Global Review of Islamic Economics and Business, Vol. 11, No. 2 (2023) 027-038
Published by Faculty of Islamic Economics and Business, State Islamic University Sunan Kalijaga Yogyakarta
e-ISSN: 2338-7920, p-ISSN: 2338-2619

Greening the Future: Islamic Finance's Pivotal Role in Combating Climate Change

Mosharrof Hosen[a, *]

[a]*Faculty of Business and Management, UCSI University, Kuala Lumpur, Malaysia*

Keywords:
Islamic Finance, Climate Change, Systematic Literature Review, SDGs, and Green Investment

JEL Classification:
P34, Q54, and Q56

Article History:
Received: 10 November 2023
Revised: 6 December 2023
Accepted: 16 December 2023
Published: 23 December 2023

Check for Updates

Citation:
Hosen, M. (2023). Greening the future: Islamic finance's pivotal role in combating climate change. *Global Review of Islamic Economics and Business, 11*(2), 27-38. https://doi.org/10.14421/grieb.2023.112-03

Abstract: This study investigates the relationship between Islamic finance and climate change nexus through the lens of the existing literature review articles published in the Web of Science and Scopus databases. Our methodical literature review unveils the full potential of Islamic finance in tackling climate change challenges and contributing to global sustainability endeavors through the creation of Shariah-compliant climate instruments, the promotion of green investments, the establishment of standards for socially responsible investments, the cultivation of cooperation and alliances, the evaluation and disclosure of climate risk, the incorporation of vulnerable communities via Islamic microfinance, and the establishment of a framework for monitoring and assessment. By grasping the potential contribution of Islamic finance to climate change mitigation and adaptation, we can harness its principles and practices to spawn a more sustainable financial system. Islamic finance has the capacity to bolster sustainable development goals by advocating for environmental protection, reducing vulnerability, and facilitating the development of sustainable infrastructure. The paper concludes with important policy implications.

Originality/Value: Islamic finance expands in the worldwide financial industry, boasting its distinct principles and values. Nonetheless, a research gap persists in comprehending the nexus between Islamic finance and climate change. While myriad studies have delved into the societal and economic facets of Islamic finance, research on its capacity to combat climate change and foster sustainability remains scarce. Addressing this research gap assumes paramount significance due to the urgency of the climate change predicament faced by humanity. To bridge this gap, we scrutinized the role of Islamic finance in climate issues by examining literature review articles published in the Web of Science and Scopus databases.

Introduction

The objectives of Islamic Law, also known as the Maqāṣid al-Sharī'ah, supply a structure for Muslims to grasp and emphasize the aims and principles of Islamic jurisprudence (Alam et al., 2023). These objectives encompass a vast array of domains, comprising social fairness, life preservation, safeguarding the environment, and the enhancement of well-being for individuals and communities. One of the pivotal aims of Maqāṣid al-Sharī'ah is the safeguarding of life, which encompasses both human life and the preservation of the natural environment (Saleh et al., 2023). Through contemplating

*Corresponding author.
jonycox74@gmail.com (M. Hosen).
https://doi.org/10.14421/grieb.2023.112-03
This is an open access article under the CC–BY-SA license

the principles of Maqāṣid al-Sharīʻah, Muslims can additionally contribute to the realization of the United Nations Sustainable Development Goals (SDGs) and other environmental objectives. By concentrating on life preservation and environmental safeguarding, Muslims can actively endeavor to attain the SDGs established by the United Nations (Musari & Hidayat, 2023).

This is due to the fact that the objectives of Maqāṣid al-Sharīʻah closely correspond with the principles and values that underlie the SDGs, such as eradicating poverty, advancing gender equality, and guaranteeing access to uncontaminated water and sanitation (Al-Nahari et al., 2022). By giving priority to these objectives, Muslims can contribute to the creation of a more sustainable world for all. By integrating the Maqāṣid al-Sharīʻah into their decision-making processes, Muslims can ensure that their actions and initiatives align with the broader goals of sustainable development and environmental protection. To summarize, the Maqāṣid al-Sharīʻah offers a comprehensive structure for Muslims to prioritize goals and values, including environmental safeguarding and sustainable development, in harmony with the SDGs (Hudaefi & Badeges, 2022).

Islamic finance and climate change are two intertwined matters that are increasingly being debated in academic, financial, and environmental circles (Musari, 2022). Islamic finance, grounded in the tenets of Shariah law, advocates for moral and socially accountable investment strategies. Conversely, climate change presents a global quandary that necessitates immediate action to alleviate its repercussions and transition towards a sustainable and low-carbon economy. Al-Silefanee et al. (2022) contend that the connection between Islamic finance and climate change resides in the potential capacity of Islamic finance to bolster climate-friendly initiatives and investments.

Equally, Raeni et al. (2022) accentuate that Islamic finance has the ability to contribute to climate change mitigation and adaptation efforts through diverse mechanisms. These mechanisms encompass the establishment and issuance of green sukuk that are explicitly fashioned to finance environmentally sound ventures. By releasing green sukuk, Islamic financial institutions can generate funds from the Islamic capital market and channel them towards projects that foster renewable energy, energy efficiency, and environmentally sustainable practices (Musari, 2022). Furthermore, Islamic finance principles prioritize the well-being of the Earth and its inhabitants, aligning with the objectives of climate change mitigation and sustainability. Additionally, Islamic finance can also advocate for sustainable and accountable investment strategies by promoting the incorporation of environmental, social, and governance factors in investment decision-making.

By amalgamating these factors, Islamic financial institutions can bolster businesses and projects that prioritize environmental sustainability and contribute to climate change mitigation (Bae et al., 2022). This alignment between Islamic finance and climate change proffers an opportunity for synergies and collaboration. It enables Islamic finance to partake in financing climate-friendly initiatives and addressing the pressing need for sustainable development. These initiatives can facilitate Islamic economies in transitioning towards a low-carbon and environmentally cognizant future. Green sukuk, Islamic finance principles, and the accentuation on ethical investment present openings for Islamic finance to contribute to climate change mitigation and sustainable development efforts (Musari, 2022).

Whilst there has been headway in comprehending the significance and mechanisms of climate finance, there is still a necessity for further research to tackle several pivotal areas. Firstly, there is a requirement for research on the efficacy of climate finance in accomplishing its intended outcomes. This encompasses evaluating the impact of climate finance on reducing greenhouse gas emissions, promoting sustainable development, and enhancing climate resilience. Additional research is warranted to fathom the most efficacious allocation and utilization of climate finance, including identifying the sectors and projects that yield the paramount environmental and socio-economic benefits.

Moreover, it is imperative to conduct research on the mobilization and availability of climate funds. This entails comprehending the obstructions and hurdles encountered by developing nations in accessing climate funds, as well as pinpointing strategies to bolster their capacity to proficiently utilize and administer climate funds. Furthermore, further research is warranted on the governance and responsibility of climate funds. This encompasses scrutinizing the transparency and responsibility mechanisms in place to ensure the efficient and effective utilization of climate funds, as well as the proper monitoring and evaluation of their impact. Furthermore, there is an exigency for research on the scalability and sustainability of climate funds. This involves exploring inventive financing mechanisms, such as eco-friendly bonds and climate resources, to stimulate additional resources for climate actions.

Literature Review

In order to address environmental sustainability within an Islamic framework, the convergence of Islamic finance and climate finance offers a promising prospect. The precise processes and approaches for incorporating Islamic finance concepts into climate finance projects, however, remain largely unknown.

The Role of Sharīʿah in Protecting the Planet

Sharīʿah, the Islamic legal framework and moral code, imparts guidance for Muslims on various aspects of life, encompassing environmental guardianship and safeguarding the planet (Obaidullah, 2018). According to Islamic teachings, Muslims are regarded as trustees or custodians of the Earth, bestowed by Allah to attend to it and safeguard its natural resources (Muhamad et al., 2020). Muslims are exhorted to coexist harmoniously with nature and fulfill their duty as accountable caretakers of the environment. This entails enacting practices such as conserving water, preserving biodiversity, and upholding cleanliness in the surroundings. Moreover, Islam underscores the principle of moderation and abstaining from excess, which extends to the utilization and consumption of natural resources (Moneim, 2023).

Qadir and Zaman (2019) indicate that Muslims are anticipated to actively engage in environmental preservation campaigns and endorse initiatives that aim to preserve and reinstate the planet. They are also encouraged to embrace eco-friendly consumption habits, such as waste reduction, recycling, and the utilization of renewable energy sources. Additionally, Sharīʿah underscores the principle of equity, which encompasses environmental equity. This implies that Muslims should not solely protect the environment for their own benefit but also consider the well-being of all living beings and future generations. Furthermore, the Holy Quran highlights the significance of resource conservation and cautions against wastefulness. More importantly, Sharīʿah educates Muslims to be responsible guardians of the environment and advocates for sustainable practices that safeguard the planet and advance social and environmental equity.

Climate Finance Management

Climate finance pertains to the financial means that are rallied and assigned to bolster actions for mitigating, adjusting, and fortifying against climate change (Stroebel & Wurgler, 2021). These means can be sourced from both public and private sectors, domestically and internationally, and can manifest in diverse forms, such as gifts, loans, equity investments, and guarantees. Climate finance assumes a pivotal role in buttressing the execution of policies and projects related to climate change, particularly in underdeveloped nations that bear the brunt of its impacts. Additionally, climate finance endeavors to foster development that is low in emissions and resilient to climate change, thereby contributing to the reduction of greenhouse gas emissions and the augmentation of greenhouse gas sinks. Furthermore, climate finance also tackles the perils associated with climate change, such as droughts and extreme weather phenomena. It is important to acknowledge that the definition and assessment of climate finance can vary, and there is no universally accepted characterization. Nevertheless, the overarching aim of climate finance is to ignite transformative change and transition towards a sustainable and resilient future, where the repercussions of climate change are mitigated, and communities are capable of adapting and flourishing.

Obaidullah (2018) highlights that the International Energy Agency (IEA) estimates in the World Energy Outlook Special Briefing for COP21 that $13.5 trillion in energy efficiency and low-carbon technologies (almost 40% of total energy sector investment) will be needed from 2015 to 2030 to fully implement climate pledges or Intended Nationally Determined Contributions (INDCs)[1]. According to projections by the World Economic Forum, the world's developing nations will account for a large portion of the $5.7 trillion in yearly investments that would be required for green infrastructure by 2020. It will be necessary to convert the $5 trillion in conventional global assets into environmentally friendly investments and to raise an extra $700 billion to guarantee that this transition takes place. However, Browne (2022) accentuates that some crucial aspects in the management of climate finance involve

[1] All countries were invited by the UNFCCC to submit domestic preparations to achieve the global two-degree target. The INDC submissions may be accessed from http://unfccc.int/focus/indc_portal/items/8766.php.

ensuring transparency and accountability in the allocation and utilization of funds, fostering effective coordination among diverse stakeholders, including governments, financial institutions, and civil society organizations, and prioritizing the needs of susceptible communities and nations.

Islamic Bank Financing and Climate Policy

Islamic finance stresses the importance of substantiating transactions with tangible assets (Adhitya & Farida, 2023; Hosen, 2021). This means that investments should be connected to real, physical assets or services, guaranteeing their intrinsic worth. This principle discourages purely speculative or paper-oriented transactions. Financing backed by assets serves to foster conscientious and sustainable economic activity (Qoyum et al., 2022). It promotes investment in productive undertakings that contribute to economic growth and development, rather than participating in speculative activities divorced from real-world value. By employing these Sharia-compliant financial mechanisms, Islamic banks can effectively generate funds for climate issues while adhering to the ethical and moral guidelines of Islamic finance. This not only aligns with the principles of responsible and sustainable finance but also contributes to the global endeavor to combat climate change.

To proficiently administer Islamic Climate Finance, it is imperative to establish robust governance mechanisms that align with Shariah principles, guarantee transparency, and foster accountability (Obaidullah, 2018). Additionally, collaboration with reputable Islamic financial institutions and scholars is vital in providing guidance on investments that conform to Shariah principles and have positive environmental impacts. Moreover, conducting thorough due diligence to assess the environmental impact and financial viability of projects before investing in them is essential. Furthermore, ongoing monitoring and evaluation of investments is necessary to assess their environmental and financial performance. Lastly, engaging with stakeholders and promoting education and awareness about Islamic Climate Finance can aid in cultivating trust and garnering support from the broader Islamic community. More importantly, Musari, (2022) highlights that the secret to effectively managing Islamic Climate Finance is to combine Islamic values with sustainable practices, maintain accountability and transparency, interact with pertinent parties, and regularly track and assess investments for their financial and environmental performance.

Methods

Aim of the Study

Congruent with Thaker et al. (2023) and Hosen et al. (2022), the central aim of this thorough examination is to meticulously scrutinize and amalgamate existing literature on Islamic climate funding. This encompasses an analysis of the diverse mechanisms, instruments, and approaches employed to generate and distribute financial resources for projects and initiatives related to climate change. Moreover, the examination strives to evaluate the effectiveness, challenges, and future prospects of climate funding within the context of global endeavors to combat climate change.

Strategy for Literature Search

The literature search was carried out using a methodical approach to guarantee an all-encompassing coverage of pertinent studies. The following databases were utilized: Web of Science and Scopus. The search terms utilized involved combinations of keywords such as "Islamic climate funding," "climate funding," "climate finance mechanisms," "climate investment," "climate funds," and related terms. Boolean operators (AND, OR) were employed to refine the search queries. The search was restricted to articles published in English from 2019 to 2023.

Criteria for Inclusion and Exclusion

Studies were included in the examination if they fulfilled the following criteria: The study tackles climate funding, encompassing mechanisms, instruments, and approaches for financing climate-related projects. Only peer-reviewed articles from reputable journals were taken into consideration. Studies published within the specified time frame were included to ensure relevance to current trends in climate funding. Only studies with full-text availability were considered for inclusion. Studies were excluded if they were duplicates, primarily focused on unrelated subjects, or failed to meet the defined inclusion criteria.

Evaluation Process

The preliminary evaluation entailed scrutinizing titles and abstracts to ascertain relevance. Subsequently, complete-text articles were evaluated for eligibility based on the inclusion criteria stated above. Any disparities in the selection process were resolved through discussion and consensus among the authors.

Information Extraction and Integration

Data from the chosen studies were methodically extracted using a preconceived template. Information gathered encompassed publication particulars, methodology, key discoveries, and pertinent statistics or figures. The extracted data were then amalgamated to provide an all-encompassing overview of the diverse facets of climate financing, including trends, challenges, and exemplary practices.

Quality Assessment

Quality assessment of the chosen studies was executed employing an Appropriate Quality Assessment Tool, for instance, PRISMA guidelines for systematic reviews, as a tool for review articles. This process aimed to ensure that the included studies adhered to rigorous academic standards and contributed significantly to the overall review.

Results and Discussion

Islamic Financing for Combating Climate Issues

Islamic banks utilize various ethical and Sharia-compliant strategies to generate funds for climate-related initiatives. Here are some of the primary approaches they employ:

Green Sukuk (Islamic Bonds): Green Sukuk are specialized bonds that adhere to Sharia principles and are specifically devised to procure funds for eco-friendly projects (Keshminder et al., 2022). The author further accentuated that green Sukuk can mobilize funds to support renewable energy endeavors, including solar, wind, and hydropower initiatives. These projects generate clean and sustainable energy, reducing dependence on fossil fuels and curbing greenhouse gas emissions. Equally, green sukuk can be utilized to finance energy efficiency projects across various sectors, encompassing buildings, transportation, and industrial processes. These initiatives aim to reduce energy consumption and minimize carbon emissions (Musari & Hidayat, 2023).

In addition to energy efficiency, green sukuk can offer financial support for environmentally friendly transport initiatives like the construction of infrastructure for electric vehicles, public transport, and bicycle networks (Ulfah et al., 2023). By making these investments, we can reduce our reliance on cars that run on fossil fuels and mitigate air pollution. Green Sukuk can be used to finance the construction and renovation of infrastructure and buildings that are ecologically sensitive. These projects use sustainable materials, renewable energy sources, and energy-efficient designs to cut down on emissions and energy use. Green sukuk can also be used to fund climate resilience-enhancing initiatives including water management systems, coastal protection, and infrastructure for flood control. These initiatives assist communities in adapting to the impacts of climate change.

Moreover, Rahman et al. (2023) highlight that green sukuk can back initiatives aimed at preserving and restoring natural ecosystems, including reforestation, afforestation, and conservation projects. These endeavors capture carbon dioxide and contribute to biodiversity preservation. Furthermore, green sukuk can fund projects focused on sustainable agriculture practices, agroforestry, and land-use planning. These initiatives foster sustainable food production while reducing deforestation and emissions from land-use changes. Notably, green sukuk can finance projects associated with waste management, recycling, and the development of circular economy systems. These initiatives lessen landfill waste, encourage resource efficiency, and mitigate greenhouse gas emissions.

Proceeds from green sukuk can be allocated to educational programs and awareness campaigns aimed at promoting environmental stewardship and sustainable practices within communities. Green sukuk exemplify the compatibility of Islamic finance principles with sustainable and ethical investment practices. This not only attracts environmentally-conscious investors but also showcases the Islamic finance industry's commitment to addressing global challenges like climate change. By providing a Sharia-compliant financing avenue for environmentally sustainable projects, green sukuk contributes to a more sustainable and climate-resilient future. They facilitate the transition to a low-carbon economy, aligning with global efforts to combat climate change while adhering to the principles of Islamic finance (Saeed, 2021).

Islamic Social Finance Instruments: Islamic social finance instruments can have a pivotal role in combating climate change by mobilizing funds for sustainable and environmentally friendly initiatives. For example, Zakat, one of the Five Pillars of Islam, entails donating a portion of one's wealth to support those in need. It can be directed towards climate-related projects, such as providing relief to communities affected by climate events, or funding for climate-resilient infrastructure in vulnerable regions (Kamaruddin & Hanefah, 2021).

Equally, Sadaqah, or voluntary charity, can be employed to finance environmental conservation projects (Yandri et al., 2023). This may encompass initiatives like reforesting, preserving wildlife, and safeguarding natural habitats. Sadaqah funds can be directed towards organizations and programs focused on environmental stewardship. Apart from sadaqah, waqf involves endowments for charitable purposes, with the generated income used to support various causes. Waqf assets can be allocated to finance sustainable development projects, such as installing renewable energy sources, constructing energy-efficient buildings, and establishing climate-resilient infrastructure in communities (Listiana, 2022). Moreover, Qard Hasan refers to an interest-free loan provided for benevolent purposes. It can be utilized to support climate-resilient entrepreneurship initiatives, giving entrepreneurs the necessary capital to develop and implement environmentally sustainable business models.

Islamic microfinance institutions have the capacity to offer microfinance products tailored to bolster climate-resilient livelihoods (Shahid et al., 2023). These funds can be employed by individuals and small businesses to engage in climate-smart agriculture, renewable energy ventures, and other sustainable livelihood activities. Islamic charitable foundations and trusts can extend grants for climate-related projects and initiatives. These grants can be directed toward organizations and programs focused on climate change adaptation, mitigation, and community resilience.

Islamic crowdfunding platforms can be established to galvanize funds for climate-related initiatives (Testa et al., 2022). These platforms enable individuals and organizations to contribute to specific climate projects, fostering a collective approach towards combating climate change. Funds generated through Islamic Social Finance Instruments can be allocated to educational campaigns and awareness-raising activities focused on climate change. These endeavors aid in educating communities about the significance of environmental conservation and sustainable practices.

Equally, Shahid et al. (2023) highlight that Islamic Social Finance Instruments can be employed to empower communities in vulnerable regions to adapt to climate impacts. This may encompass funding for climate-resilient housing, community-based disaster preparedness programs, and sustainable livelihood initiatives. By harnessing Islamic Social Finance Instruments, communities, and organizations can mobilize resources in a Sharia-compliant manner to address climate change. These instruments not only provide financial support but also promote ethical and sustainable practices in accordance with Islamic principles. This dual approach fosters a sense of social responsibility while contributing to the global endeavor to combat climate change.

Collaboration with Environmental Organisations: Islamic banks have the capability to forge alliances with environmental organizations in various manners to combat climate issues. For instance, Islamic banks can extend funding for environmental projects initiated by environmental organizations (Lang et al., 2023). The authors further mentioned that these projects may encompass afforestation endeavors, clean energy initiatives, waste management programs, and other ventures that promote environmental well-being. The bank can present Sharia-compliant financing solutions tailored to these projects' specific requirements. Islamic banks can join forces with environmental organizations in collaborative investment endeavors. This could involve co-investing in eco-friendly infrastructure projects, renewable energy ventures, or sustainable agriculture initiatives. The bank can harness its financial proficiency while benefiting from the environmental organization's specialized knowledge in sustainability.

Islamic banks can employ their financial proficiency to aid environmental organizations in formulating sustainable financing strategies. This might entail offering guidance on structuring green financing instruments such as Green Sukuk, devising profit-sharing agreements for environmental projects, and providing counsel on Sharia-compliant investment options. Islamic banks can collaborate with environmental organizations to deliver training and capacity-building programs for their staff and stakeholders. This might encompass workshops on sustainable finance, climate-related risk assessment, and optimal practices for integrating environmental considerations into financial decisions.

Islamic banks and environmental organizations may collaborate on research initiatives related to climate issues. This could involve conducting studies on the ecological effect of specific industries, evaluating the efficacy of green financing mechanisms, or appraising climate-related hazards in various sectors. The discoveries can be utilized for advocacy endeavors and policy suggestions. Islamic banks can unite with environmental organizations to raise consciousness about climate issues within their communities. This might encompass organizing educational events, workshops, and awareness campaigns focused on environmental preservation, sustainable practices, and the role of Islamic finance in combating climate change.

Islamic banks can interact with environmental organizations to establish monitoring and reporting systems for the ecological impact of their operations and investments. This may encompass tracking emissions, resource consumption, and other pivotal environmental indicators to ensure transparency and accountability. By establishing strategic partnerships with environmental organizations, Islamic banks can harness their financial resources and expertise to support initiatives that combat climate change while adhering to the ethical principles of Islamic finance. These collaborations contribute to a more sustainable and ecologically responsible financial ecosystem (Zafar & Sulaiman, 2020).

Islamic Microfinance: Islamic microfinance possesses the ability to assume a momentous function in tackling climate predicaments, particularly within susceptible communities. For instance, Islamic microfinance can furnish funding to individuals and small enterprises for activities that support the resilience of livelihoods against climate adversities (Shahid et al., 2023). This entails endorsing ventures associated with sustainable agriculture, agroforestry, and other practices that possess climate-intelligent qualities, thereby amplifying community resilience against climate repercussions. Microfinance can be utilized to finance enhancements to housing that augment climate resilience. This might encompass retrofitting dwellings to endure severe weather occurrences, incorporating energy-efficient attributes, and employing sustainable construction materials.

Islamic microfinance can be directed towards the advancement of climate-sturdy infrastructure within vulnerable communities. This encompasses endeavors such as measures for flood protection, systems for water management, and robust transportation infrastructure that aid communities in adapting to fluctuating climate circumstances. Islamic microfinance programs can prioritize the empowerment of women in climate-linked projects. By providing financial resources and training to women entrepreneurs in domains like sustainable agriculture and renewable energy, not only does it endorse climate action, but it also contributes to gender parity and social empowerment. Islamic microfinance institutions can collaborate with insurance providers to offer climate-related insurance products to their clientele. These products can furnish financial safeguarding against climate-linked risks, such as crop failure due to extreme weather events. By directing financial resources towards initiatives that possess climate resilience, Islamic microfinance empowers individuals and communities to actively engage in efforts aimed at mitigating and adapting to climate change. This approach not only contributes to environmental sustainability but also promotes economic progress and alleviation of poverty within vulnerable regions.

Environmental Wakala Contracts: Environmental Wakala Contracts have the potential to play a crucial role in tackling climate concerns by offering a Sharia-compliant funding mechanism for environmentally sustainable projects (Farhand et al., 2020). For instance, these contracts empower individuals or institutions to channel their funds into environmentally sustainable projects. These initiatives could encompass renewable energy ventures, energy-efficient constructions, sustainable agricultural enterprises, and other environmentally friendly endeavors. Environmental Wakala Contracts ensure that investments are allocated to projects that align with Islamic principles and ethical values. This implies that funds are directed towards initiatives that endorse environmental preservation, diminish carbon emissions, and contribute to the overall well-being of communities.

Within an Environmental Wakala Contract, profits and losses are distributed between the investor (the Wakil) and the managing party (the Mudarib) based on pre-established terms. This fosters a sense of collective responsibility and accountability for the success of the environmental project. Funds generated through Environmental Wakala Contracts can be channeled towards projects that enhance climate resilience. This may encompass investments in climate-adaptive infrastructure, disaster preparedness schemes, and community-driven initiatives that aid vulnerable communities in coping with the consequences of climate change.

Islamic Crowdfunding Platforms: Islamic crowdfunding platforms wield a crucial role in tackling climate concerns by furnishing a stage for individuals and organizations to collectively finance environmentally sustainable undertakings (Testa et al., 2022). For instance, Islamic crowdfunding platforms involve an assorted community of investors who are keen on contributing to projects that align with Islamic and ethical principles. These platforms bring together individuals who share a shared objective of countering climate change through their financial backing. Funds raised through Islamic crowdfunding platforms can be channeled towards green infrastructure projects. This encompasses investments in energy-efficient edifices, eco-friendly transportation systems, and sustainable urban development, all of which contribute to curbing carbon emissions.

Islamic crowdfunding platforms can function as a capital source for climate-focused entrepreneurs and startups. These platforms provide an avenue for individuals with innovative climate solutions to procure funding and actualize their concepts. Crowdfunding can be utilized to bolster eco-tourism projects and sustainable travel initiatives. These projects promote responsible tourism practices, safeguard natural habitats, and create economic opportunities for local communities. Crowdfunding platforms showcase grassroots support for climate-related projects. This collective endeavor conveys a potent message about the significance of addressing climate change and demonstrates that individuals can actively contribute to global exertion. By harnessing the influence of collective funding, Islamic crowdfunding platforms offer an inclusive and accessible means for individuals to engage in climate action. These platforms mobilize resources for environmentally sustainable projects, fostering a sense of community involvement and empowerment in the battle against climate change (Obaidullah, 2018).

Obstacles Faced by Islamic Finance for Combating Climate Issues

Islamic financial institutions, akin to other financial institutions, confront an array of obstacles when it comes to tackling climate matters. For instance, Constricted Investment Opportunities: Discovering suitable and Sharia-compliant investment prospects in the realm of climate-linked ventures can be demanding. Discerning ventures that correspond to both Islamic finance principles and climate objectives necessitates meticulous screening and due diligence.

Risk Management: Climate-linked ventures can be linked to distinct risks, including regulatory ambiguities, technological impediments, and environmental hazards. Islamic financial institutions need to forge robust risk appraisal and management frameworks to navigate these intricacies.

Absence of Standardization: The absence of standardized frameworks for evaluating and classifying climate-linked investments in the context of Islamic finance can render it arduous to compare and assess diverse prospects. This can engender uncertainty for investors and impede the expansion of climate-focused financing.

Capacity Development and Expertise: Cultivating the indispensable expertise and capacity to evaluate and administer climate-linked ventures may present a challenge for Islamic financial institutions. This encompasses comprehending intricate environmental regulations, technical facets of renewable energy ventures, and sustainable infrastructure development.

Market Magnitude and Scale: Climate-linked ventures, particularly those concentrating on renewable energy and sustainable infrastructure, can necessitate substantial capital investments. Ensuring that the dimensions and scale of ventures align with the capability of Islamic financial institutions may prove to be an obstacle.

Extended Commitments: Numerous climate-associated undertakings possess extensive gestation periods and may not yield immediate returns on investment. Islamic financial institutions may encounter pressure to exhibit short-term profitability, which can contradict the enduring nature of climate endeavors.

Regulatory Framework: Navigating the regulatory milieu pertaining to climate finance can be intricate, particularly in regions where environmental policies and regulations are still unfolding. Islamic financial institutions need to remain up-to-date on pertinent regulations and compliance requisites.

Education and Awareness: Instilling awareness and enlightening stakeholders, including clients and investors, about the advantages and prospects of climate-linked investments within the context of Islamic finance is imperative. This may necessitate concerted endeavors to convey the concordance between ethical and sustainable finance principles.

Reporting and Transparency: Ensuring candid reporting on the ecological impact of investments is pivotal for upholding trust and credibility. Formulating effective reporting mechanisms that meet both Sharia compliance and climate-related disclosure standards can be arduous.

Adaptation Financing: While considerable attention is directed towards mitigation endeavors, financing for climate resilience adaptation is equally significant. Identifying and financing projects that bolster climate resilience in vulnerable communities may pose specific challenges for Islamic financial institutions.

Addressing these challenges necessitates a collaborative exertion from Islamic financial institutions, regulatory authorities, and stakeholders within the broader climate finance ecosystem. Cooperation, capacity enhancement, and the establishment of standardized frameworks can aid in surmounting these obstacles and fostering sustainable, climate-resilient financial practices within the Islamic finance industry.

Conclusion

The notion of Islamic finance has significant similarities with “green” economics and aligns well with the moral demands of environmental initiatives. Therefore, the goals of Islamic finance, which aim to improve societal welfare overall, align well with environmental conservation and sustainability. The objectives of the Sharīʾah and the Sustainable Development Goals, which are required by the UN, are clearly aligned with organizational goals like climate management, adaptation, and environmental and planet protection. This study extends the argument and aims to show how Islamic finance may play a major role in the global effort to find climate financing solutions.

Islamic climate financing holds multiple crucial implications that can steer the formulation of frameworks and strategies to foster sustainability, resilience, and ethical considerations. Below are some of the noteworthy policy implications:

a) *Incorporating Islamic Finance into Climate Policy*: Governments ought to acknowledge and incorporate Islamic finance principles into national climate policies and strategies. Establish a facilitative regulatory environment that bolsters the emergence of Islamic climate financing instruments, such as Green Sukuk, to ensure adherence to Sharia principles.
b) *Creating Sharia-Compliant Climate Instruments*: Policy initiatives should incentivize the creation and standardization of Sharia-compliant climate finance instruments. Governments can collaborate with financial institutions to fabricate and advocate frameworks for conscientious investment and financing, aligning with Islamic principles.
c) *Building Capacity and Enhancing Education*: Craft capacity-building programs for financial regulators, institutions, and market participants to augment comprehension of Islamic climate finance. Integrate Islamic finance and sustainability modules into educational curricula for finance professionals, policymakers, and other stakeholders.
d) *Promoting Research and Innovation*: Promote research and development in the realm of Islamic climate finance to unearth novel opportunities, innovative instruments, and exemplary practices. Institute research grants and incentives to invigorate the generation of sustainable and Sharia-compliant financial products and services.
e) *Encouraging Green Investments*: Introduce fiscal incentives, tax exemptions, and other financial benefits for businesses and investors involved in climate-resilient and environmentally sustainable projects. Formulate policies that advocate Islamic financial institutions as preferred allies for green investments.

f) *Foster Cooperation and Alliances*: Promote synergy among Islamic financial institutions, global organizations, governments, and non-governmental organizations to harness expertise and resources for climate initiatives. Stimulate alliances between Islamic financial institutions and conventional organizations to jointly fund extensive climate undertakings.
g) *Standards for Socially Responsible Investments*: Create and embrace benchmarks for conscientious investments (CRI) within Islamic finance, encompassing environmental and climate-related criteria. Urge Islamic financial institutions to embrace transparent reporting mechanisms for the ecological and social influence of their investments.
h) *Evaluation and Disclosure of Climate Risk*: Promote the assimilation of climate risk evaluation into financial reporting frameworks for Islamic financial institutions. Develop guidelines for uncovering climate-related risks and opportunities to enhance transparency and accountability.
i) *Incorporation of Vulnerable Communities*: Ensure that policies cater to the distinctive requirements of susceptible communities, fostering financial inclusion and access to Islamic climate funding for projects that fortify resilience in these communities.
j) *Global Collaboration*: Actively engage in international endeavors to synchronize standards for Islamic climate finance. Participate in global dialogues to exchange best practices, harmonize regulatory frameworks, and establish a supportive environment for Islamic climate funding.
k) *Framework for Monitoring and Assessment*: Establish robust frameworks for monitoring and assessment to evaluate the efficacy of Islamic climate funding policies in achieving ecological and social impact. Regularly review and update policies to align with evolving global climate objectives and Islamic finance principles.

By integrating these policy recommendations into their climate finance strategies, governments can cultivate a milieu that fosters the expansion of Islamic climate funding, thereby making a substantial and principled contribution to the worldwide endeavor of tackling climate change.

References

Adhitya, F., & Farida, D. N. (2023). Green banking: The trend of maintaining sustainability of environmental business. *Global Review of Islamic Economics and Business, 11*(1), 084-094.

Alam, M. M., Hoque, M. N., & Muda, R. (2023). Assessment of the sharīʿah requirements in the Malaysian Islamic financial services act 2013 from the managerialism and maqāṣid al-sharīʿah perspectives. *Journal of Islamic Accounting and Business Research*. https://doi.org/10.1108/JIABR-01-2022-0025

Al-Nahari, A. A. A. Q., Monawer, A. T. M., Haji Abdullah, L. B., Ali, A. K. B., Abdul Rahman, N. N. B., & Achour, M. (2022). Common conceptual flaws in realizing maqāṣid al-sharīʿah vis-à-vis Islamic finance. *ISRA International Journal of Islamic Finance, 14*(2), 190-205.

Al-Silefanee, R. R., Mamkhezri, J., Khezri, M., Karimi, M. S., & Khan, Y. A. (2022). Effect of Islamic financial development on carbon emissions: A spatial econometric analysis. *Frontiers in Environmental Science, 10*, 850273.

Bae, S. M., Masud, M. A. K., Rashid, M. H. U., & Kim, J. D. (2022). Determinants of climate financing and the moderating effect of politics: Evidence from Bangladesh. *Sustainability Accounting, Management and Policy Journal, 13*(1), 247-272.

Browne, K. E. (2022). Rethinking governance in international climate finance: Structural change and alternative approaches. *Wiley Interdisciplinary Reviews: Climate Change, 13*(5), e795.

Farhand, M. Z., Nurjanah, P. L., & Nurcholis, M. (2020). Islamic finance in sustainable economy: Empowerment of sukuk wakalah to build waste industry. *Airlangga International Journal of Islamic Economics and Finance, 3*(1), 52-67.

Hosen, M. (2021). What are the leading bank-specific and macroeconomic factors influencing Islamic bank performance? New evidence from MENA countries. *In Global Challenges and Strategic Disruptors in Asian Businesses and Economies* (pp. 153-171). IGI Global.

Hosen, M., Thaker, H. M. T., Subramaniam, V., Eaw, H. C., & Cham, T. H. (2022). Artificial intelligence (AI), blockchain, and cryptocurrency in finance: Current scenario and future direction. *In International Conference on Emerging Technologies and Intelligent Systems* (pp. 322-332). Cham: Springer International Publishing.

Hudaefi, F. A., & Badeges, A. M. (2022). Maqāṣid al-Sharī ‘ah on Islamic banking performance in Indonesia: A knowledge discovery via text mining. *Journal of Islamic Marketing, 13*(10), 2069-2089.

Kamaruddin, M. I. H., & Hanefah, M. M. (2021). Bridging zakat impacts toward maqasid shariah and sustainable development goals (SDGs), influence of corporatization and experiences on Covid-19. *Islamic Wealth and the SDGs: Global Strategies for Socio-economic Impact*, 393-420.

Keshminder, J. S., Abdullah, M. S., & Mardi, M. (2022). Green sukuk–Malaysia surviving the bumpy road: Performance, challenges and reconciled issuance framework. *Qualitative Research in Financial Markets*, *14*(1), 76-94.

Lang, Q., Ma, F., Mirza, N., & Umar, M. (2023). The interaction of climate risk and bank liquidity: An emerging market perspective for transitions to low carbon energy. *Technological Forecasting and Social Change*, 191, 122480.

Listiana, L. (2022). Towards energy security and sustainability in Indonesia: Exploring the waqf-based potential. *Global Review of Islamic Economics and Business, 10*(1).

Moneim, Y. A. (2023). The green Islamic approach on environmental sustainability: A contemporary perspective. *Manchester Journal of Transnational Islamic Law & Practice, 19*(2).

Muhamad, A., Syihab, A. H., & Ibrahim, A. H. (2020). Preserving human–nature's interaction for sustainability: Quran and Sunnah perspective. *Science and Engineering Ethics*, *26*(2), 1053-1066.

Musari, K. (2022). Integrating green sukuk and cash waqf linked sukuk, the blended Islamic finance of fiscal instrument in Indonesia: A proposed model for fighting climate change. *International Journal of Islamic Khazanah, 12*(2), 133-144.

Musari, K., & Hidayat, S. E. (2023). The role of green sukuk in maqasid al-shariah and SDGs: Evidence from Indonesia. In *Islamic finance, fintech, and the road to sustainability: Reframing the approach in the post-pandemic era* (pp. 181-203). *Cham: Springer International Publishing*.

Obaidullah, M. (2018). Managing climate change: Role of islamic finance. *Islamic Economic Studies*, *26*(1), 31-62.

Qoyum, A., Sakti, M. R. P., Thaker, H. M. T., & Hashfi, R. U. A. (2022). Does the Islamic label indicate good environmental, social, and governance (ESG) performance? Evidence from sharia-compliant firms in Indonesia and Malaysia. *Borsa Istanbul Review, 22*(2), 306-320.

Qadir, J., & Zaman, A. (2019). Sustainable development viewed from the lens of Islam. *International Journal of Pluralism and Economics Education, 10*(1), 46-60.

Raeni, R., Thomson, I., & Frandsen, A. C. (2022). Mobilising Islamic funds for climate actions: From transparency to traceability. *Social and Environmental Accountability Journal*, *42*(1-2), 38-62.

Rahman, A., Ahmad, A. U. F., Bin-Nashwan, S. A., Muneeza, A., Halim, A. H. A., & Markom, R. (2023). Policy approach adopted for issuance of green sukuk: Is priority given to priority needed areas? *Journal of Islamic Accounting and Business Research*.

Saeed, M. (2021). Green sukuk for financing renewable projects in Islamic social finance: Problems and solutions. In *Contemporary Issues in Islamic Social Finance* (pp. 331-346). *Routledge*.

Saleh, M. S. M., Mehellou, A., & Omar, B. (2023). Maqāṣid al-sharī'ah as goal framing for sustainable behaviours: A conceptual framework. *Intellectual Discourse, 31*(1), 183–209.

Shahid, M., Sulub, Y. A., Mohtesham, M. M. J., & Abdullah, M. (2023). Analyzing the commonalities between Islamic social finance and sustainable development goals. *International Journal of Ethics and Systems*.

Stroebel, J., & Wurgler, J. (2021). What do you think about climate finance? *Journal of Financial Economics, 142*(2), 487-498.

Testa, S., Atawna, T., Baldi, G., & Cincotti, S. (2022). The innovation potential of Islamic crowdfunding platforms in contributing to sustainable development. *European Journal of Innovation Management, 25*(6), 1008-1035.

Thaker, H. M. T., Sakti, M. R. P., Qoyum, A., Thaker, M. A. M. T., & Hosen, M. (2023). Recent SDGs and ESG Implementation by Qatar. *Journal of Environmental Assessment Policy and Management*, *25*(03), 2350017.

Ulfah, I. F., Sukmana, R., Laila, N., & Sulaeman, S. (2023). A structured literature review on green sukuk (Islamic bonds): Implications for government policy and future studies. *Journal of Islamic Accounting and Business Research.*

Yandri, P., Budi, S., & Putri, I. A. P. (2023). Waste sadaqah: A new community-based waste management practice in Java, Indonesia. *Sustainability: Science, Practice and Policy, 19*(1), 2212510.

Zafar, M. B., & Sulaiman, A. A. (2020). Measuring corporate social responsibility in Islamic banking: What matters? *International Journal of Islamic and Middle Eastern Finance and Management*, *13*(3), 357-388.