and nonfinancial resources with target plans to use Islamic social finance would help create a favorable environment for Islamic financial institutions to take the lead. For instance, governments can collaborate or require Islamic financial institutions to engage in CSR projects using *zakat* or *sadaqah* related to environmental preservation. This integration of Islamic social finance into development initiatives can have a substantial impact on sustainable growth.

Islamic commercial intuitions, such as Islamic banks, could also use their own charity funds and set targets to contribute to sustainable development initiatives. Additionally, Islamic banks could also engage in creating dedicated deposit/social investment products that align their offerings with social objectives.

Utilizing technology and social digital platforms would also help attract a wide range of customers, investors, and other stakeholders in Islamic social financial products. Using the internet and digital platforms would

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also help generate social funds through verified and recognized sources, and these technologies could also be used to reach or even distribute cash to beneficiaries with ease. Therefore, looking for innovative mechanisms suitable for Islamic social financial products and services will undoubtedly help the entities that take such initiatives when practically exercising their products.

Last, it is important to create collaborative platforms and networks at both national and international levels. These platforms would serve as venues for sharing knowledge, collaborating on projects, and developing unified standards and principles for Islamic social finance. Such networks can enhance partnerships across the sector and accelerate its growth and effectiveness.

The aforementioned recommendations for institutionalization of Islamic social finance can help nations all over the world successfully incorporate Islamic social finance into their economic systems, maximizing its potential to support just and moral financial systems and achieve SDGs.

5.2 Converging Islamic Social Finance with Islamic Commercial Finance Institutions

Converging Islamic social finance with Islamic commercial finance institutions is significant as it allows Islamic commercial institutions such as Islamic banks to engage in activities that make a social impact. The integration would also help in utilizing the expertise and resources of Islamic commercial institutions to reach out to social funds if needed, such as *waqf* initiatives and other resources to conduct social events. In order to effectively integrate social finance, commercial intuitions shall be provided with Shariah-complaint approaches, models, and products to converge. For instance, an Islamic bank may initiate a scholarship using a *zakat* amount for a particular period, or an Islamic bank can also initiate and manage *waqf* using its bank accounts. Additionally, proper awareness to stakeholders on such integration and potential products that can use Islamic social finance would also encourage active participation in contributing to such social financial initiatives, which also eventually help achieve sustainable development.

Innovating and developing hybrid financial products would be significant for commercial financial institutions as it broadens the objective of the bank that focuses on social goals in addition to financial profit gains. Additionally, Islamic commercial financial institutions could introduce value-based products consisting of Islamic social financial elements that allocate a portion of their profit to be channeled to a societal cause. These approaches to the

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integration of Islamic commercial finance with Islamic social finance allow to serve the interests of shareholders, investors, and customers of commercial financial institutions while actually contributing to societal needs financially.

Another approach could be Islamic commercial finance, which would dedicate itself to creating social funds under their name and using their own CSR funds and voluntary contributions from customers or the public. Using these funds created by their own CSR funds or otherwise will help provide a positive impact through the distinguished areas like assisting with social issues, environmental challenges, and financial assistance targeted as the beneficiary of the fund.

Active collaboration between existing Islamic social financial institutions would also give an edge for commercial institutions, as it would give best practices, experts insight, and guidance in designing and implementing the social financial products and services within the commercial entity. Furthermore, Islamic commercial financial institutions could also incorporate Islamic social instruments such as *zakat*, *sadaqah*, *waqf*, and social investment funds into their own product offerings.

Some good practical examples can be seen in Malaysia where converging Islamic social finance with commercial finance, such as the Malaysian Takaful Association adopting the approach for *takaful* institutions, utilizing CSR funds to support social goals, and employing Islamic social finance instruments. Additionally, Bank Negara Malaysia (Central Bank of Malaysia) has introduced a value-based intermediation (VBI) strategy for Islamic banks, which encourages the integration of social finance elements.

Another practical example is Bank Muamalat launching Asiya Debit Card-i, which allows a portion of the interchange fee received from merchants to be allocated to *waqf*. This approach enables customers of Islamic commercial financial institutions to contribute to charitable causes without requiring them to pay additional costs. Likewise, CIMB Islamic Bank, in collaboration with Yayasan Belia Malaysia, Taylor's Community, and Foodpanda, organized a motorcycle handover ceremony as part of Bank Negara Malaysia's iTEKAD program. This initiative aims to support economic empowerment through social finance instruments like *zakat*, *sadaqah*, *waqf*, and social investment funds.

These examples illustrate how Islamic commercial finance institutions can successfully integrate with Islamic social finance by using CSR funds, launching value-based products, and utilizing social finance instruments. By adopting these strategies, institutions can effectively bridge the gap between profit motives and social objectives, contributing significantly to societal well-being.

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5.3 Using Technology to Enhance Islamic Financial Products and Services

Current technological development and fintech solutions are undeniable for contemporary Islamic financial products. To facilitate the customers in the growing market, Islamic finance tech-driven solutions are crucial, as most of the people in this generation are tech-friendly and prefer fintech options. Technological developments would also help expand Islamic financial products and services markets globally, such as through online applications and internet banking platforms.

For instance, GlobalSadaqah, established in Malaysia, serves globally in the collection of Sadaqah funds for humanitarian projects, collects and distributes *zakat* for Muslims around the world, and also initiates *waqf* projects that incorporate cryptocurrencies as a method of payment (Muneeza et al., 2023). This allows *zakat*, *waqf*, and *sadaqah* as donations to be collected with transparency in the disbursement process, as cryptocurrencies are backed by blockchain technology, allowing for meticulous tracking of fund movements. Likewise, the ZakatTech Blockchain Platform also uses blockchain to enable the tracking of funds throughout their entire life cycle, from donation to distribution (Mohamed et al., 2023).

Another significant technology is chatbots used by the Islamic financial and service providers on specific questions related to the services. The Zaki chatbot introduced by BAZNAS, the *zakat* institution in Indonesia, is such an initiative that helps calculate the *zakat* payment for *zakat* payers and gives *zakat* instructions and information on BAZNAS social and humanitarian initiatives (Pertiwi Utami et al., 2021). The functions and features of chatbots increase the efficiency of the Islamic financial service providers in addition to providing accessible and continent services to their customers.

It is also a significant area to be captured by Islamic social and financial service providers to develop mobile applications based on blockchain technology to facilitate initiatives such as *zakat*, *sadaqah*, and *waqf*. A mobile application that is easily accessible to a wide mass of the population and is secured and transparent using blockchain technology will not only give an edge to the service providers, but it would also help get a popular and widely accepted method of donating across the globe.

Other innovative technological approaches, such as rice ATMs, are also vital in tapping the markets and reaching people in need with less financial literacy and less access to mobile phones. These automated methods of distribution of the essential items would also protect against unfair distribution of these items,

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which may go into the wrong hands without proper monitoring and oversight otherwise.

Finterra is also an Islamic social finance provider based in Malaysia that took technology to a new level by initiating Ensany Sadaqah Chain and WAQFChain platforms that use blockchain technology to conduct their transactions related to *sadaqah* and *waqf*. Furthermore, the development of digital platforms such as myWakaf in Malaysia through the collaboration of the Islamic banks shows the power and prospective contribution of the market players in contributing to the Islamic social financial system in the jurisdiction. These platforms focus specifically on developing the *waqf* sector, using technology to boost the supply side of *waqf* assets.

In short, technology is pivotal in advancing Islamic finance products and services, and by harnessing blockchain, cryptocurrencies, chatbots, mobile applications, and innovative distribution methods, the Islamic finance industry can effectively cater to the rising demand for Islamic social finance while promoting transparency, accessibility, and efficiency.

5.4 Considering Shariah-Based Financial Products and Services in the Light of Intent behind Shariah Injunctions and Aligning Human Efforts to Comply with That Intent

In Islamic finance, it is crucial to ensure that Shariah-compliant financial products and services satisfy and align with the intent injunctions of Shariah, emphasizing the importance of aligning human actions with this intent. Promoting such an approach supports the integration of Islamic finance with sustainable development principles, allowing the industry to contribute more effectively to societal and environmental objectives. By focusing on the underlying purposes of Shariah injunctions, Islamic finance can incorporate ethical considerations and social impact into the creation and execution of financial solutions, thus fostering a sector that is both sustainable and socially responsible.

In achieving this, a concerted effort is to enhance the understanding of the Shariah principles for the scholars approving Islamic financial products and services, the practitioners that implement them, and other stakeholders in the industry. Therefore, studies and collaborative activities could be conducted to explore the intended purpose of Shariah by looking into wisdom, reasons, rationality, and objectives underlying Shariah.

Furthermore, Shariah governance functions must implement the approach of understanding Shariah in light of the intent behind Shariah injunctions, which would require a thoughtful analysis of the rules and principles. As Shariah

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governance functions such as Shariah committees, Shariah reviews, and Shariah audits of Islamic financial institutions actively engage in validating Shariah-compliant financial products, the implementation of accurate and expected outcomes of Islamic law would also set an example for the industry.

Dedicated educational and research initiatives are also significant in understanding the Shariah injunction, especially in the application phases where Islamic rulings may differ from one another based on the situation and context, even in Islamic financial matters. Doing such studies on different matters will help the Islamic financial institutions across different jurisdictions apply and exercise Islamic finance that not only achieve Shariah compliance or basic fundamental requirements for a transaction but would also reach what actually Islam intends to achieve through its established rules and principles. In addition to that, Islamic finance conferences among the key players along with debates and discussions would be crucial for Shariah injunctions and aligning human efforts to comply with that intent. It is also significant to reduce the challenging requirements of participating in these initiatives to ensure the active participation of the stakeholders.

Another significant aspect of making Islamic financial products practically toward the intention of Shariah injunctions is developing a robust Shariah governance legal framework within the applied jurisdictions. Having a legal structure and guide to ensure Shariah compliance would ease and also help the Islamic financial institutions to work toward achieving what Shariah expects. In addition to that, prudent monitoring and evaluation of the Shariah compliance and ethical considerations of the Islamic financial institution, either by their own Shariah committee or at the regulatory level, would help improve transparency, trust, and confidence in the investors and consumers of Islamic financial products.

Finally, having a culture of learning, innovating, and supporting the growth of Islamic finance at practical and theoretical levels would help with growth and addressing current issues. Particularly practitioners in the Islamic finance industry shall work together and collaborate in overcoming the issues and intend to achieve true Islamic values in the practice of the industry. By implementing these strategies, the Islamic finance industry can better align with the intent behind Shariah injunctions, ensuring that its products and services genuinely reflect these objectives, thereby contributing to a more robust and ethically driven sector.

5.5 Using Sustainable Development (Social Return) as a Yardstick to Approve Financial Products

Adopting a framework that takes social return as a yardstick for approving financial products is crucial in achieving SDGs in an economy. Social *sukuk* is a great example that is used to fund projects that realize a social benefit, which is

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also an essential instrument in the Islamic capital market. The following are some suggestive actions that can be taken to enhance sustainable development by taking social return as a measurement.

As the first recommendation, setting clear standards for social *sukuk* issuance that align with the SDGs is significant. This involves developing uniform benchmarks to assess the sustainability and social impact of the initiatives funded by social *sukuk*. These standards must focus on measurable results and indicators that show how these initiatives enhance society. Issuers and investors can make informed decisions about incorporating social *sukuk* that prioritize sustainable development by establishing clear benchmarks.

Second, measure the social impacts of projects financed by social *sukuk* by conducting thorough impact assessments. This necessitates using thorough impact assessment techniques that measure and examine the real social benefits generated by these initiatives, such as increases in poverty, access to healthcare, education, and environmental protection. Issuers and investors can verify that social *sukuk* projects indeed serve SDGs with the aid of thorough impact evaluations.

Third, make the reporting of social outcomes from social *sukuk* accessible and transparent. The social returns from these projects should be fully disclosed by social *sukuk* issuers. This kind of openness generates confidence, enhances the standing of financial institutions committed to sustainable development, and enables all stakeholders to make informed decisions.

Fourth, enhanced partnerships with community-based organizations, NGOs, and social-sector institutions are also important. You can benefit from their knowledge and viewpoints on evaluating the social impact of social sukuk projects by collaborating with these organizations. These collaborations guarantee efficient funding distribution as well as ongoing observation and assessment of the effects achieved by the initiatives.

Finally, regulators should encourage the financial industry to improve its capabilities and share knowledge in terms of sustainable development. Organizing conferences, workshops, and training sessions that bring together experts from the development, academic, and financial sectors would be significant. These initiatives will increase knowledge of social impact assessments and sustainable development, which will improve decision-making and support for social *sukuk* initiatives that support sustainable development objectives.

By using these recommendations and strategies, financial institutions can highlight the social impact of their products such as social *sukuk* and greatly promote sustainable development. In addition to addressing important community issues, this strategy will draw in socially conscious investors and promote constructive social change.

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5.6 Introducing Blended Finance Products and Services

Blended finance products in Islamic finance are developed by combining commercial and social finance to address social and economic challenges. Implementing financial products and services in this approach would require a significant collaboration between Islamic financial institutions (IFIs) and development financial institutions (DFIs). From this collaboration, it can leverage expertise and secure concessional finance or guarantees to expand its reach to underserved populations and finance sustainable development projects.

Another blended approach is Islamic social impact *sukuk*, which can be structured as a specific need of any social or sustainability project that is appealing to investors who consider societal benefit in addition to their financial gain. These Islamic bonds can be structured using Islamic social contracts as part of the revenue to be channeled to a *waqf* project or even the underlying *sukuk* project can be for a sustainable development project such as an eco-friendly or social housing development project. Therefore, with the elements of risk sharing and the asset-based nature of Islamic bonds, or *sukuk*, this blended approach of adding elements of social financial concepts would be significant in the long-term development and recognition of sustainable development.

Blended financial initiatives also shall be properly reported and disclosed for transparency and accountability of the finance providers. Therefore, blended finance also shall have a proper governance framework to assess the societal, environmental, and financial impacts of the products and services offered because it will reaffirm the investors and stakeholders in using such blended options.

In order to facilitate effective integration of blended finance of Islamic finance, a robust and well-rounded regulatory framework shall be in place in the respective jurisdiction not only to ensure the impact but also to make sure the existing laws and regulations are suitable. Therefore, governments, lawmakers, and regulatory authorities could play a key role in creating a regulatory framework that supports and encourages blended finance initiatives. A clear imitative from these recognizable authorities will also attract diverse investors and push the economy toward sustainable development.

Additionally, capacity-building and providing awareness on blended finance in Islamic finance would also increase the general public engagement and support toward a sustainable nature for investments and using financial services. Moreover, by planning conferences, workshops, and training sessions, different stakeholders, such as academics, practitioners, and regulators, can learn more about the advantages and uses of blended finance in Islamic contexts. By increasing awareness and comprehension, blended finance will be adopted more widely, and the stakeholders will be more aware of its benefits, possibilities, and best practices.

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By adopting these tactics, Islamic finance may uphold its core values while utilizing the benefits of blended finance to address more general social and environmental concerns. In the end, it also meets social expectations and demonstrates the potential of Islamic finance in general and Islamic social finance in particular when used appropriately. Thus, blended finance can aid in the mobilization of additional resources, promote sustainable development, and produce noteworthy social benefits in line with Islamic finance and Islamic social financial objectives.

5.7 Activating Collaboration with Humanitarian Agencies to Reach the Unreachable and to Serve the Underserved Segments

Collaboration with humanitarian groups is necessary to reach underserved and inaccessible populations, as demonstrated by the International Federation of Red Cross and Red Crescent Societies' (IFRC) *zakat* support from Malaysia to Kenya. To further implement such models, Islamic social financial institutions can collaborate as complementary or supporting partners with these humanitarian agencies, enhancing each other's efforts and bringing unique values and approaches from Islamic finance while pooling resources for a common goal.

First, all forms of Islamic social financial institutions could actively pursue partnerships with humanitarian organizations by engaging in regular dialogues, joint workshops, and information-sharing sessions, such as agencies effectively reaching vulnerable populations during crises. It would therefore promote confidence amongst groups and cut down on the time and effort needed for coordination.

Second, it is vital to raise awareness between the *zakat* payers and *zakat* institutions on the potential impact of using *zakat* funds for humanitarian projects through international organizations. Dedicated awareness campaign and transparent reporting of successful and impactful cases in practice for using *zakat* for humanitarian needs, such as IFRC *zakat* support from Malaysia to Kenya, would play a key role. By signifying the positive impact and established credibility from the projects in using *zakat* for humanitarian causes, it would help build trust and confidence in international organizations.

In addition to that, it is important to address possible confusion and skepticism about international organizations or humanitarian agencies among Muslims, as the organizations may be misinterpreted falsely by the public, especially when the organization is established elsewhere. Therefore, proper communication shall be made clearly about the projects and work of humanitarian organizations, reflecting their intended outcomes and how they align with Islamic values and expectations. Successful and effective communication on the outcomes of these humanitarian works would help eliminate hesitation and

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encourage active participation by the *zakat* payers and *zakat* institutions to contribute and support the underserved segments.

To facilitate collaboration between humanitarian agencies and the *zakat* institution as the Islamic social finance mediator, clear governance, monitoring, and oversight structures need to be placed. Proper governance is particularly needed in managing the *zakat* fund by the humanitarian agencies, such as by tracking the progress of the funds generated and how they have been disbursed. Furthermore, updating the *zakat* contributors on the distribution of the *zakat* fund and its impact in a timely manner would show the transparency and accountability of those initiatives.

In conclusion, collaborative efforts between Islamic social financial intuitions and humanitarian agencies at the international level would easily raise funds and ultimately help true beneficiaries. Therefore, a proper dissemination and informative campaigns on such collaborations shall be reaching to the communities that also would maximize the potential Islamic social financial tools such as *zakat* to address humanitarian crises. Ultimately, it would not be incorrect to say that *zakat* and Islamic social financial tools hold strong potential for socioeconomic empowerment and shared prosperity for those most in need when exercised properly in the right hands.

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Cambridge Elements

Economics of Emerging Markets

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