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What are the Challenges Encountered in Initiating Green Takaful Products as a Potential Climate Finance Tool in Sri Lanka?

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Abstract

Takaful as a risk-mitigating tool plays a significant role in the modern Islamic finance landscape, since it has experienced substantial growth and expanded globally in the field of economics. The alignment of the Islamic financial sector with conventional financial market trends, while adhering to Shariah law, has contributed to the growth of Islamic finance and Economics. To attain sustainable development goals, several countries have already introduced green insurance products, and the takaful market in various countries has competitively initiated green takaful products under the climate finance concept. This study aims to explore the challenges to initiating green takaful products as a climate financial tool. The study adopts a qualitative and inductive approach, utilising interview data as the primary source of information. Thematic analysis was employed to analyse the collected data for the study. The findings indicate numerous challenges, such as regulation, risk, cultural, and learning and development challenges in implementing green takaful in the Sri Lankan takaful market. This research holds a significant contribution to the takaful sector in terms of initiating green takaful products in the insurance market in Sri Lanka. Furthermore, each challenge discussed in this study and the ways to overcome them can be a major focus in future studies. Hence, it provides valuable insights for policymakers, regulatory authorities, product creators, practitioners and coming researchers in climate finance and green takaful schemes.

Keywords: Green Takaful, Climate Finance, Sri Lanka, Challenges, Insurance

1. Introduction

United Nations member countries should strive for the Sustainable Development Goals (SDGs) to achieve a sustainable future and livelihood in 2030 (Johan, 2021). Financial services also support the SDGs by promoting economic, environmental, and social harmony, whether conventional (credit facility) or Islamic financing (Budiasa, 2020). Currently, one of the financial sectors with the fastest global growth is Islamic finance, including microfinance, with a favourable competitiveness (Senghore, 2023). Islamic economics serves as the foundation for Islamic financing, and it is different from conventional economics for a variety of reasons (Muslehuddin,

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1974). Financing with shariah principles is a better solution across the world, and the Islamic capital market plays a fabulous contribution to reaching the SDGs (Arvian, 2018; Johan, 2022). Eleven of the seventeen SDGs have a direct relationship with Islamic finance (Gundogdu, 2018). Islamic economics considers numerous distinctive aspects, such as sustainability, responsibility and social welfare, including education, health, and environmental conditions, which is opposed to conventional economics' focus on profit maximisation (Olaide & Abdul Kareem, 2021). Islamic finance has three key elements: Islamic banking, Islamic insurance (takaful), and Islamic capital market (Aziz, 2022). Accordingly, Islamic insurance that complies with Islamic law is known as takaful, which consists of a larger level of support for economic development and poverty alleviation towards establishing a better community (Rifas & Jahan, 2021; Mirza, 2023). Islamic social financial tools such as takaful, waqf and microfinance contribute to poverty alleviation (Jimoh et al., 2024).

The term takaful, which is derived from the Arabic term '*kafala*', denoting "mutual guarantee", is synonymous with insurance, albeit sanctioned by Islamic jurisprudence or shariah principles (Ansari, 2022). Takaful scheme is a guaranteeing mechanism with unity, brotherhood and mutual assistance (Rifas, Rahman & Buang, 2023), and is now witnessing tremendous growth globally (Alam, 2023). It embodies the notion of insurance founded upon cooperation and solidarity, wherein individuals partake in a takaful scheme (Howdon, 2019). The global takaful market is worth around 73 billion US dollars (Abdusamat, Sodikov & Batirova, 2021). Takaful is an essential approach that provides confidence and ethical guidelines for protecting assets, and it considers shariah principles and applies the same principles of insurance for its operation, even though insurance consists of some prohibited elements in Islam (Rifas et al., 2023).

Green takaful, which is mainly related to the general takaful scheme, is a sustainable insurance sector that aids in attaining climate-related financial goals (Jaffer, 2017). As climate change is one of the most significant issues in the world, greening the financial sector is another solution to address climate change issues (Silva et al., 2017). According to the United Nations Framework Convention on Climate Change (2019), climate finance refers to local, national, or transnational financing drawn from public, private, and alternative funding sources that seek to support mitigation and adaptation actions that will address climate change. The Securities Commission of Malaysia (2019) explains that by embracing global trends, the financial sector, which is expanding following Islamic economic principles, continues to advance without departing from the Islamic framework. This is occasionally revived by combining it with Islamic thought. Takaful can be a reliable solution for such risks since it can tackle global climatic issues, including environmental degradation (Mirza, 2023). Therefore, the contemporary takaful industry in Malaysia contributes to managing the risks posed by climate change (Islamic Sustainable Finance and Investment, 2023). In this way, the takaful industry undergoes a green reform to operate climate financing, one component of the industry's upgrading in the modern period. Green takaful operations are helping to achieve the emission reduction target (Noor, 2022).

The financial sector has prioritised this when implementing numerous adjustments in several industries to combat climate change (Federica, 2022). As a result, Islamic finance also focuses on climate finance when examining the global financial system (The Islamic Foundation for Ecology and Environmental Sciences, 2021). Islamic finance immediately partnered with climate finance because of the connection between promoting sustainability and Islamic principles (Islamic Relief, 2022). Moreover, it has become the need of the age, so they have to deal with it. This new aspect expands along with three main elements of Islamic finance: Islamic banking, Islamic capital markets, and takaful (Mustafa & Ab Rahman, 2023). According to Atlas Magazine (2017), in consequence, the Middle East, Southeast Asia, and Europe presently have the most advanced Islamic insurance with its pioneer products and services for their participants.

The Takaful system has been convenient and more beneficial in the light of Shariah since its establishment in Sudan in 1979 (Husin & Rahman, 2016). Despite many obstacles, the takaful scheme has seen significant growth today (Mazahir, Rahman & Ramzy, 2017), and it is expected to reach 13 per cent with $40 billion in 2023 (IFSB, 2018). The takaful sector is growing rapidly, with 324 fully pledged operators, plus subsidiaries and takaful windows in 47 countries globally, and the market value was $ US$46 billion (IMARC Group, 2020; Sopian and Azmin, 2021). Furthermore, the takaful sector significantly contributes to economic development, which leads to poverty alleviation (Cupri & Cortelezzi, 2025). The takaful market is relatively new as it was introduced in 1999 with the establishment of Amana Takaful Ltd, and comparable with conventional insurance, has a small market penetration in Sri Lanka. Although it has been twenty-six years since Islamic finance started in Sri Lanka, it has been 18 years since it was legally adopted in the Sri Lankan banking and financial industry (Hilmy et al., 2022). Amana takaful PLC was the first takaful company, followed by Ceylinco takaful, Al Falah takaful and HNB takaful assurance under the supervision and regulation of the Insurance Board of Sri Lanka (Presently re-named as Insurance Regulatory Commission of Sri Lanka (IRCSL) with the Insurance

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Industrial Act No. 43 of 2000. Amana Takaful PLC is a fully-fledged bank and the market leader in the Sri Lankan market among other takaful operators (Mazahir, Rahman & Ramzy, 2017). Although the Sri Lankan takaful market is comparatively small compared to other countries like Sudan, Malaysia, Pakistan, Saudi Arabia, and Turkey, to compete with the global trend in climate financing and achieve sustainable development goals (SDGs), the insurance sector must undergo a green transformation (McKinsey, 2022). Interestingly, various kinds of policies are offered under general takaful, and some of the products of takaful companies in Sri Lanka are listed in Table 1 below. Nevertheless, ensuring how far those takaful products adhere to green takaful and how they support the Sustainable Development Goals for a sustainable world is difficult. The following table includes the major takaful product areas in the general takaful scheme (Rifas et al., 2023).

Table 1. Summary of General Takaful Products Offered in Sri Lanka

No	Takaful Products	Nature of Policy
01	Takaful Fire Cover	Covers fire and lightning for all assets, including buildings. The fire should be accidental.
02	Takaful Easy Marine	Damage to the vessel and the loss of cargo during import and export.
03	Kiri Govi Sathkara	For agriculture and cattle.
04	TUK TUK FULL, SRC, Takaful Total Drive	Designed for both property and three-wheelers.
05	Takaful Travel Pal	Designed for travellers, covering their property, inconvenient situations, and travellers' illnesses.
06	Takaful Business Cover and Business Interruption Cover	Provide stability for business with all covers included in one business cover. Business interruption cover allows a business to rebuild without any inconvenience.
07	Takaful Navodhaya, Takaful myHome	These cover small portions of insurance, micro insurance and buildings.
08	Engineering Takaful	During the contract period, all steps from commencement to completion of a project are covered.
09	Medical, Employee-related Takaful	Employees' welfare and their medical expenses

Source: Websites of the Takaful Companies in Sri Lanka

Although the takaful operators offer several products, green takaful should be introduced or inserted gradually into the products. These practices would be beneficial to make the takaful industry in Sri Lanka prominent, yet there are many obstacles to the implementation of such concepts. According to the best knowledge of researchers, no studies have been conducted in the field of takaful or takaful products related to green finance and takaful in Sri Lanka. Therefore, this study explores the challenges of introducing green takaful products as a potential climate finance tool in Sri Lanka.

Regarding significance, as conventional insurance supervision regulates the takaful industry in Sri Lanka, takaful market players are automatically forced to comply with all rules of the Sri Lanka Insurance Regulatory Commission. Takaful should have considered the society's well-being and harmless development as well. The research location, Sri Lanka, is not perfectly involved in introducing the zero carbon techniques for several reasons related to the operations. Thus, the research analyses the challenges and hardships in introducing green takaful products rather than the regular takaful policies. The findings of the study will firmly establish fundamental barriers and issues which support the market players. Therefore, the conclusions will disclose the challenges that could be identified in the takaful operation in the Sri Lankan market.

2. Literature review

Climate change refers to the enduring alteration in average weather patterns worldwide. It has been observed that since the mid-1800s, human activities have been responsible for the emission of carbon dioxide and other greenhouse gases into the atmosphere (Pachauri, 2015). This phenomenon has led to a rise in global temperatures,

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which has consequently caused long-term modifications to the climate. The Intergovernmental Panel on Climate Change (IPCC) is the United Nations organisation that is tasked with evaluating the scientific aspects of climate change (IPCC, 2022). Sri Lanka, like numerous other countries, experiences the ramifications of global climate change (Chandrapala et al., 2010). The geographical positioning of Sri Lanka, coupled with its extensive array of ecosystems, renders it exceptionally susceptible to the adverse effects of climate change (Khaniya, Gunathilake & Rathnayake, 2021). Several notable aspects through which Sri Lanka is impacted by climate change encompass rising sea levels, extreme weather events, droughts and water scarcity, agricultural impacts, biodiversity loss, health risks, infrastructure vulnerability, etc. The Sri Lankan economy has been most affected by these disasters (Samarasinha, 2020).

The teachings on climate consciousness that can be derived from the Holy Quran and Hadith are of great significance (Köhrsen, 2021). The Holy Quran, as the central religious text of Islam, provides guidance on various aspects of life, including the environment (Gueye & Mohamed, 2023). It emphasises the concept of stewardship, highlighting the responsibility of humans to care for and protect the Earth. The Holy Quran teaches that the Earth and its resources are a trust from God, and humans are accountable for their actions towards the environment (Wahyudi, 2012). Shabir (2018) explains that in the Holy Quran, it is mentioned that human activities are affected by the Earth's and climate changes.

ظَهَرَ ٱلْفَسَادُ فِى ٱلْبَرِّ وَٱلْبَحْرِ بِمَا كَسَبَتْ أَيْدِى ٱلنَّاسِ لِيُذِيقَهُم بَعْضَ ٱلَّذِى عَمِلُوا۟ لَعَلَّهُمْ يَرْجِعُونَ ٤١

“Corruption doth appear on land and sea because of (the evil) which men’s hands have done, that He may make them taste a part of that which they have done, so that they may return” (Al Quran 30:41)
*(*Translation: Muhammad Taqi-ud-Din Al-Hilali & Muhammad Muhsin Khan*).*

In addition to the Holy Quran, the Hadith are the reported sayings of Prophet Muhammad (PBUH), and offer insights into environmental conservation (Noorhidayati, 2022). The Hadith emphasises the importance of preserving natural resources, avoiding wastefulness, and promoting sustainable practices (Zafar, 2023). They encourage believers to be mindful of their consumption patterns and avoid excessively exploiting the Earth's resources.

Climate finance provides funding at the national or international level, sourced from public, private, and alternative channels, intending to support mitigation and adaptation measures that aim to combat climate change (Liska, 2014; Negreiros, 2021). While there is no singular definition of climate finance, the UNFCCC standing committee on finance offers the most authoritative interpretation: "Climate finance endeavors to diminish emissions and improve the absorption of greenhouse gases, whilst also striving to reduce the susceptibility of human and ecological systems to adverse impacts of climate change, whilst maintaining and augmenting their resilience” (UNFCCC, 2019).

According to the European Insurance and Occupational Pensions Authority (2023), every sector of the economy conveys climate risks to its respective insurers. Consequently, climate change serves as a stress test for the insurance industry, which is the largest in the world, generating revenues of $4.6 trillion and accounting for 7% of the global economy. The losses incurred by insurance companies due to weather and climate-related incidents are becoming increasingly complex, encompassing property damage, business interruptions, health implications, and legal actions against polluters (Climate Guide, 2023).

The Islamic finance industry has demonstrated its adaptability and commitment to environmental concerns through the emergence and widespread adoption of green Sukuk and Sharia-compliant green and sustainable investment products (Jaafar & Brightman, 2022). However, Nazri et al (2020) explain that the takaful industry has yet to make significant strides in this area. While insurance companies are working to incorporate ethical and environmentally conscious practices into their corporate social responsibility, they are also developing risk management products such as climate risk-related insurance, which may have negative consequences (Noor, 2022). In addition, Sallemi & Zouari (2023) explain that by being environmentally friendly and responsible, takaful operators can manage their impact on people, clients, suppliers, society, and the environment to deliver increased value to all their stakeholders. To begin with, the takaful operators can incorporate concern for green issues into simpler things, such as designing corporate practices to be environmentally safe and sustainable, such as using less paper, reducing their carbon footprint, etc. While these steps seem small, they can have a huge aggregate effect if they are incorporated by the entire industry (Hassan, 2019).

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The alignment of Islamic insurance principles with environmentally sustainable practices, known as green takaful, can substantially contribute to climate finance (Harahap, Risfandy & Futri, 2023). By serving as a mechanism that supports and promotes climate-conscious initiatives, green takaful can effectively reduce climate-related risks and facilitate responsible financial transactions (Khan, 2023). Muhamat et al. (2017) explains that the concept of green takaful establishes a strong connection with climate finance, as it integrates Islamic insurance principles to foster environmentally sustainable practices and will contribute to climate finance through risk mitigation, climate-resilient projects, carbon reduction, economic resilience, and alignment with sustainable development goals (Brescia et al., 2021). Green takaful serves as a crucial link between the principles of Islamic finance and the objectives of climate finance (Muhamat et al., 2017).

Notably, some studies have been conducted on green takaful and climate finance. Accordingly, Muhamat et al. (2017) undertook a survey of green takaful as a climate finance tool, and they found that the greenhouse gas (GHG) effect is a global environmental problem that necessitates participation and contributions from every nation to lessen the effect and improve the state of the environment globally. According to this research, there are two methods used to accomplish this: (1) a 35% reduction on the unconditional basis and (2) a 10% increase in climate finance and technology. Regarding its potential to assist the government in reducing carbon emissions, takaful is the focus of this paper as a tool for climate finance. Furthermore, it offers Malaysian takaful operators new commercial opportunities. Some suggestions are offered based on the practices of insurance companies in developed countries.

Obaidullah (2017) explains that one of his studies on managing climate change under the role of Islamic finance, the environmental preservation and sustainability are in line with Islamic finance's goal of advancing societal well-being. The SDGs and the shariah objectives (Maqasid al-shariah) are clearly in alignment when it comes to environmental protection, climate management, and adaptation as organisational goals. The study aimed to develop the argument further and show how Islamic finance can make a significant contribution to the global effort to find climate finance solutions. Further, they found that if subsidies are not available to cover the additional costs associated with clean technologies, Islamic social funds may be able to make a significant contribution.

Another study was conducted by Raeni et al. (2022) on mobilising Islamic funds for climate actions from transparency to traceability and concluded that the countries have begun to include green bonds in their portfolios of sovereign bonds because of mobilising enough financial resources for low-carbon development. According to the findings, the effectiveness and integrity of these financial instruments are still in practice by various countries. Furthermore, Nobanee et al. (2021) studied green and sustainable life insurance and observed that businesses all over the world are currently becoming more concerned about implementing sustainable practices. It has been found that risk management makes a significant contribution to the encouragement of sustained business operations. To ascertain the direction of the current trend in this area, it is intended to review published articles focusing on the role of risk management in promoting business sustainability initiatives and its advancement. The research findings revealed four keyword clusters in the titles of the gathered articles. They identified the journals, nations, authors, subject areas, and organisations most interested in the topic and its popular research period. Based on this research output, suggestions for future research were made, such as expanding the number of databases for the data collection phase and utilising the bibliometric analysis approach to bibliographic coupling relations.

However, the Sri Lankan risk mitigation and takaful industry still follows the traditional way; they just offer the products rather than consider climate financing. It seems that the takaful companies provide all general family takaful products. According to the studies conducted in some other countries, they have already started to discuss and introduce new and green policies through out the market, but in Sri Lanka, the regulator of the insurance industry IRCSL need to focus on the climate change and better to circulate of new guidelines of the introduction of green takaful policies under the green finance. Thus, this study will try to fill the gap in the insurance and takaful market in Sri Lanka.

3. Methodology

The research uses a qualitative study method involving an inductive research approach (Punch, 2014). Data and information for this study focus on the green takaful concept in the takaful sector in Sri Lanka, and it delves into the challenges in a descriptive manner. Data for the research were collected from industry practitioners, executive-level staff, and academicians in the takaful scheme, and the respondents were selected using a convenience sampling technique (Ilker et al., 2016). Convenience sampling was used to identify the respondents; this technique

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is common in social science research (Ilker et al., 2016), applied to fewer workers in a limited timeframe and is a cheaper method. Respondents are thus selected according to the researcher's convenience, returning more reliable data than from a large population (Gravetter and Forzano, 2012; Rifas et al., 2023). As a primary source of data collection, 26 structured interviews were conducted, including 14 executive-level staff of takaful operators (EMP), 06 academicians (ACD), and 06 shariah and takaful experts (EXP) in Sri Lanka, and it's enough for qualitative studies (Bryman, 2012).

Regarding the rationale behind the selection, fourteen executive-level staff were selected from Amana takaful-general (5), Amana takaful-family (3), HNB takaful assurance (3) and Al-Falah takaful (3). Six academicians (ACD) from the Southeastern University of Sri Lanka and the Institute of Bankers of Sri Lanka (IBSL) were also selected. Additionally, six members of the Shariah advisory committee and experts (EXP) from the above takaful market players were selected for the interview. The study location, Sri Lanka, does not have a wider and developed takaful market; thus, it has minimal resources for the data collection process. Therefore, researchers are convinced that sufficient data could be obtained from the above three respondents to achieve the objective of the study.

The researchers had already prepared a set of structured interview questions to obtain data, and the ethical view of the interview questions was checked. Similarly, the participants were already (before the interview) instructed on none of the ethics-based questions after reviewing the questions by Dr. MB. Fowzul (Head, Department of Islamic Studies, Faculty of Arts and Culture, Eastern University, Sri Lanka). The interviewees were allowed to skip the question(s) once they felt inconvenienced in responding. The interviews were conducted at the residences of the interviewees. The interviewees were provided with an overview of the research project by the authors. Each interview lasted between 20 and 35 minutes. The entire interview was recorded using a professional recorder with the respondents' permission, and they were promised not to use it for any other purposes.

The member checking technique has been applied to data validation in this research. Out of three types of member checking, namely 'immediately after the data collection', 'during data analysis' and 'after data analysis', the immediately after the data collection was employed. The respondents were asked whether the statements for the questions were correct. The data collected were analysed using thematic analysis, which is a common, familiar and widely used method in social sciences research (Braun & Clarke, 2006). 'Thematic analysis' is a consistent and recognised method for qualitative data analysis with good organisation and reporting. It educates the way of actual points of interviewees under specific themes towards the research question (Banister et al., 1994).

According to Braun and Clarke (2006), indeed, this analysis is a process of encoding qualitative information with themes established through codes with reliability. As per the determination of 'accuracy' in coding reliability, the thematic analysis contains two ways of reliability, namely consensus coding and intercoder reliability. First, Consensus coding, where researchers code the same transcripts with the same code and compare results as a group. Second, Intercoder reliability measures how much researchers agree when coding the same data. These two methods are used to sidestep the potential bias of individual researchers by ensuring a collective, uniform coding approach and a blind coding mechanism. The researchers are very aware and careful in aiming for 'accuracy' as this qualitative data may have a complex, interpretive nature.

In addition, thematic analysis permits the interviewer to do analysis justice, accurately and soundly understand the research questions, and interpret the research questions by following six (6) steps while analysing the data. Thematic analysis consists of six steps, from data organisation to report writing. For instance, (1) data familiarisation: transcribe the data, reading till good understanding and gain idea, (2) initial code: note down the related codes of small information, collate the with relevant data, (3) search for themes: establishing relevant themes according to created small codes, (4) review of themes: inspect the themes that either created themes based on potential codes or not, and generate map towards analysis, (5) define and naming themes: refine every themes and generate the definition with name for those, (6) and report producing: generate the final report from the review themes with clear notice of the themes (Braun & Clarke, 2006). According to thematic analysis, first of all, interview data, which is in the form of voice, is transcribed in written form. Later, familiarisation with data, creating codes, and other steps are applied individually to the ultimate report, which adopts a descriptive style (Rifas, Hilmy & Saujan, 2023). For example, a student's (Ayesha) response to a question from an interviewee is as follows.

Question: "*Tell me how your English teacher supports your learning.*" Reply of Ayesha: "*He teaches me very well. He motivates and guides well. He is a kind teacher and he never comes late. He corrects my exercise and mistakes. He gives me a gift.*" For example, Ayesha mentioned in her response to one of the interview questions regarding her teacher's support; hence, this was coded as teaching, guiding, correcting mistakes, love, kindness

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and giving gifts were created as codes. Similarly, every reply may bring many codes. Further, in text segments across the various datasets coded portions, as in the above example, were labelled as teacher's teaching, love, kindness, motivation and guidance. These codes were "aggregated together to form a major idea" (Creswell, 2007), which were grouped as *Teachers' Supports* as a theme.

4. Results

The green finance concept aims to achieve sustainable development goals through financial services and environmental protection mechanisms. This emerging concept seeks to promote sustainable development and address environmental concerns within the insurance industry. The discussion part of this study deeply delves into the challenges of implementing green takaful operations in Sri Lanka. The researchers got different replies with mixed information from the respondents during the interviews about the challenges of the green takaful industry. Soon after the collection of the data, the transcribing and recording process was carried out, followed by the challenges and other information being categorised to separate subsections easily.
Furthermore, from the responses (from the data analysis), the researchers identified five key challenges: regulatory, risk-related, market awareness, cultural, and learning and development challenges. These issues and challenges in the Sri Lankan takaful market lead to removing irrelevant operations and barriers and finding what participants have inside their minds, which would help enhance the takaful industry. The researchers attempt to explain these challenges in a way that is easy to understand. Accordingly, the challenges have been organised as follows. Firstly, it highlights the regulatory challenges for implementing green takaful in Sri Lanka. The second problem is related to risk, which deals with a risky environment, while takaful products will undergo green products. Market awareness challenges are focused as the third issue, cultural challenges deal with the religious and their customs and finally, learning and development challenges while implementing green takaful products rather than utilising existing products either with modification or introducing new takaful products.

4.1 Regulatory Challenges

Regulatory challenges are a significant issue in the Sri Lankan takaful sector. There is a need for regulatory support to encourage the development and implementation of green takaful products. This support is crucial in ensuring that the necessary frameworks and guidelines are in place to promote and regulate these products effectively. However, many takaful practitioners are willing to introduce particular regulations or guidelines from relevant regulatory bodies, but cannot impose those and must obey the regulatory body called IRCSL. One of the respondents to this study provided the following statement:

> *"If there is a need to promote the concept of green insurance, regulatory authorities should implement laws and regulations in the insurance market. Without such regulations, the market may not automatically shift towards green insurance products. This highlights the importance of regulatory intervention in promoting sustainable practices in the insurance industry."* (ACD: 02)

The statement provides the main challenge faced by takaful companies in implementing green takaful operations in Sri Lanka. One of the main obstacles to the spread of the green takaful concept is the lack of support from regulatory authorities. If the insurance regulatory authorities promote the green concept in the market, it will encourage the takaful entities to initiate green takaful products.

Another similar statement provided is,

> *"Regulators should empower market developments in every market. While green concepts are popular in other countries, they are not yet considered in our country. Without regulatory support, it is difficult to initiate new products during financial crises. The high risk involved in such situations makes it challenging to introduce new products"* (EXP: 01)

The above statement also provides some of the core challenges faced in the insurance sector in implementing green takaful operations in Sri Lanka, similar to ACD: 03. That is, regulatory support for initiating green takaful products.

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4.2 Risk-Related Challenges

Green takaful products may face unique risks, such as the volatility of green investments and the potential for greenwashing (misleading claims of environmental friendliness). Takaful operators need to implement effective risk management strategies to mitigate these risks and ensure the long-term sustainability of the products. The statement made by the respondent is cited below;

> *"The complexity and risk associated with product development pose challenges in initiating green takaful opportunities in Sri Lanka. Green takaful refers to environmentally friendly insurance products promoting sustainable practices. Sri Lanka, however, faces difficulties in introducing such opportunities due to the intricate nature of product development and the associated risks. This implies that there are obstacles to creating and implementing insurance products that align with green principles in the Sri Lankan market.* (ACD-01; EXP-02)

This statement indicates that due to the high-risk situation of the economy of Sri Lanka following the financial crisis, new initiatives in the takaful sector will face a risky environment. This challenge is one that almost every industry, including the insurance sector, is facing. Furthermore, this study highlights the financial challenges associated with implementing green takaful operations. These include the high costs of incorporating environmentally friendly practices into the insurance operations, such as investing in renewable energy sources and adopting sustainable business models. Additionally, it is undeniable that the lack of access to specialised expertise, market awareness, and technology in green insurance poses a hurdle for the successful implementation of green takaful in Sri Lanka.

4.3 Market Awareness Challenges

Market awareness plays a crucial role in successfully initiating green takaful products. Insurance companies need to understand the market demand and customer preferences when designing and offering these products. Takaful companies need to understand customer preferences, conduct market research, and educate customers about the benefits of these environmentally friendly insurance products. Collaboration with environmental organisations and government agencies can further promote the growth of the green takaful market. Importantly, according to Rosvally (2010), environmental issues create opportunities, including new green businesses based on the current scenario, which are directed towards clean energy issues. However, Islamic financing cannot be implemented without stakeholders' support and assistance. According to the findings of Johan (2022), the green takaful concept might be new to the Sri Lankan takaful market; thus, the practitioners, regulators, and business actors should educate the people about the green concept related to the takaful scheme. The process of educating the public about takaful products and their significance should be arranged by the business parties (practitioners) and shariah supervisory bodies (Mazahir, Rahman & Ramzy, 2017; Rifas et al., 2023). Many people and stakeholders may not know the concept of green takaful. This lack of awareness is elucidated by the statement made by one of the respondents as follows;

> *" Market awareness can pose a significant challenge when it comes to initiating green takaful opportunities in Sri Lanka. This is because the concept of takaful insurance is still relatively new in the country, and many people are not familiar with it. Additionally, there is a lack of understanding about the benefits of green takaful, which can make it difficult to generate interest and support for these initiatives."* (EMP: 01)

4.4 Learning and Development Challenges

The learning and development challenges associated with green takaful products are significant in initiating green takaful products. This implies that there is a need for specialised knowledge and skills to design, market, and manage these products effectively. The following statement of this study relates to two kinds of respondents;

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" Without proper knowledge and training, it becomes difficult to establish and promote green takaful initiatives in Sri Lanka. This means that there is a limited availability of resources and programs that can educate and train individuals in green takaful, a form of Islamic insurance that promotes environmentally friendly practices." (EMP: 05)

A similar response to the above statement was received from two academics, ACD 3 and ACD 6. The interviewees' reactions also emphasise the importance of collaboration and partnerships between various stakeholders, including government bodies, insurance companies, ethnic communities, and environmental organisations. Such collaborations can help address the challenges by fostering knowledge sharing, capacity building, and creating a supportive ecosystem for green takaful operations. Further, today, many universities and higher educational institutions worldwide offer several degrees and academic programmes regarding the environment, such as environmental sciences, environmental law, climate change and environmental insurance. The climate and environmental insurance courses are also instructed by Adjunct Professor John G. Nevius (Rosvally, 2010). In terms of degree programmes, some of degree offered in the world such as Bachelor's Degree in Agricultural Economics in Ankara University; Master's Degree in Agricultural Economics (Agricultural Business Administration; Rural Valuation, Land, Natural Resources and Environmental Economics) in Ankara University Graduate School of Natural and Applied Sciences, Master's Degree Environmental Management (Natural Resources, Environmental Economics, Management and Tools) MED-CAMPUS, International Technological University; Doctor of Philosophy in Agricultural Economics (Agricultural Business Administration; Rural Valuation, Land, Natural Resources and Environmental Economics) Department of Agricultural Economics; Post-Doctoral Research Rural Economics, Rural Land Management in Tyne University.

4.5 Cultural Challenges

The introduction of green takaful products faces cultural challenges due to the perception that environmental issues are not a priority in some societies. This mindset can hinder the acceptance and adoption of green initiatives. One of the statements of a respondent of this study is provided as follows;

"…Cultural and ethical factors may pose a challenge to the initiation of green takaful opportunities in Sri Lanka. The country's predominantly Buddhist population lacks awareness and understanding of even the takaful concept. There is a need for education and awareness campaigns to promote the benefits of takaful and its compatibility with Islamic principles." (ACD: 01)

The responses of interviewees emphasise the fact that the introduction of green takaful products encounters cultural challenges due to the perception of environmental issues, lack of awareness, religious considerations, and the need for education and collaboration. Overcoming these challenges requires effective communication, education, and partnerships to promote sustainable practices within the takaful industry. Rifas et al. (2023) found that religion is also a major influential factor in takaful among the business entrepreneurs in Sri Lanka.

All challenges reveal an important message regarding the implementation of the green concept in the field of takaful, that is, what kinds of challenges and issues exist in the takaful market. Takaful is the sector which is currently considered a significant concept among Muslims and non-Muslims in many countries, like Sri Lanka. The researchers believe that the Islamic insurance sector in the Sri Lankan insurance industry has been misunderstood conceptually. Due to the lack of greater penetration in the insurance industry, it is imperative to broaden its presence in the risk mitigation market. Further, according to the findings, the takaful sector still faces several challenges in surviving in the insurance market, including green takaful. As per the regulatory issue, Sri Lanka is a Muslim minority country where, in general, the conventional financial system is practised.

Table 2. Summary of Challenges Encountered throughout the Study

Identified Challenges	**Supportive Interviews**
Regulatory challenges	ACD: 2, ACD: 3, EXP: 1
Risk-related challenges	ACD: 2, EXP: 2
Market awareness challenges	EMP: 1

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Learning and Development Challenges	ACD: 3, ACD: 6, EMP: 5
Cultural challenges	ACD: 1, EXP: 3

Source: Interview Data during the Research Work

5. Discussion

The takaful products are introduced among the policyholders even though the takaful scheme in Sri Lanka is still under development and has smaller market penetration (Rifas et al., 2023). The regulatory perspective should have special concern based on its nature and significance to economic growth. This sector continuously contributes as it investigates the risk mitigation mechanisms, and it reduces the threshold level of the policyholders' capital. Given the significance of these factors in the takaful industry, some arrangements are to be considered to uplift the takaful industry, such as removing the barriers and challenges. Regarding challenges, the regulatory insurance system, including the takaful sector in the Sri Lankan context, differs from other countries such as Pakistan and Malaysia, where a dual financial system is applicable. Still, the takaful scheme is forced to comply with the conventional regulator. This scenario leads the Islamic insurance industry in Sri Lanka to face several issues and challenges regarding takaful, where the regulatory scenario is not entirely focused on Shariah compliance, thus the public also has to travel with doubts.

According to Mazahir, Rahman & Ramzy (2017), takaful practitioners need to organise more educational sessions, workshops, and seminars regarding takaful policies. The lack of awareness programmes regarding the takaful scheme had a negative impact, as the public is not involved in the takaful scheme (Rifas et al., 2023). Negative views on the takaful scheme create a bigger challenge in enhancing the risk mitigating sector with shariah compliance for the whole community worldwide. The researchers believe that all difficulties would lead towards an uncomfortable takaful scheme, which will be the barriers in overcoming challenges and issues in takaful education with professionalism. However, the researchers in Islamic insurance found that, from several studies, Sri Lankan takaful and other Islamic financial institutions face several challenges and hardships in operating and surviving in the conventional market.

Furthermore, these challenges provide a significant message to the business and marketing team of the takaful practitioners. Thus, the takaful operators and stakeholders have to seek solutions and alternative approaches towards these five kinds of challenges. The researchers firmly believe that these challenges can pose disadvantages that may significantly hinder the development of the Takaful market in the future among conventional competitors and practitioners. Takaful market players will look into these challenges. Accordingly, all takaful players might be prepared to motivate through research platforms to measure the takaful industry, considering these kinds of academic research works regarding takaful business in the takaful and green takaful schemes.

In this regard, takaful market players must make collective decisions to explain takaful regulatory systems and bodies to the public. The IRCSL may instruct via circulars the insurance and takaful companies regarding green products that are more beneficial and sustainable, throughout risks faced by the industry, policyholders, society, and the country.

6. Conclusion

In conclusion, the challenges of implementing green takaful operations in Sri Lanka revolve around the lack of awareness, the regulatory framework, financial constraints, and the need for collaboration. Overcoming these challenges requires concerted efforts from all stakeholders to promote green takaful adoption and contribute to sustainable development in Sri Lanka's insurance industry. Implementing green takaful products in Sri Lanka faces several challenges. Firstly, there is a lack of awareness and understanding among the public about the concept of green takaful and its benefits. This hinders the demand for such products and makes it difficult for insurance companies to promote and sell them. Secondly, the regulatory framework in Sri Lanka may not be fully supportive of green takaful products. There might be a need for specific regulations and guidelines to govern these products, which currently may not exist or may not be comprehensive enough. Lastly, consumer preferences and cultural factors may also pose challenges to the implementation of green takaful products.

In conclusion, the challenges to implementing green takaful products in Sri Lanka include a lack of awareness, regulatory limitations, difficulties in sourcing and underwriting, limited availability of green investments, and

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cultural factors. Accordingly, the challenges, namely regulation, risk-related, market awareness, learning and development, and cultural, are identified in the green takaful operations. Overcoming these challenges will require concerted efforts from insurance companies, regulators, and other stakeholders to promote and develop the country's green takaful market.

However, the implications and contributions of the study can provide different directions to the takaful regulatory bodies, takaful market players, takaful companies, policy makers and theorists. Importantly, the learning and awareness sessions related to the challenges around the implementation of green takaful products create new business opportunities that will fill the gap between the available products and expectations. Large-scale companies and factories have especially demanded Environmental liability takaful policies. Thus, it leads the business entrepreneurs to understand how they can be involved in sustainability in the business and society. Accordingly, the next generation will be protected from harmful companies and enterprises. Eventually, business ventures that do not harm the community can contribute to socio-economic development through green products.

Regarding managerial implications, the takaful market operators face challenges in their operations in the takaful sector. Particularly, these five challenges are bigger barriers to the people involved and to enhancing the current takaful market penetration in the Muslim minority context. As the researchers hope, the green takaful operation will never fail among the business entrepreneurs and individuals. Under the domination of conventional insurance, takaful policy makers with takaful operators will be able to align new green takaful policies with the Shariah. Significantly, every challenge identified through this study declares the impossibilities of the future takaful journey. Further, it may contribute to establishing a common regulatory institution for Islamic financial institutions, including the takaful scheme. Therefore, these major issues must be discussed at the top level of decision-making forums to enhance the takaful participants, which will lead to the long life of the takaful business, competitively compared to insurance in Sri Lanka. The study uses a unique and modern concept of green takaful products, especially regarding the challenges. Future researchers can consider this concept and how it can be studied in different directions under the risk mitigation mechanism.

Finally, the researchers suggest that a common Shariah Supervisory Body for takaful companies in Sri Lanka under the IRCSL, regulatory reforms, which will provide Islamic principles and support in making regulations for the takaful companies. The takaful companies may approach the takaful regulator to establish a separate guideline for takaful players. This common shariah body will instruct the public on the new and existing takaful products, which surely would be believed by the customers rather than their shariah board. Moreover, it can arrange several teaching sessions with takaful experts, including foreign scholars and educational campaigns, and publish a common notice regarding the green takaful policies and their significance through CSR or by establishing an education and knowledge marketing department. Regarding risk-related challenges, the relevant authorities and companies should explain to the public that insurance and takaful aim to mitigate the risks. Future researchers in the takaful sector may conduct further studies in Sri Lanka's takaful and green takaful sectors. As this study has been conducted using a qualitative method in an inductive approach, context, quantitative methodology, takaful policies, and regulations can be considered in future research.

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Glossary

ACD- Academic
EXP- Shariah & Expert
EMP- Employee

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Islamic Public Finance: How It Matters for Achieving SDGs

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Abstract

The Sustainable Development Goals (SDGs) agenda is an important global agenda. Public finance, including Islamic public finance, is an essential financial agenda of a country, specifically for Islamic countries. However, both work towards the good welfare of people globally (via SDGs) and the country's people (via Islamic public finance). As both works parallelly, Islamic public finance plays a significant role in advancing SDGs through its unique principles and practices that emphasise social responsibility, ethical investments, and people's welfare. This is where this study aims to highlight the contribution of Islamic public finance towards sustainable development and stimulate discussion on the role of the *Baitulmal* authorities in the design and implementation of the SDGs. This study uses the narrative review and mapping method. The narrative review is done on past studies or articles on Islamic public finance instruments. The mapping method identifies the motives of each Islamic public finance instrument and then links them to each goal of the SDGs. The results show a gap in Islamic public finance elements in the current public finance practice. These few missing elements of Islamic public finance should be regarded as added value elements in the current practice of public finance that widen the scope, generating more revenues in public finance. With more sources of revenue in public finance, more funds could be spent on achieving the SDGs. Hence, the public finance policy is suggested to be constructed by adding the Islamic public finance elements, specifically for Islamic countries.

Keywords: *zakāh*; constitution; *Baitulmal*; wealth inequality; Islamic economic system, Sustainable Development Goals (SDGs)

1. Introduction

The government has many roles in achieving the Sustainable Development Goals (SDGs). It can be seen from different perspectives – public policy and financial matters. Public policy affects diverse aspects of the public domain, including the domain of environment (such as climate, biodiversity and disaster risk management); social (such as gender, health and education), and economics (such as poverty and well-being). Meanwhile, financial matters, which generally focus on public finances, especially public financial and expenditure management, should focus on the issues around SDGs-aligned tax revenue mobilisation, SDGs-aligned debt instruments, and sovereign risk financing. It shows that public finances are critical to the SDG progress regarding how much is mobilised and spent, and how effectively the public finances are used for accelerating development and its various dimensions, such as social sectors, environment, inclusive growth, and peace and prosperity.

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However, many countries, as noted in Mouritzen (1992), Schick (1980), Jimenez (2009), and Sun et al (2022), face fiscal stress. There are several ways to address fiscal stress, such as fiscal space and the alignment of budgets with development outcomes. Furthermore, scholars such as Shaikh, Ismail, and Mohd Shafiai (2017), Shaikh and Ismail (2017), Ali and Kasim (2020) and BAZNAS (2017) realise that Islamic public finance can be used to achieve SDGs. The SDGs elements reflect Islamic values, such as alleviating poverty and hunger and reducing inequality by redistributing wealth (Baznas, 2017). These goals align with Islamic principles in Islamic public finance, such as *zakāh*, *waqf*, and *sadaqah*.

Figure 1. Five Foundational Goals of *Zakāh* and SDGs

Source: Baznas (2017)

However, it lacks the theoretical foundation to link both variables. The link also focuses on limited Islamic religious revenues, such as *zakāh* (Baznas, 2017; Ali and Kassim, 2020). The contribution of the study can be seen in three perspectives. First, it goes beyond *zakāh* and waqf. Second, the study will look at the other sides of public finance. Third, the study will establish the framework that will look at the objectives of each instrument of Islamic religious revenues in relation to the SDGs.

Linking SDGs and Islamic public finance provides an opportunity to redefine the role of Islamic economics in people empowerment, socio-economic development and the environment. It also offers opportunities to create a wealth-based proposition, widen the definition of Islamic public finance, deepen the system, institutions, and instruments as given in the constitution, and expand Islamic religious revenues. Therefore, the SDG agenda enhances these possibilities for Islamic public finance to achieve the SDG goals and, in parallel, to see the application of Islamic economics in current practices.

Therefore, the study aims to highlight the contribution of Islamic public finance to sustainable development and stimulate discussion on the role of the *Baitulmal* authorities in the design and implementation of SDGs.

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The remaining discussion of the study will be divided into four sections. Section 2 will highlight the forms of Islamic revenues in public finance, including the unknown form, *Baitulmal*. This unknown form will be discussed further in Section 3. Further, towards achieving SDGs, the objectives of Islamic public finance are mapped with SDGs in Section 4. And the discussion concluded in Section 5.

2. Methodology

The methodology of this study involves two steps: a narrative review and a mapping method. In a narrative review, the study uses a structured process to locate, appraise, and synthesise evidence from previous studies to determine why Islamic public finance differs from traditional public finance. The studies on traditional public finance may be ambiguous about how, why, and where studies were selected, which increased the possibility of serious biases (Farrington & Jolliffe, 2017). At the same time, the instruments of Islamic public finance could be extended beyond *zakāh* and waqf.

The mapping method involves a review that seeks to identify, not results, but linkages. Mapping focuses on characteristics such as the motives and the key contributions of each Islamic public finance instrument towards achieving sustainable development goals.

3. Results and Discussion

The discussion of this section is divided into three parts: examining the other sides of public finance, the motives of donors, and mapping the objectives of Islamic finance and SDGs.

3.1 The Other Side of Public Finance

The subject of public finance attracts many researchers to examine the role of the government in the economy. The branch of economics assesses the government revenue and government expenditure of the public authorities and the adjustment of one or the other to achieve development outcomes, i.e., an inclusive growth and sustainable development, and avoid higher inflation. Therefore, it is even more important to focus on increasing the fiscal space and aligning revenues with the development outcomes. The former will be discussed in this section. The latter will be discussed later in Section 3.

In countries such as Brunei, Indonesia, the Kingdom of Saudi Arabia and Malaysia, as reported in Ismail and Pratomo (2021), argue that the other sides of public finance, which comprise the *Baitulmal* fund, were extensively used during the early days of Islam. *Baitulmal* during the early days of Islam, according to some views (such as Abdul Qadir Zallum, 'al-Amwal Fi Dawlah al Khilafah', p.15), was founded by the Prophet of Islam himself when he established the Islamic state at Madinah. But this view is not supported by most scholars of Islamic history because in the reign of the Prophet, the state's income was meagre, which never exceeded its expenses, and hence the need for *Baitulmal* was never felt. According to the more current and dominant view (Agnides, 1961), *Baitulmal* was first established during the reign of Abu Bakr, who succeeded the Prophet in the year 632 A.D., as the First Caliph of the Islamic state. With the conquests of Iraq, Syria and other countries, there was a considerable increase in the revenues of the Islamic state, which necessitated the establishment of a public treasury (Possumah & Ismail, 2012).

However, *Baitulmal* took its real shape on permanent footing during the rule of Umar al-Farooq, the Second Caliph of Islam. There were no commercial banks or a central bank during those times. It appears that all the requirements and needs of the government and society used to be met by Baitul-Mal, which supervised public revenues and public expenditure, helped people experiencing poverty, and performed almost similar functions to those performed by the Ministry of Finance today. In addition, it also performed the functions of a central bank except for issuing the currency, controlling credit and utilising interest rates as policy tools. Countries such as Brunei, Indonesia, the Kingdom of Saudi Arabia and Malaysia use the *Baitulmal* fund to increase the fiscal space (Possumah & Ismail, 2012).

However, the term *Baitulmal* fund is still not known. Therefore, this section will revisit those funds from the classical view[1]and highlight what *Baitulmal means*. By doing this, this study can identify the list of revenues as part of deepening the fiscal space.

[1] Refer further Ismail, Abdullah and Zaenal (2022) and Ismail, Mohd Shafiai and Ramli (2022)

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3.1.1 The Forms of Islamic Religious Revenues in Public Finance

The Islamic religious revenues could be divided into: *Zakāh* and Baitulmal.

(a) *Zakāh*

Zakāh is obligatory for every Muslim; it's part of the wealth required of a Muslim when his wealth has reached *nisāb*[2] to be given to people who deserve it (*mustaḥiq*). The group assigned the right to receive has been mentioned in *al-Qur'an.* In Chapter *at-Tawbah* (9), verse 60,[3] Allah (SWT)[4] said: *"The alms are only for the poor and the needy, and those who collect them, and those whose hearts are to be reconciled, and to free the captives and the debtors, and for the cause of Allah (SWT), and (for) the wayfarer; a duty imposed by Allah (SWT). Allah (SWT) is Knower, Wise."* *Zakāh* is divided into two types and is based on the purpose of the charity function itself. As stated in Chapter *at-Tawbah* (9), verse 103, *zakāh al-fitrah* is dedicated to purifying the soul, and *zakāh al-māl* is to purify the property (or *mal*).

Zakāh al-Fitrah (which is also known as Sadaqat al-fitrah). This type of zakāh will be paid during *Ramadhan* or on the morning of *Eidul Fiṭr.* The obligation is intended to purify the soul (Panel A: Third column and Row 1 of Table 1), as a cleaner of the soul of things littering during the fasting of *Ramadhan*.[5] It also serves as a donation for people experiencing poverty and those who are eligible to receive charity on *Eidul Fiṭr.* This is an obligation for every Muslim, whether rich or poor, who is still alive and has excess property that has not been spent on basic needs. Prophet SAW[6], as reported in Sahih Muslim (Book 5, number 2153),[7] said: *"The compulsory al-fiṭrah charity in Ramadhan, one sḥa*[8] *of dates, or one ṣha of wheat, of every Muslim free and slave, male or female."*

Zakāh al-Māl. This type of *zakāh* must be paid by a Muslim from certain wealth when it reaches a certain amount (*niṣāb*). Allah (SWT) in Chapter *al-Baqarah* (2), verse 267 said: *"O ye who believe! Spend of the good things which ye have earned, and of that which We bring forth from the earth for you and seek not the bad (with intent) to spend thereof (in charity) when ye would not take it for yourselves save with disdain; and know that Allah (SWT) is Absolute, Owner of Praise."* And in Chapter *al-Ma'arij* (70), verses 24-25, *"And those within whose wealth is a known right. For the petitioner and the deprived."*

(b) *Baitulmal*

The word carries a significant meaning: a house of property (or wealth).[9] The concept of property (or *māl*) could be understood from the definition of *al-māl*: all things which are capable of being owned, and whatever in effect a man may *acquire* and *possess*; whether that is corporeal (*'ayn*) or usufruct (*manfa'ah*); such as gold, silver, animal, plant and benefit gained out of things such as the riding of vehicles, the wearing of clothes and the residing in houses etc. Therefore, explained whatever a man cannot possess, for instance, birds in the sky, fish in the water, trees in the forest, and mines in the secret depth of the earth are not linguistically considered *māl.*

Shari'ah has not imposed unnecessary limitations on the meaning of *māl* by defining it in a narrow perspective; instead, the concept of *māl* is left wide based on people's customs and usages. Therefore, the Arabs in whose language the Qur'an was revealed understood the importance of *māl* whenever they heard the term, in the same way as they understood the terms heaven, earth, etc. Al-māl is also defined as" desire" or" tendency". In Chapter *Ali Imran* (3), verse 14, *"Beautified for people is the love of that which they desire - of women and sons, heaped-up sums of gold and silver, fine branded horses, and cattle and tilled land. That is the enjoyment of worldly life, but Allah (SWT) has with Him the best return [i.e., Paradise]."* The desire or behaviour of humans to *al-māl* is the central point in economic discourse, as the science that studies human behaviour as an economic agent.

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[2] Gold *nisab* is 20 *dinars* (equivalent to 85 grams of pure gold) while *nisab* silver is 200 *dirhams* (equivalent to 672 grams of silver). This means, if you have 20 *dinars* of gold for one year, then gold should be issued *zakāh* 2.5%. While nisab of cash money, savings, stocks, bonds, and other treasures are similar in value to the amount of gold must be paid same as *zakāh* of gold and silver. *Nisab* of income is if your income has reached a value of 5 *wasaq* or 652.8 kg of grain (equivalent to 520 kg of rice), the amount must be paid is 2.5% from income.

[3] In this study, we use the *Qur'an* translation by Saheeh International. Riyadh: Al-Muntada Al-Islami Trust. ISBN: 978-603-90169-4-6. The name of the chapter is mentioned first. The chapter number is given in bracket and then followed by verse number.

[4] SWT refers to Subhanahu Wa Ta'ala in Arabic for "May He be glorified and exalted."

[5] Yūsuf al-Qardhawy, Fiqh al-Zakāh, Muassasah al-Risālah, Cairo, Part 1, 1973.

[6] The meaning of Arabic phrase Sallallahu Alayhi Wa Sallam (abbreviation SAW) is "May Allah honor him and grant him peace" or "peace and blessings of Allah be upon him". This term should be used specifically when saying Prophet Muhammad's name.

[7] In this study, we use the Hadith Sahih Bukhari published by Darussalam Publishers and Distributors.

[8] *Ṣha*, if we convert, then the amount of *zakāh al-fiṭrah* is worth 2.176 kg of basic foodstuffs that apply in the region, such as wheat flour, dates, wheat, and rice.

[9] Refer to *māl* as discussed by Ismail at., al. (2022).

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The following *al-māl*, which is also consolidated in the *Baitulmal* fund, can be used to seek the pleasure of Allah (SWT). First, *nadhr* (or vow) - an action that becomes necessary due to one imposing it upon oneself. This can be done if one wishes to express gratitude, and the action can take on several forms, including *ṣādaqah*. If a person makes such an oath of giving charity, it becomes *ṣādaqah wājibah*. If they cannot uphold the oath, they must provide kaffārah, which may be sinful.[10] For instance, if a person vowed to sacrifice an animal in the way of Allah (SWT) and they are cured from an illness, then it becomes obligatory on them to do so

Second, *Fidyah* - this is compensation *ṣoum* (fasting) for a person who cannot perform it due to being in terminal illness or being deceased (in which case it is given out of a third of the wealth) or in the event of a person making a minor mistake in *Hajj*. The amount for each *ṣoum*, or each minor mistake in *hajj,* is to give 1.6 kg of wheat or its value (i.e. the same amount provided for *ṣādaqah al-fitr*) to people experiencing poverty. *Fidyah* is *ṣādaqah wajibah*. *Ṣādaqah nafilah* may be offered from the deceased's estate or on their behalf; both the giver and the deceased are rewarded. In Chapter *al-Baqarah* (2), verse 184, Allah (SWT) said: *"(Fasting) for a fixed number of days; but if any of you is ill or on a journey, the prescribed number (should be made up) from days later, for those who can do it (with hardship) is a ransom, the feeding of one that is indigent. But he that will give more of his free-will—it is better for him, and it is better for you that ye fast, if ye only knew".*

Third, *Kaffārah* - this is major compensation and like *fidyah,* it is also *ṣādaqah wājibah*. It applies in various situations, such as if a person breaks a fast intentionally, breaks an oath, or kills someone, *kaffārah* would then be binding as a form of redemption. There are five actions for which *kaffārah* will be necessary; however, they fall under two types.

The greater *kaffārah*: For redemption of this a person may free an enslaved person (which is no longer applicable) or fast for two consecutive months (if a person breaks a fast intentionally, they will need to fast for sixty consecutive days, unless they can't fast due to poor health or old age, there are no exceptions to this). Failing that, one may feed sixty poor people for a day (i.e. two meals a day, each meal is equivalent to a *fidyah*). This *kaffārah* applies to intentionally breaking *saum*[11] (fast), breaking *zihar* (To consider one's wife as *haram* for oneself by comparing her to a *mahram* - anyone too closely related to be marriageable) and being the direct cause of someone's death (this is coupled with the set punishments).

The lesser *kaffārah* for the redemption of this person may free an enslaved person (which is no longer applicable), feed ten poor people for two meals in one day, or give each one of them clothing. Failing this, he may fast for three consecutive days (The order also differs from the greater *kaffārah*). This *kaffārah* applies to breaking/violating *Yamīn* (an oath) and Breaking *Ilā̓* (To take an oath on not having conjugal relationships with one's wife).

Fourth, *Uḍḥiyyah* - this is also known as *qurbani* or sacrifice. It is a voluntary obligation for all mature Muslims, on the day of *Eidul Adha*, to possess *nisāb*. Whoever qualifies for this is required to purchase a sheep or goat of more than one year in age, and slaughter that in the name of Allah (SWT) after the Eid prayer, preferably on the same day. The sacrifice can also be done on the four days of *Eidul Adha*. If one fails to make the sacrifice in these three days, they will still have to donate the value of the animal.[12]

From the meat, he may eat himself, feed his family and distribute meat amongst the poor Muslims. One is not responsible for giving *zakāh* or any necessary *ṣādaqah* for one's spouse or mature children - they are responsible for themselves. One is responsible for only giving *sādaqah al-fiṭr* for one's minor children; however, neither *zakāh* is given from their wealth, nor *uḍḥiyyah* given on their behalf.

Uḍḥiyyah in another type is *dām*. There are two types, one is like *uḍḥiyyah* in the sense that it is a religious requirement on adult Muslims. The only difference is that it is specific to people performing the *hajj*. This *dām* is called *dām ash-shukr.*

The second type of *Dām*, like *fidyah*, is a means of compensation for mistakes in *Hajj*, but the difference is the magnitude of the error. *Fidyah* is given instead of minor mistakes, while *dām* is in place of major mistakes. *Dām*, like *udhiyyah*, is the sacrifice of a sheep or goat. It can also be part (i.e. 1/7) of a larger sacrifice.

Another type of *uḍḥiyyah* is *baḍonah, which* is like *dām*, but while *dām* is the sacrifice of a sheep or goat, *badanah* is the sacrifice of a large animal, i.e. a cow or camel. This is the most significant penalty in the *hajj*.

Fifth, *Ṣādaqah Nāfilah* - this charity is not binding but is optional. This type includes alms given for the removal of difficulties, philanthropic (to give out of mercy to the less fortunate), the general giving of any *halal* item to anyone, etc. This type does not need to be spent on the specified categories to be rewarding, nor does it have to be spent on Muslims, although if spent on poor Muslims, it would be more rewarding. This can also be bequeathed in one's will (in which case it would be only up to a third of the deceased person's entire estate).

[10] Refer to Chapter a-Ma'idah (5), verse 89, "*…but He will impose blame upon you for [breaking] what you intended of oaths …*'

[11] In the instance of not being able to feed sixty people in a single day then he may feed one person for sixty days, but in this case if they were to try to quicken payment of this by giving all the money in one day to one person, kaffarah would not be fulfilled, and his offering would only be equal to one days feeding.

[12] One may slaughter goats or sheep, which constitute one sacrifice each, or one may slaughter a larger animal (i.e. cow or buffalo) which will be counted as seven sacrifices each. In the event of living in a wealthy country, it is better that one sacrifices one part locally to fulfil the Sunnah of sacrificing oneself; and to arrange for the remaining sacrifices to be performed in a poorer country, where the poor may also partake of it.

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There are various motives in this instrument such as avoid disaster for the giver and his family (*Hadith* reported in *at-Tirmidhi* No. 2863); it will make extendable of life, and prevented from bad of death (*Hadith* reported in *al-Thabrany*, Vol. 5, No. 422), defuse Allah (SWT) 's anger,[13] closes seventy-seven ugliness doors (*Hadith* reported in *al-Thabrany*, Vol. 4, no 4402), can avoid slander from the families, children and neighbours,[14] remove sin as water removing fire[15] or cools his grave.[16] Generally, *ṣādaqah* might be called all Islamic philanthropy besides the *zakāh*. All acts of worship through the expenditure of money, property, or reasonably doing good are broadly classified as *ṣādaqah*. According to *al-Qur'an* and *al-Hadith*, one can find a whole range of essential instruments in Islamic philanthropy that come from *ṣādaqah* (see Muslim, *Hadiths* No. 720 and 1006, and also *al-Bukhari*, *Hadiths* No. 2707 and 2891.

Sixth, *Lillah* (for God) - It is generally called *ṣādaqah.* It is a part of *Ṣādaqah Nāfilah.* This is very common among Muslims. It does not have the condition of having to be passed into the possession of a person, as it can be given to institutes (e.g. mosques, hospitals, schools, orphanages, etc.). The difference between *lillah* and *ṣādaqah* is that *lillah* is typically given to institutes, while *ṣādaqah* can be given to anyone.

Seventh, *Waqf* - this is to allot something as a trust for a specific cause. This can be during one's lifetime or bequeathed in one's will (up to the value of a third of one's estate). When executed, the donation becomes the property of Allah (SWT) (and thus has specific rules regarding it), and its beneficiaries are to remain those named as the cause (e.g. the poor, orphans, students, the people of a particular locality, etc.) The difference between this and *lillah* is that with *waqf,* ownership is not given to people or institutes, but only the benefits are ascribed. Like today's trusts, *waqf* also requires the care of trustees.

Eighth, *Aqīqah-* This is the sacrifice of an animal or two as thanks to Allah (SWT) for the birth of a child. With this, too, members of the locality can be fed; preference again is for the poor and close family members.

Charity that is above the amount of *zakāh* and *ṣādaqah wajibah*. This type of *ṣādaqah* is the essence of *lillah*. Although not categorised as necessary, this type of charity, if from pure means and with pure intentions, is always accepted by Allah (SWT). It is also this type that Allah (SWT) has described as a beautiful debt, as He treats this charity as a loan which He will repay in the hereafter, as Allah (SWT) said in Chapter "*Who is it that would loan to Allah (SWT) a goodly loan so He will multiply it for him, and he will have a noble reward?*

Ninth, Al-Luqatah - refers to anything found and picked up from the ground. Technically, some scholars defined it as: 'Property that the owner loses, and a person finds and takes away (to preserve it in trust).' *Al-Luqatah* remains a trust with the person who finds it and keeps it, and he is deemed liable for it only if he abuses it. He is liable if he gives it to somebody else without a judge's permission.

If the owner does not come forward after it has been announced for an entire year, it becomes the finder's property. Still, before he disposes of it he must be sure of its exact description, so that if the original owner comes along some day and describes it, he can give it back to him if it is still there, or he can give him something else if it is no longer there, be-cause his possession of it is limited and expires when the original owner comes along.

In summary, different types of Islamic religious revenue can be collected from other sources for different reasons. The characteristics of these revenues also differ in various perspectives: first, compulsory or voluntary actions. The former may refer to *zakāh* and *nadhir*. The latter may refer to other types of Islamic religious revenues. Second, all Islamic religious revenues are spent immediately, such as for the current year. In the case of waqf, all the benefits from *waqf* properties are paid for the current year. It shows that the sustainability of short-term fiscal space could be addressed by having a sustainable amount of all Islamic religious revenues.

3.2 The Motives of Donors

Having addressed the fiscal space via the *Baitulmal* fund, this section will discuss the alignment of revenues with intended development outcomes. The outcomes will be addressed in the context of motives and recipients of each instrument. The motive is to establish what causes a person to act. At the same time, the intended development outcomes clearly state precisely what is sought from the distribution of the *Baitulmal* fund.

As reported in Panel A: third column and row two of Table 1, a person pays *zakāh al-fitrah* and *zakāh al-māl* due to the motives of purifying the soul and wealth, respectively. As mentioned in Chapter *ash-Shu'ara* (26), verses 88-89, Allah (SWT) said, "The Day when there will not benefit [anyone] wealth or children. But only one who comes to Allah (SWT) with a sound heart." These verses show that a person's success in the Hereafter depends upon the purification of his heart in this life. The

[13] See al-Bahauty, Mansūr ibn Yunus, Kashaf al-Qina' an Matni al-Iqna', Dar al-Fikr, Beyrut, vol. 2, 1982, p. 296.
[14] See al-Asqalany, Ahmad ibn Ali ibn Hajar, Fath al-Bari Syarh Shohih al-Bukhari, Kitab Mawaqit al-Sholah, Bab al-Sholat Kafarah, Hadith 502, Dar al-Rayan li al-Turāth, Cairo, 1986.
[15] See Ibn Rajab, Jami' al-ᶜUlum Wa al-Hikam, Muassasah al-Risalah, Dimashq, 2001, Hadith 29, p. 134.
[16] See Abd al-Badr, Abu ᶜUmar Yūsuf, al-Istizkar al-Jami limazahib Fuqaha al-Amsar, Dar al-Wai', Cairo, 1993, p. 393.

hearts should be purified from spiritual sins such as greed, malice, envy, arrogance and worldliness. In their place, we must adorn the heart with spiritual virtues such as generosity, compassion, benevolence, humility and asceticism.

In contrast, the purification of wealth can be in the form of giving a portion of wealth as *zakāh*. It is to ensure that the wealth is earned lawfully. The development outcomes, as shown in the fourth column and first row of Panel A in Table 1, are to transfer the wealth to help the poor, the needy, the slave person, the stranded traveller, and the person who is in debt, for the sake of Allah (SWT).

Meanwhile, the third column and row three of Panel A in Table 1 show that *nadhr* is a vow, a voluntary or mandatory undertaking, of an act of virtue, as binding oneself in gratitude for some special favour prayed for. It is a solemn promise to Allah (SWT). The person who vows will deliver something (in this perspective, monetary values)[17] to the deserving persons.

As shown in the third column and first row of Panel B in Table 1, the motive of *waqf* is to *be closer and gain the blessings of Allah (SWT) by spending wealth in the path of Allah (SWT). Depending on the type of waqf, as written in the fourth* column and row one of Panel B in Table 1. *Waqf falls into "ch*aritable causes," the beneficiaries are the public or people with low incomes, and "family" *waqf*, where the founder designates their relatives as beneficiaries.

Al-Quran and al-Hadith repeatedly emphasise the importance of giving *ṣādaqah* regularly. As presented in the third column and first row of Panel B in Table 1, Allah (SWT) has promised many benefits, such as expiation of sins,[18] being prevented from a bad death,[19] defusing Allah (SWT) 's anger,[20] avoiding slander,[21] cooling his grave,[22] and an easier livelihood[23] to the person who does. The outcomes are reported in the fourth column and second row of Panel B in Table 1. The outcomes are helping people experiencing poverty and bringing happiness to them.

Fidyah, as reported in the third column and third row of Panel B in Table 1, is a payment paid as a substitute for the number of fasting days owed and becomes a debt to Allah (SWT) if it is not repaid. The payment is mainly dedicated to people experiencing poverty.

The motive of *kaffārah, as stated in the* third column and fourth row of Panel B in Table 1, *is* to provide a means of seeking forgiveness and making amends for actions considered wrong or sinful in Islam. It serves as a reminder for Muslims to uphold their faith's sacred practices and strive for personal rectitude and communal welfare. It is a tangible way to recompense and to cleanse oneself of the act that necessitated the *kaffārah* in the first place. The beneficiaries of *kaffārah* (*fourth* column and row four of Panel B in Table 1*) are dedicated to* freeing an enslaved person and helping people experiencing poverty.

Table 1. Instruments of Islamic Religious Revenues

Reason for Actions	Instruments	Motives	Recipients
Panel A: Compulsory Action	*Zakāh al-fiṭrah*	Obligation to purify the soul	*Al-Fuqara'* (The poor); *Al-Masakin* (The needy); *Fir-Riqab* (People in bondage or slavery); *Ibnas-Sabil* (The wayfarer, or stranded traveller); *amil; fi sabilillah* (for the sake of Allah (SWT)); *mualaf*; and *al-gharimin* (indebtedness) (Chapter at-Tawbah (9): 60)
	Zakāh al-māl	Obligation to purify wealth	*Al-Fuqara'* (The poor); *Al-Masakin* (The needy); *Fir-Riqab* (People in bondage or slavery); *Ibnas-Sabil* (The wayfarer, or stranded traveller); *amil; fi sabilillah* (for the sake of Allah (SWT)); *mualaf*; and *al-gharimin*

[17] We may also vow to Allah, for example by reciting tasbeeh 1000 times, then that thing happens, if we recite tasbeeh one thousand times
[18] The Prophet (saw) said, "Charity extinguishes the sins like water extinguishes a fire." [Ibn Majah No. 3973]
[19] The Holy Prophet Muhammad (S) has said that: "An act of charity shields seventy dead people from ill fate" Sources
[20] The Prophet (saw) also said that "Sadaqah appeases the Lord's anger and averts an evil death." (Tirmidhi No. 1909)
[21] The Prophet (saw) also said that "Sadaqah appeases the Lord's anger and averts an evil death." (Tirmidhi No. 1909)
[22] Sayyiduna 'Uqbah ibn 'Amir (radiyallahu 'anhu) reported that Rasulullah (sallallahu 'alayhi wa sallam) said: "Sadaqah (charity) extinguishes the heat of the grave for the benefactor and only the believer can seek shade on the Day of Qiyamah in the shade of his charity." (Al Mu'jamul Kabir, Hadith: 788, Vol. 17, Shu'abul Iman, Hadith: 3076)
[23] Indeed, the men who practice charity and the women who practice charity and [they who] have loaned Allah a goodly loan - it will be multiplied for them, and they will have a noble reward (Qur'an Surah Al-Hadidi; 57:18)

			(indebtedness) (Chapter at-Tawbah (9): 60)
	Fidyah	Substitutes of worship	The poor (Chapter al-Baqarah (2), verse 184)
	Kaffārah	Getting Allah (SWT) 's forgiveness (Chapter al-Baqarah (2), verse 187)	A slave person and the poor
	Udhiyyah (qurbani or sacrifice or *dām)*[24]	Act of devotion or pay fines to Allah (SWT)	The owner of the meat of sacrificed animals may consume it himself, feed his family and distribute it amongst the poor Muslims. (Chapter al-Baqarah (2), verse 196)
Panel B: Voluntary Action	*Waqf*	Eternal goods for Allah (SWT) (Chapter al-Baqarah (2): 245)	Beneficiaries - remain those named as the cause
	Ṣādaqah lillah	Expiation of sins Prevented from a bad death Defuse Allah (SWT) 's anger Avoid slander Cools his grave Easier livelihood, etc	Spent on poor Muslims and bequeathed as *hibah* (only up to a third of the deceased person's entire estate)
	Aqīqah	Thanks for the birth	The meat from the sacrificed animal is shared with family, friends and deprived members of the community (Sahih al-Bukhari (2839))
	Luqatah[25]	To preserve lost property in trust	Property of the finder (after announcement) (Sahih al-Bukhari 2438)
Panel C: Voluntary or Compulsory Action	*Nadhr*[26]	Keeping promises to Allah (SWT) and to express gratitude (Chapter Ali Imran (3): 35, Chapter al-A'raf (7): 189 and Chapter al-Insan (76): 7). It is voluntary in the beginning stage (act of giving charity), but becomes compulsory (promise to give charity).	Oath of giving charity, then it becomes *Ṣādaqah Wājibah*. If they are unable to uphold the oath, they will also have to provide *Kaffārah*

Source: Authors' elaboration

Islam is the devotion of the total self, through service and adoration, to the Almighty, who controls the universe. In this sense, all the manifold rites, consecrations, purifications, offerings and sacred feasts, and the working of asceticism and morality are only the indirect expression of the inner experience of religion- the experience of trust, surrender, yearning and enthusiasm. Sacrifice, whether that of wealth or desires, is the practical proof of man's devotion to his Creator. In Chapter *al-An'am* (6), verse 162-163, Allah (SWT) said, *"Say: Truly, my prayer and my service of sacrifice, and my living and my dying are for God (alone), the Sustainer of all the worlds, in Whose Divinity none has a share. Thus, I have been bidden-and I am foremost among those who surrender themselves unto Him".* Thus, Udhiyyah's motive is to show devotion to a noble soul.

Aqīqah – it is performed upon the birth of a child. It thanks Allah (SWT) for blessing the family with offspring.

Luqatah - If any Muslim finds a *luqatah* property such as cash, jewellery, communication equipment, personal jewellery and other valuable items, it shall be surrendered to the *Baitulmal*. The *Baitulmal* authorities are trusted to manage those properties. The trustee of the *Luqatah* Property may charge a reasonable service charge to the owner of the *Luqatah* Property if the owner is present to collect the property.

[24] Individual who is not performing hajj or performing hajj
[25] Original owner of property
[26] Oath of giving charity, then it becomes *Ṣādaqah Wājibah*. If they are unable to uphold the oath, they will also have to give *Kaffārah*

In summary, the motives of donors are mainly for good purposes. This is especially important in many verses in *al-Quran*, for example, Chapter *al-Baqarah* (2), verse 82, "they who believe and do righteous deeds." They are destined for eternal bliss and endless happiness. They express their belief in good acts. This is a fact that believers ought to consider and realise.

3.3 Mapping the Objectives of Islamic Public Finance and SDGs

Baitulmal fund is highly relevant and essential in achieving the Sustainable Development Goals. In this section, as presented in Table 2, the aim is to highlight the actual contribution of each instrument of Islamic religious revenues to the seventeen SDGs, which are compressed into the following twelve sub-titles. All Baitulmal funds can be utilised to meet the different SDGs, except for *waqf*. General *waqf* can serve general permissible charity, while special *waqf* must serve a particular charitable purpose. Hence, this special *waqf* can meet certain SDGs only if it aligns with the purpose for which that special waqf was created.

Table 2. Probable and Current Role of *Baitulmal* Fund to Achieve SDGs

	SDGs	**Type of *Baitulmal* Funds**	**Some Key Contributions**
1 NO POVERTY	1 – No Poverty	- *Zakāh al-fiṭrah* - *Zakāh al-māl* - *Nadhr* - *Waqf* - *Ṣādaqah lillah* - *Kaffārah* - *Luqatah* - *Udhiyya (qurbani or sacrifice or dām)* - *Aqīqah* - *Fidyah*	Eradicating extreme poverty, implementing social protection measures, and ensuring justice in distributing economic resources.
2 ZERO HUNGER	2 – No Hunger		Ending hunger and malnutrition; improving agricultural production, sustainable and resilient food production; correcting trade distortions, and ensuring functioning food commodity markets.
3 GOOD HEALTH AND WELL-BEING	3 - Good Health and Well-Being		Reducing maternal mortality; ending preventable child deaths; ending or reducing AIDS and other diseases; universal health coverage, affordable essential medicines, sexual and reproductive health care; vaccine research, and access to drugs.
4 QUALITY EDUCATION	4 - Quality Education		Universal access to free, quality pre-primary, primary, and secondary education; improving vocational skills; equal access to education; expanding education facilities, scholarships, and training of teachers.
5 GENDER EQUALITY	5 - Gender Equality		Eliminating discrimination and violence against women and girls; valuing unpaid care and domestic work; ensuring the full participation of women; access to reproductive health care; and equal access for women to economic resources.
6 CLEAN WATER AND SANITATION	6 - Clean Water and Sanitation		Ensuring universal and equitable access to safe, affordable drinking water, sanitation, and hygiene for all; reducing pollution; increasing water-use efficiency; and promoting participatory management of water and sanitation services.
7 AFFORDABLE AND CLEAN ENERGY	7 - Affordable and Clean Energy		Ensuring universal access to affordable, reliable, and modern energy services.
8 DECENT WORK AND ECONOMIC GROWTH	8 - Decent Work and Economic Growth		Promoting sustained economic growth; improving resource efficiency in production and consumption; full and productive employment and decent work for all; eradicating forced and child labour and trafficking; protecting labour rights, including migrant workers; and increasing access to financial services.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9 - Industry, Innovation, and Infrastructure		Affordable and equitable access to quality infrastructure; employment-generating industrialisation; access to financial services and markets; innovation and technology transfer; and increasing access to ICT.

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	10 - Reduced Inequalities		Promoting higher growth rates for the bottom 40 percent; promoting social, economic, and political inclusion; reducing inequalities in opportunities and outcomes; ensuring social protection for all; securing participation in economic decision-making; facilitating migration and reducing transaction costs for migrant remittances.
	11 - Sustainable Cities and Communities		Ensuring access to housing, basic services, and public transport for all; participatory planning of human settlements; safeguarding cultural and natural heritage; and strengthening resilience to disasters.
	12 - Responsible Consumption and Production		Achieving sustainable management and efficient use of natural resources; improving waste management; promoting sustainable public procurement; ensuring access to information; and building capacity for sustainable development
	13 - Climate Action		Strengthen resilience and adaptation to climate change and natural disasters, including in marginalised communities; implement the Green Climate Fund.
	14 - Life Below Water		Reducing marine pollution; conserving coastal ecosystems, coastal marine areas, and fish stock; securing market access for small-scale fishers; protecting marine biodiversity.
	15 - Life on Land		The sustainable management of freshwater, mountain ecosystems, and forests; combating desertification; halting biodiversity loss; combating poaching and trafficking of protected species.
	16 - Peace, Justice, and Strong Institutions		Reducing all forms of violence; ending violence against and trafficking of children; promoting the rule of law and justice for all; reducing illicit financial and arms flows, corruption, and bribery; developing effective institutions; participation in decision-making at all levels; legal identity for all.
	17 - Partnerships for the Goals		Strengthening domestic and international resources; debt sustainability; technology transfer and capacity building; promoting trade; enhancing policy and institutional coherence; respecting countries' policy space; promoting multi-stakeholder partnerships; measurements for progress, disaggregated data.

Source: Authors' elaboration

3.3.1 Poverty Reduction

As discussed in Section 3, the recipients of revenues mainly fall under the following categories: those who suffer severe hunger ((Chapter *al-Balad* (90), verse 14), slaved person ((Chapter *al-Balad* (90), verse 13), orphan (Chapter *al-Fajar* (89), verse 17 and Chapter *al-Balad* (90), verse 15), and poor (Chapter *al-Fajar* (89), verse 18)[27] and needy (Chapter *al-Balad* (90), verse 16) persons. Islam, via the *Baitulmal* fund, is most suited to addressing all dimensions of reducing poverty and exclusion. The way *Baitulmal* fund helps reduce poverty is essential, as noted in SDG1 and SDG2 of Table 2 - they identify economic opportunities for the *asnaf*; empower the disadvantaged to defend their interests; provide security to the poor by providing them with financial assistance, and hence access to assets that they utilise to earn a living. For instance, while waqf facilitates the *asnaf's* access to land, *zakāh* helps farmers access the inputs required to grow crops and keep livestock, and helps them process, transport and market their produce.

[27] By helping the poor, it shows the gratefulness of a person which does not consume all inheritance, also they care the lawful or unlawful of resources (Chapter al-Fajr (89) verse 19).

Similarly, paying *zakāh* in the form of staple foods such as paddy, grain, livestock makes it possible for the *asnaf* and the society at large to access good quality household supplies like rice, wheat, and meats at affordable prices. Such services help pull *asnaf* out of poverty. Therefore, the *Baitulmal* authorities are well recognised for their poverty reduction efforts, even during the early days of Islam. It can be seen from the success of Umar bin Abdul-Aziz that Umar bin Abdul-Aziz succeeded Sulayman bin Abdul-Malik as the caliph of the Muslims in the 99th year of the Islamic calendar until he died in 101 AH (As-Sallabi, 1999, pp. 102- 109). Historical accounts show a surplus of *zakāh* funds during his reign; there was so little poverty that even *zakāh*-eligible recipients could not be found (As-Sallabi, 1999, p. 574). Several factors can be attributed to this success: Umar's commitment to justice and fairness as encouragement for people to pay *zakāh*; the emphasis upon local distribution of *zakāh* funds; and the utilisation of *zakāh* funds for building productive capabilities.

3.3.2 Gender Equality

Feminism introduces several terms, among which gender equality and equity are essential. In Islam, both males and females are treated equally and have equal opportunities, as indicated in Chapter *Ali Imran* (3), verse 195, "*Never will I allow to be lost the work of [any] worker among you, whether male or female; you are of one another*," and in Chapter *An-Nisa* (4), verse 124, "*And whoever does righteous deeds, whether male or female, while being a believer – those will enter Paradise and will not be wronged*.". These Quranic verses demonstrate that Islam does not support discrimination or differentiation based on gender in the pursuit of achievements and opportunities.

Nowhere does the Quran state that one gender is better than the other. Some mistakenly translate "*qiwamah*" or responsibility for the family as superiority. However, the Quran clarifies that the sole basis for superiority of any person over another is piety and righteousness, and not anything else: "O humanity! Indeed, we created you from a male and a female and made you into people and tribes so that you may get to know one another. Surely the most noble of you in the sight of Allah is the most righteous among you. Allah is truly All-Knowing, All-Aware" 5 (Quran 49:13) (WDO, 2024). Gender equality is recorded in SDG5 of Table 2. For example, in Malaysia, males and females have a strong presence in the directorial and managerial positions at the State *Baitulmal* authority, which manages the *Baitulmal* fund. It shows that both have gained a place in the governance structure of this authority, and their participation in decision-making is equally important.

3.3.3 Quality Education and Lifelong Learning

The *Baitulmal* authorities support access to quality education and life-long learning opportunities, as shown in SDG4 of Table 2, by providing the means for financing education (via *zakāh* for *fii sabilillah*); supporting teachers and schools (via *waqf*); establishing their schools (via *waqf*, such as Johor Religious School) to provide quality education to both youth and adults (for example *zakāh* is used to pay the religious teachers who teach in the mosques); and by serving as centres for lifelong learning.

Baitulmal fund is also used to facilitate access to education by increasing household incomes, which translates into the ability to meet educational costs. It can also be a direct source of educational finance: In Malaysia, for example, the fund is offered by most of the State *Baitulmal* authorities for paying school or university fees, and this trend has been documented similarly in other countries such as Indonesia, Brunei, Pakistan and the United Kingdom.

Where governments have been unable to provide school infrastructure, the *Baitulmal* authorities also play a complementary role in providing school or university infrastructure. In Malaysia, a tax rebate is given to those who pay *waqf* for the construction of school or university buildings and facilities and the maintenance of libraries.

The *Baitulmal* authorities are increasingly involved in providing quality education by setting up their schools and enabling students to access secondary and tertiary education. In Johor, the Islamic boarding school will be established, driven by *waqf,* with a strong commitment to producing good students in the sciences.

Lifelong learning is provided to communities through skills training, knowledge development by the *Baitulmal* authorities, and literacy and numeracy for never-schooled members. The *Baitulmal* authorities should focus on providing technical and vocational education and training. The aim is to equip students with the required employment-related technical and scientific knowledge and skills to become successful in the labour market.

3.3.4 Health

The *Baitulmal* authorities ensure healthy lives, among others, by creating the infrastructure for delivering healthcare services and financing healthcare (SDG3 of Table 2). Healthcare *Baitulmal* includes workers, such as *Baitulmal,* who provide health services, patient or community *Baitulmal,* which are user-owned, and hybrid multi-stakeholder *Baitulmal*. They can give anything from home care to full-scale hospitals.

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Currently, the use of *waqf* in the health sector is practised in the Organisation of Islamic Cooperation (OIC) member countries. For instance, Indonesia has a *waqf*-based hospital, "Dompet Dhuafa". Moreover, "Sultan Agung" *waqf* hospital, the National Zakat Board (BAZNAS) hospital and many others are trying to develop the *waqf*-based health sector. In Malaysia, health *waqf* is managed by a *waqf* company called *Waqf* An-Nur Corporation Berhad (WANCorp), which comprises social and business units. It owns several clinics and hospitals throughout Malaysia. They charge an affordable fee, including medicine.

3.3.5 Food Security and Good Nutrition

The *Baitulmal* authorities contribute to food security (SDG8 of Table 2) by helping small farmers, fisher folk, livestock keepers, forest holders, and other producers solve numerous challenges confronting them in producing food. Farming and agriculture are where the *zakāh* and *waqf* model are most widely cited. Challenges faced by small agricultural producers often include seclusion and lack of access to information about food prices on national and international markets; access to high-quality inputs and variable costs of buying seeds and fertiliser; access to financing to buy these inputs; and lack of transport and other infrastructure in rural areas.

The *Baitulmal* authorities may offer assistance to help farmers overcome these obstacles by providing their members with various services such as group purchasing and marketing, input shops for collective purchases, and warehouse receipt systems for collective access to financing and market outlets. They also build small producers' skills, provide them with knowledge and information, and help them to innovate and adapt to changing markets. For instance, the *zakāh* authority of Kedah introduced a paddy estate project in 2021. Significantly, they facilitate farmers' participation in decision-making processes, help small producers voice their concerns and interests, and increase their negotiating power to influence policy-making processes. For their part, the *Baitulmal* Authorities facilitate access to safe food.

The *Baitulmal* authorities have also helped preserve indigenous food crops like tapioca in Johor. At the same time, it also increases food security. Diversification of household food supply, such as sweet potatoes and yams, has improved nutrition and incomes.

3.3.6 Access To Water and Sanitation

To make up for the alternative funding, the *Baitulmal* authorities are increasingly becoming major actors in facilitating access to clean water and sanitation services (as shown in SDG6 of Table 2). The *Baitulmal* authorities have provided alternative ways for urban and rural communities to get clean water and safe sewerage services. For example, the Ministry of Environment and Water of Malaysia (KASA) established the water endowment fund to finance small-scale water service projects. In Cambodia, the few hundred *Waqf* water wells or boreholes in multiple villages are built by a non-governmental organisation.

Many non-governmental organisations are currently giving aid to Muslims in Cambodia. They assist occasionally, which will help them improve their living conditions, such as proper sanitation and access to education.

3.3.7 Sustainable Energy

The *Baitulmal* authorities are contributing to achieving the sustainable energy goals of energy access, energy efficiency, and reduced emissions (SDG7 of Table 2). They are visible in facilitating access to sustainable energy, significantly generating electricity and distributing it to consumers. They are also leading the way in adopting new and renewable energies like solar and wind power in many parts of the world.

Waqf may be able to help with the shift to renewable energy. A cash *waqf* fund can be utilised to acquire solar panels to generate electricity. It can also be used to promote renewable energy research and development. The green mosque endowment fund is the best known. It supports mosque development projects that utilise green technology throughout Malaysia. Non-governmental organisations and private firms also engage in solar energy endowment projects in mosques and education.

3.3.8 Employment Creation, Livelihoods and Equitable Growth

The *Baitulmal* authorities play a significant role in employment creation and income generation (SDG9 of Table 2). They create job – recruitment of new staff, appoint an *amil*, and a representative *(wakeel)* for *zakāh* distribution. Together with small and medium-sized enterprises, the *Baitulmal* authorities are the most significant sources of new employment. In Indonesia, Baitul Maal Wat Tamwil uses the *Baitulmal* fund to empower micro, small, and medium enterprises, creating more jobs.

Other contributions to livelihoods and equitable growth documented for the *Baitulmal* fund include income security, jobs for rural communities, strengthening farmers' position in the value chain, employment in diverse sectors of the economy, spill-over effects on employment, provision of infrastructure and other services, and social inclusion. Evidence from around the world shows the contributions the *Baitulmal* fund has made in promoting decent work and providing income security, especially among those previously excluded. Research on the paddy industry in Malaysia (Rahman et al., 2019) indicates that *asnaf* enjoy higher and more secure incomes than non-*asnaf* within the sector, particularly at the primary production level (SDG9 and SDG12 of Table 2). Similarly, recent research in Indonesia's agricultural industry (Ika Yulita et al., 2020) demonstrates how agricultural producers organised in the *Baitulmal* authorities see better incomes (with no hunger (SDG2 of Table 2) and equitable distribution (SDG10 of Table 2)), more savings and reduced input costs, relative to those who are not. It also improves the livelihood of communities (SDG11 of Table 2).

An important consideration is how the employment creation impact of the *Baitulmal* fund can be scaled up to generate new employment opportunities in those areas where public and private sector initiatives are weak or absent**.**

3.3.9 Sustainable Natural Resource Management

In Islam, resources are a divine blessing and gift that every generation must make flourish and develop, and aside from their utilisation, they must prepare and preserve them for the utilisation of future generations. The *Baitulmal* authorities contribute to the sustainable management of natural resources in a variety of ways: They ensure that natural resources are not depleted, where the *Baitulmal* authorities have provided a forum for local people to find solutions to environmental change (SDG13 of Table 2) by defining their property and user rights, managing natural resources (SDG15 of Table 2), and diversifying their economic activities to embrace green economic ventures. In Indonesia, as Ali and Kassim (2020) mentioned, *waqf* promotes the sustainable use of tropical hardwood and has received Forest Stewardship Council (FSC) certification for the international furniture market, overcoming the monopoly of wood buyers and earning a sustainable living.

The *Baitulmal* authorities also encourage more responsible patterns of consumption and social and economic accountability values (SDG12 of Table 2) as normative practices. The *Baitulmal* authorities diversify their activities to include water management, tourism, production of quality regional foods and organic farming. They respond to the crisis of high-tech agriculture and environmental regulation. For example, BAZNAS introduced Lumbung Pangan in Indonesia to increase rice production quality. In Malang, Rumah Zakat provides maintenance of public green spaces, urban waste collection, urban sanitation, installation of solar panels, and waste prevention and reuse. In the Kingdom of Saudi Arabia, the *zakāh*, tax and customs authority introduces a *Zakāh* Guideline on Supply Water Waste and Drainage Sewage Sector, which provides tax exemption for company waste management.

In developing countries, thousands of waste-pickers work in poor conditions and contribute significantly to cleaning the environment, but lose profit to middlemen who sell recyclables to industry. Akulaku Group and BAZNAS distribute assistance by providing healthcare services and iftar meals for the community around their school who are in need. It would increase incomes and dignify their activities.

3.3.10 Good Governance

Responsible and effective governance has been identified in the post-2015 process as an enabler for socio-economic transformation and the eradication of structural inequality, as well as an end. The new development agenda allows societies to shift to a more just world, where resources are shared more equitably, and people have a greater say in the decisions that affect their lives.

The *Baitulmal* authorities have an essential role to play in this process. First, one of the principles of the *Baitulmal* authorities is the institution that acts as a trustee for Muslims. Its primary function is to administer wealth contributed and acquired by Muslims through various sources. The community puts their trust in this institution. Therefore, the *Baitulmal* authorities should adopt the good governance characteristics, such as transparency, responsibility, accountability, participation, responsiveness to the people's needs, and respect for the rule of law. Deeply rooted in their community, the *Baitulmal* authorities can empower people by enabling even the poorest segments of the population to participate in economic progress. Furthermore, by creating a platform for local development initiatives such as Rumah Zakat and Akulaku Group (in Indonesia) and Padi Estate Project (in Kedah, Malaysia), they bring together a range of community institutions to foster opportunities for decent work and social inclusion.

Second, the *Baitulmal* authorities and community members, in their dual roles as stakeholders and owners or controllers, can provide an essential voice in the global debate on governance and transparency. Strong and legitimate governance institutions, including non-profit enterprises like the *Baitulmal* authorities, must ensure that development benefits are equally shared and sustainable over time.

3.3.11 Promotion of Stable and Peaceful Societies

In Islam, mosques (which mainly get funding from *zakāh, waqf* and *ṣādaqah*) play an essential role as centres that promote peace and stability in society. They have often emerged as sources of positive social capital, fostering a strong sense of community, participation, empowerment and inclusion among members and restoring interpersonal relationships and peace.

Mosques have been known to emerge as a collective response to crisis, like the economic hardship times during the 2019 pandemic crisis. They provided various types of support, such as financial and food assistance. This does not mean, however, that cooperatives only succeed in times of crisis. It is, however, in the time of crisis, when there is an urgency to establish more solid economic and government systems, that the *Baitulmal* authorities tend to re-emerge as relevant solutions that are durable and timely.

3.3.12 Baitulmal and Long-Term Development

Finally, the *Baitulmal* authority is contributing to creating an enabling environment to chaperon sustainable development by bridging the financing gap between the financial system and government; stabilising fiscal distress during crises; and providing the base for financial deepening.

The *Baitulmal* authorities have created an enabling environment by bridging the financing gap for socio-economic development through a human-centred form of alternative financing and assistance that alters the imbalance in the government budget. Hence, the *Baitulmal* authorities contribute to stabilising the economic system, which foundered in 2019 on the growing use of debt and leverage. The *Baitulmal* authorities survived and fared relatively well in this instability, primarily because of their ability to cushion the crisis. The human initiative model makes them resilient in a downturn.

Waqf and *ṣādaqah* are some of the best means for financial deepening and provide the financial base for other development activities in many parts of the Muslim world. In many cases, they are the only organisations available, particularly in remote rural areas, where members can utilise, both means to develop their economic activities. Hence, they contribute to long-term development.

4. Conclusion

This study aims to highlight the contribution of Islamic public finance towards sustainable development and stimulate discussion on the role of the *Baitulmal* authorities in the design and implementation of sustainable development goals. Why Islamic public finance, instead of traditional public finance? Islamic public finance can cure a few problems, such as wasteful extravagance, widespread corruption, inefficiency in resource utilisation, wrong priorities in expenditure policy, excessive foreign borrowing, absence of adequate public disclosure and lack of public accountability, which have characterised almost all of them in the recent decades (Siddiqi, 1992, pp. 62). Hence, integrating Islamic public finance towards achieving the SDGs brings many results. First, the establishment of the national public finance framework should consider the integration of the *Baitulmal* fund. Second, the motives of each Islamic religious revenue (elements in Islamic public finance) serve for good purposes, destined for eternal bliss and endless happiness. Third, the mapping of *Baitulmal* fund and SDGs shows that they could be addressed in solving a wide range of key global concerns (poverty, equality, employment, gender, climate change, peace, etc.). The *Baitulmal* authorities can contribute to all SDGs because they are involved in the diverse economic sectors concerned and because their impact contributes substantially to the global objectives pursued.

In conclusion, integrating the Baitulmal fund in national public finance brings a lot of positive implications, specifically in Islamic countries. First, it contributed to generating more revenues in national public finance for the good welfare of the country's people. Second, more sources of public revenues mean better provision of good welfare for the country's people. Consequently, the third is the realisation of the SDGs' goals. Hence, it is suggested that the national public finance system be reconstructed by including Islamic public finance elements, specifically in those Islamic countries.

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Islamic Finance and Sustainable Development: Key Ethical Features and Proactive Initiatives Promoting Financial Inclusion

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Abstract

The 17 Sustainable Development Goals set forth by the UN 2030 Agenda require the adoption of proactive initiatives by countries in a global partnership and by companies, consumers, and citizens. SDGs recognise that ending poverty is strictly intertwined with strategies to reduce inequality and spur economic growth, all while tackling climate change and preserving the environment. In this context, the lack of financial inclusion increases poverty and frustrates economic development since access to essential financial services helps people nurture their education and financial plans, and financial inclusion can help alleviate poverty and lift economic development. The study highlights how, within this scenario, Islamic finance can play an important role in promoting sustainable and ethical development and financial inclusion, specifically in environmental sustainability, by increasing the so-called "green sukuk" or "ESG Sukuk." Accordingly, the article analyses, from the comparative law perspective, the context of two Asian countries, Malaysia and Indonesia, that are pivotal markets for developing Islamic financial instruments and that of Sub-Saharan Africa, highlighting the potentialities of Islamic finance to foster sustainable development (in particular, SDG-01 No Poverty; SDG-05 Gender Equality; SDG-08 Decent Work and Economic Growth; SDG-09 Industry Innovation and Infrastructure; SDG-10 Reduced Inequalities; SDG-11 Sustainable Cities and Communities). It also provides significant examples of initiatives adopted by Malaysia and Indonesia, grounded on the tools of Islamic finance, to support sustainable economic and social development in sub-Saharan Africa. As a result, the article stresses, through the adoption of the comparative law methodology, the importance of a proper transnational legal framework – in a broad sense, including legal language and formation of scholars and practitioners - to promote Islamic finance and financial inclusion: such aspect tends to be neglected in current literature, seemingly more focused on techno-economic aspects.

Keywords: Islamic finance; Sustainable Development (SDGs); Green or ESG Sukuk; Fintech; South-East Asia; Sub-Saharan Africa

1. Introduction

The UN Agenda 2030 has set seventeen sustainable development goals (SDGs): SDGs recognise that ending poverty is strictly intertwined with strategies that reduce inequality and spur economic growth, all while tackling climate change and preserving the environment. Islamic finance, with its core ethical principles, is crucial in promoting sustainable development

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and financial inclusion (Jimoh and Kolawole, 2024), particularly in environmental sustainability through the rise of ‘green Sukuk’ or ‘ESG Sukuk’.

1.1 The key features of Islamic finance

In consideration of the decisive role played by the doctrinal formant, where the figure of the jurist tends to coincide with that of the theologian, Muslim countries are classified as belonging to the so-called *rule of tradition*, i.e., those countries in which the divorce between law and religious (or, in other cases, philosophical) tradition has not occurred (Mattei and Monateri, 1997). The absence of separation between the religious and legal spheres and the need for regulatory rules to comply with the precepts of sharia (Hallaq, 2009) are the salient features of such a legal model (Gambaro and Sacco, 2004). In this context, it is crucial to identify the guidelines of Islamic business law because religion, morality, law, economics, and finance constitute an inseparable whole in the Muslim world (Biancone, 2020). At the same time, it has been authoritatively observed that, for a correct understanding of the Islamic model, it is also necessary to consider the historical dialectic between *sharia* and *siyàsa*, that is, between religious law and political power-secular law, which is the primary key to understanding the legal dynamics of the Islam, so that the claimed formal supremacy of *sharia* must be confronted, at an operational level and State by State, with its implementation in concrete norms and applications (Castro, 2007). Hence, the diversity and heterogeneity of the individual legal systems are attributable to the Islamic model.

This dialectic is even more evident when regulating financial markets. It takes on particular importance because, alongside state legislation, legal tools and rules of other legal systems, widespread law, concur in shaping such markets (Giustiniani, 2006). In Islamic law, therefore, since there is no separation between the religious and legal spheres, even the sector of contractual relationships and financial investments must conform to the Koranic precepts and other sources specific to that tradition: even business relationships and Islamic finance must, therefore, be *sharia-compliant*. The notion of “Islamic” finance, thus, indicates the set of financial activities that conform to the principles of the Shariah (Biancone, 2020).

In this regard, the term “Islamic finance” can be understood according to two meanings: in the strict sense, as a banking-financial activity subject to the precepts of Islamic law; in a broad sense, as a complex of legal-economic relationships, also subject to the same precepts. This second meaning, therefore, also includes contractual relationships and commercial exchanges. In the Islamic context, the distinction is not always so clear, especially in light of those doctrinal interpretations that advocate creating a general Sharia-compliant economy. Accordingly, in the article, the expression “Islamic finance”, unless otherwise specified, will be used in the broader sense.

In this context, a leading role is attributed to *fiqh*, which has reworked Sharia rules (Lambton, 1981). Fiqh is intended for “Islamic jurisprudence as an important source of Islamic rules” (Biancone, 2020). It is, therefore, the knowledge of the fivefold Shariatic division of human actions, in the sense of obligatory (fard or wàgib), prohibited (haram), recommended (mandùb), discouraged (makrùh), and permitted acts (halal) (Castro, 2007). Fiqh Muamalat, or Islamic Commercial Law, is a subdivision of the fiqh discipline related to human activities. It deals with Shariah rulings related to business and financial activities in Islamic society, but not comprehensively with factors impacting economic behaviour, since it is concerned solely with the legal relationships between members of the society (Ridhwan Ab. Aziz, 2016).

The interpretation of the sources and the deductions deriving from them through *ijtihad* (intellectual ‘effort’) is carried out taking into account two essential principles: the common good (*maslahah*) and the state of necessity, whereby a prohibited behavior can be allowed when compliance with the prohibition leads to a greater evil (Aldeeb Abu-Sahlieh, 2008; Mustafa and Ab Rahman, 2023). Organisations such as the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) and the Islamic Fiqh Academy based in Saudi Arabia are considered authoritative sources for developing Islamic finance rules. The AAOIFI is a body created in 1991 in Bahrain, which was responsible for drawing up the *Sharia-compliant* standards (AAOIFI *sharia standard*) and accounting and auditing standards for Islamic financial institutions and industry (Jouaber-Snoussi, 2012).

Therefore, one of the most significant elements of Islamic finance, especially in the eyes of the Western observer, is the leading role played by legal doctrine. Since this area, too, like any human action, must be sharia-compliant, and considering the not-always-easy need to interpret religious precepts to conform to a given initiative, the opinion of experts becomes an essential element. This is also to guarantee that the given investment complies with *Sharia*, thus attracting the public of Muslim investors. *Fatāwā*, i.e., legal opinions issued by a committee of experts (sharia advisory board), are significant. This committee can operate both as an internal but independent body of a bank or financial institution and as an external body (Alvaro, 2014). The effort of these experts in reaching a consensus on the legality of the structures used in Islamic finance and investment activities has enabled the development of sophisticated and highly complex operations that incorporate both elements of conventional finance and Sharia-compliant institutions.

In consideration of the remarks above, it was highlighted that Islamic Finance Law constitutes - due to its peculiarities, due to its transversal character to the various state systems, due to the heterogeneity of the sources, the role of tradition, and, at the same time, that of standards set forth by authoritative international institutions - a legal system in itself, of particular interest for the comparatist (Foster, 2007; Ercanbrack, 2015; Ferreri and Di Matteo, 2019).

Specifically, the precepts that characterise Islamic finance are: (i) the prohibition of ribà or 'growth' (commonly understood as a prohibition of interest); (ii) the prohibition of introducing elements of uncertainty (*gharar)*; (iii) the prohibition of speculation (*maysir*); (iv) the prohibition on investing in prohibited activities (*haram*), positively, (v) the principle of sharing profits and losses (so-called profit-loss sharing or PLS); (vi) the duty to work for the satisfaction of needs, justice, efficiency, growth and freedom (Siddiqi, 1988). Accordingly, the following contracts are prohibited: the conventional loan contract, given the obligation for the borrower to pay interest; the sale of a future thing declined in the guise of *emptio spei*, as an aleatory contract; the sale of someone else's property, since it is characterised by an element of uncertainty, as well as conditional sales; the sale at an undetermined price even if determinable; the sale at a future and uncertain date; aleatory contracts *tout court*, including insurance contracts; gambling and betting; the bond loan because it falls within the prohibition of ribà (Vogel, 2006). The loan contract is therefore allowed only if free of charge: in particular, this type of contract, called *quard-al-hasanah*, is used for small sums and charitable purposes (Nienhaus, 1994). Furthermore, investments in the sectors of production, processing, trade of pork, alcoholic beverages, the tobacco industry, weapons production, pornography, casinos, and other activities related to gambling and betting are prohibited, as they are considered *haram*. However, while the ban is absolute for some activities, for others, there is no unanimity of consensus (for example, for the film industry, the recording industry, and the production, processing, and marketing of tobacco and its derivatives). In this case, the admissibility of the activity is assessed either on a case-by-case basis or by allowing some tolerance thresholds (Forte et al., 2011). It has been pointed out that Sharia tracing, through the precepts of the Koran and the Sunnah, the right and perfect path to obtain every benefit on earth, directs the path of each believer to justice by outlining the objectives (*maqāṣid al- Sharī'ah*) that every Muslim must pursue to achieve Maşlahah (Papa, 2023).

An indication of the current opinion regarding *ribà* is provided by the Sharia Standard on Debit, Charge and Credit Cards published by the AAOIFI in 1998, under which debit and recharge cards were deemed permissible, while credit cards, based on a contract giving rise to interest, are prohibited (Sharia Standard (2) *Debit Card, Charge Card and Credit Card*, AAOIFI; Abozaid and Khateeb, 2022).

It has been observed that deeming the ban on *ribà* referred only to the case of excessive interest is common among those jurists who defend the Arab civil and commercial codes, most of which allow interest. Conversely, the more rigorous interpretation, according to which the ban on *ribà* would prohibit interest *tout-court*, is typical of the proponents of Islamic finance intended as 'interest-free finance', opposed to the conventional one, typical of the Western tradition and capitalist economies (Bälz,2020). The absence of interest is therefore understood, at the same time, as the ethical and commercial basis of Islamic finance.

Furthermore, derivative contracts, being typical instruments of conventional finance, conflict with both the prohibition of *gharar* and *maysir* because they give rise to a speculative transaction characterised by elements of uncertainty, moreover not anchored to tangible assets, which, lastly, would attribute an enrichment in the form of interest (thus also violating the prohibition of ribà) for pure causality and without any merit: the ban has therefore traditionally included the creation or subscription of futures, options, credit default swaps, as well as short sales. The prohibition on the use of these tools was sanctioned by the International Islamic Fiqh Academy of the Organisation of Islamic Cooperation (OIC) (Usmani, 1999). However, in light of the developments in global financial markets and to keep in line with them, Islamic jurists distinguish between financial contracts aimed at mitigating pre-existing risks in economics and finance (lawful) and contracts aimed at creating new risks and new uncertainties (prohibited) (Jobst, 2007). A further contract raising critical issues concerning the precepts of Sharia is that of insurance, due to its aleatory nature: within the Islamic context, a form of Sharia-compliant insurance, *takaful*, has therefore been developed based on the principle of profit-loss sharing.

A typical characteristic of the indications coming from *fiqh*, in the event of an activity that is not strictly compliant with the sharia or admissible within tolerance thresholds, although abstractly prohibited, is requesting 'purification' as compensation. This allows the cancellation of the negative effect of the prohibited activity: a common form of purification is to donate part of the proceeds originating from the investment as *zakat* (McMillen, 2011). The *zakat*, or Koranic tax, requires every Muslim to have the fiscal ability to allocate part of their income to public assistance. It is the third of Islam's so-called "five pillars"

(Fiorita, 2002). *Zakat,* therefore, has a dual function: on the one hand, social, of redistribution of wealth for public assistance; on the other, purely religious, as a necessary act of purification of the wealth possessed. In the latter sense, it demonstrates the disfavour towards money as an end, which refers to the other principles governing Islamic finance (Giustiniani, 2006).

A further consequence of the above-mentioned fundamental principles of Islamic finance is the preference for exchange contracts with immediate effect and with the exchange of instantaneous performance, looking with disfavour at sales in instalments or deferred prices because the time could benefit one party (in this case, the debtor of the financial performance) to the detriment of the other. More generally, the principle's rationale is to prevent any increase or decrease in the asset's value from altering the originally established commutative relationship between performances by conferring on a party an unforeseen or unjustified advantage (Khoulidi, 1994). This also explains the caution and rigour with which Islamic law looks at the assumption of debts, imposing on the debtor the moral and legal obligation to properly fulfil his contractual obligations (Quran, II, 282). The propensity of the Islamic world is to resort to debt only as an *extrema ratio* since contracting debt is not considered natural. As an alternative to debt, profit sharing is encouraged: for this reason, profit-loss sharing constitutes a characteristic and fundamental feature of Islamic finance. The aim is to counteract the disinterest and indifference of the creditor concerning the use that the debtor will make of the capital: such an approach, indeed, clashes with the Islamic conception of money, understood as an instrumental good and not an end in itself, to be used according to ethical criteria and for socially and morally appreciable purposes (Hamaui and Mauri, 2009). Accordingly, the prohibition of *ribà* aims to promote fairness, equality, and solidarity between the contracting parties.

In particular, since the scope of the *maqāṣid al- Sharīʼah* encompasses the protection and promotion of values such as equality, the fair distribution of wealth, economic and technological progress, and the fight against poverty and the waste of natural resources, as well as the protection of the environment and the pursuit of sustainable and conscious consumption, many commentators have placed particular emphasis on the absolute compatibility (if not complete interpenetration) between finance Islamic and sustainable development objectives: the former is therefore considered a paradigmatic tool for the achievement of the latter (Benarafa, 2022). Indeed, the concept of Maqashid al-Sharia originates from the word Maqsad or Maqsid, which comes from the Arabic word that means “purpose, wisdom, and intent”, and the term Sharia (Shinkafi et al., 2017). Muslim scholars have agreed that the ultimate goal of Maqashid al-Sharia is to serve all human beings' interests and save them from any danger in life (Dusuki and Bouheraoua, 2011). Maqashid al-Sharia is a valuable instrument for developing society and humanity to achieve human perfection throughout life in this world and the hereafter (Arsad et al., 2015). In Maqashid al-Sharia, the protection of public interest (Al-Maslahahi) includes three subsections: necessities (Al-Daruriyat), complements (Al-hajjiyat), and jewellery (Al-Tahsiniyat). The necessity section (Al-Daruriyat) consists of five elements: protection of faith (Al-Din), protection of self or soul (An-Nafs), protection of intellect (Al-Aql), protection of posterity (An-Nafs), and protection of property (Al-Mal). Protection of property is related to the characteristics of something that is desired and obtained by the owner with effort (muktasab), can be hoarded (iddikhar), can be measured (miqdar), and must undergo transfer exchanges (tadawul) (Esen, 2015; Harahap et al., 2023). Therefore, property protection includes the protection of wealth and ownership, acquisition and development, preservation of wealth and damage, preservation of the circulation of wealth, and protection of wealth values (Dusuki and Bouheraoua, 2011). It broadly means guaranteeing the property rights of citizens by the state, ensuring the welfare of citizens, such as eradicating poverty, equitable distribution of the community’s economy and regional development, providing a sense of security and honour, technological developments, and others related to the progress of the state and citizens (Esen, 2015). Accordingly, the values contained in the objectives of Islamic law prove that Islamic law supports the sustainability of a better and just human life (Harahap et al., 2023).

Like Maqasid al-Shariah, the SDGs set by the UN are also aimed at achieving and preserving human development. Both encourage the ultimate goal of creating wealth as a means for comprehensive human development, not just for oneself. Islamic scholars have therefore discussed the paradigm of Islamic finance as a tool for sustainable development, as stated in the UN SDGs in the form of Islamic finance as a circular economy (Khan, 2019). The shift from a linear economy to a circular economy to attain sustainability occurs when human products can be internalised into the financial system (Ayub, 2020) as a financial market connected to the real economy (Khan, 2019).

2. Literature review

Many countries with large Muslim populations exhibit high rates of poverty and rank low in SDG achievement, indicating the need for more significant investment in key productive sectors, including the financial industry: this goes hand in hand with the suitability, according to most commentators, of Islamic finance to pursue sustainable development objectives, hoping for its wider use (Harahap et al., 2023; Ahmed, 2017; Paltrinieri et al., 2020).

Islamic finance is continuously growing: according to one projection, it should reach 4,940 billion dollars in 2025 (Hararap et al., 2023). The activities composing Islamic finance are: (1) *Islamic banking*, by far the most developed sector, which grew by 17% in 2021, especially in countries that do not represent the hub of Islamic finance, such as Ethiopia and Burkina Faso; (2) *Sukuk*, the second most important sector, which grew by 14% in 2021, reaching $713 billion: notably, new issues increased by 9%, reaching the record figure of $202.1 billion; in particular, long-term sukuk with the tenor of five years or more has increased, indicating a shift in investment towards a longer post-pandemic horizon; sovereigns and quasi-sovereigns bonds continued to dominate new issuance; (3) the *Islamic funds' sector*, less developed than the first two and concentrated almost entirely in three specific countries, namely Iran, Saudi Arabia, and Malaysia. In this context, the so-called ESG funds (i.e., Environmental, Social, and Governance Funds) stand out since they grew significantly in 2021: the most relevant event was the announcement by the Employee Provident Fund of Malaysia. This entity invests almost entirely in Islamic funds and intends to become a sustainable investor with a 100% ESG-compliant and climate-neutral portfolio by 2050. Following in the ranking of sectors falling within Islamic finance are the activities of the so-called (4) *other Islamic financial institutions*, for example, financial technology companies (Calandra et al., 2022), investment companies, finance companies, leasing and microfinance companies, brokers and traders: the most considerable growth in these activities occurred in Kazakhstan (44%), Egypt (38%) and Maldives (31%). The paradigmatic sector of this category is undoubtedly that of FinTech, mainly concentrated in Saudi Arabia, which plans to triple the number of FinTech companies, going from the initial 82 to 230 in 2025. The last sector, the smallest in Islamic finance, is (5) *takaful*, with a growth rate of 17%, consolidating especially in the area of the Gulf Cooperation Council ("GCC") countries and willing to expand into new markets, for example, the Philippines (Report Refinitiv, 2022).

In particular, it is believed that the most used instrument in sustainable Islamic finance is the sukuk. Hence, the widespread denomination of 'green sukuk' (or *ESG-sukuk*): the issuance of *ESG-sukuk* in 2021 reached a new high of $5.3 billion. Saudi Arabia, Indonesia, and Malaysia are the undisputed leaders in this segment, and they are expected to continue to grow, given the strong demand from GCC countries, specifically to help finance green and sustainable transition projects. (Report Refinitiv, 2022). Issued green sukuk were labelled green following the International Capital Market Association's (ICMA) Green Bond Principles (GBP). In addition to the International Capital Market Association's GBP, several green sukuk are labelled following the ASEAN Capital Market Forum's ASEAN Green Bonds Standards. Green sukuk issued in Malaysia and Indonesia follow not only international green bond standards, GBP and ASEAN Green Bonds Standards, but also their own national, i.e., Malaysia's Sustainable and Responsible Investment (SRI) Sukuk Framework and Indonesia's Green Bond and Green Sukuk Framework (World Bank 2020).

The *Sukuk* is one of the typical financial instruments of Islamic finance and is commonly referred to as an "Islamic bond." Traditionally, it is considered the same as a conventional bond, although these instruments differ in various aspects (Safari, 2011). In particular, the differences between the traditional bond and the *sukuk* mainly concern the nature of the underlying, which, in the first case, tends to be purely financial. In contrast, the second coincides with one or more tangible assets of which the investor purchases a share, the AAOIFI Sharia Standard No. (17) - *Investment Sukuk*, at §2, provides for the following definition of *Sukuk*: "*Investment Sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct, and services or (in the ownership of) the assets of particular projects or special investment activity. However, this is true after receipt of the value of the Sukuk, the closing of subscription and the employment of funds received for the purpose for which the Sukuk were issued*" (AAOIFI). Since the sharia prohibits the sale of debt, *sukuk* are not representative of third-party capital but of the share of co-ownership of the underlying assets, which therefore fall into communion between the various sukuk-holders, for example, the AAOIFI Sharia Standard No. (10) - *Salam and Parallel Salam*, at §7 "Salam Sukuk Issues", rules that: "*It is not permitted to issue tradable Sukuk based on the debt from a Salam contract*" and "*The basis for the impermissibility of tradeable Salam Sukuk is because trading with such Sukuk is a form of sale of debt which is prohibited*"(AAOIFI). Accordingly, further differences between the two financial instruments are highlighted: the coupon payment in the conventional bond coincides with a predetermined and fixed percentage, while in the *sukuk* it is linked to the market-value trend of the underlying assets. The relationship between the issuing company and the investor is also different because it is not a credit-debt relationship deriving from the traditional financing scheme but depends on the type of contract used, which must, in any case, be Sharia-compliant (the most common forms are those of *ījāra, musharāka or mudāraba*) (Miglietta, 2012). More specifically, it was observed that sukuk should be defined as "Islamic investment certificates" as they are participation certificates representing undivided ownership shares in an asset consisting of tangible goods (Moghul and Safar-Ali, 2014). It has been observed that, in practice, the *Sukuk* is similar to a securitisation transaction due to the creation of a corporate vehicle (i.e., special purpose vehicle, SPV) to which the originator of the operation (i.e., the subject that needs the financing) sells certain assets, against which the SPV issues certificates (*sukuk* notes) which will be subscribed by investors

(Alvaro, 2014). The funds thus collected will be used as consideration for the assets sold by the originator, and these funds must be used to finance Sharia-compliant activities. The investors will, therefore, become co-owners of the assets transferred to the SPV, and the latter, on their behalf, will stipulate a Sharia-compliant agreement with the originator to regulate their use.

Furthermore, the Sharīʼah Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) has concluded its 87th meeting in September 2023. During this time, the Board announced the resolution to release the draft standard on Sukuk (Standard no. 62), marking a significant milestone in Islamic financial regulation. Sukuk are defined as: *"[Certificates of] Sukuks are investment securities of equal value for common share that establish ownership of assets (tangible assets, usufructs, rights, debts, cash, or a mix of [all of] them or some of them) that are already in existence or that will be acquired or created, and it will implicate rights for the certificate holder arising from its interest in ownership of those underlying assets and obligations on [the certificate-holder] to the extent of its share in them*". (AAOIFI, 2023).

In particular, the AAOIFI Standard no. 62 highlights that Sukuk have characteristics that distinguish them from conventional bonds, the most important of which are: (i) Sukuk are not based on lending against interest; (ii) the principal amount and the profit amount of Sukuk will not be recognised automatically as an obligation owed by the originator once the subscription to the certificates of Sukuk and the payment of the principal amount was carried out; (iii) Sukuk are an investment instrument wherein their owners share the reward (*ghunm*), as well as the liability (*ghurm*) of the underlying assets of the Sukuk that are owned jointly by the certificate-holder with the other certificate-holders of Sukuk of the same issuance. Also, it is usually a financial instrument for the originator; (iv) Sukuk are issued based on one or more Sharia contracts by Sharia rules that regulate issuance, trading, and maturity of Sukuk; (v) risks of Sukuk are not confined to credit risks of the originator; and its credit rating is not limited to the financial worthiness of this entity (AAOIFI, 2023; Cupri, 2022).

As of September 2020, a $10 billion value of green sukuk has been issued by 11 entities from four countries, namely Indonesia, Saudi Arabia, the United Arab Emirates, and Malaysia (in descending order), and from one multilateral development bank (Azhgaliyeva, 2020). Green sukuk is issued by the top four sukuk-issuing countries. More than half of sukuk (65%) and more than half of green sukuk (64%) are issued in the Asia and Pacific region (Indonesia and Malaysia). Indonesia is the largest issuer of green sukuk (54%). The large amount of green sukuk ($5.5 billion) is due to the issuance by the Government of Indonesia. Although Malaysia is the smallest issuer of green sukuk ($1 billion), it has the most significant number of private issuers supported by green bond grants and tax incentives. Both Malaysia and Indonesia introduced national green sukuk standards: Sustainable and Responsible Investment (SRI) Sukuk Framework (Malaysia) and Green Bond and Green Sukuk Framework (Indonesia) (Azhgaliyeva, 2020).

The development of the sukuk market was characterised by a very heated doctrinal debate, especially in the Islamic context: a significant part of the interpreters believed that the sukuk issued (especially in an early period) were utterly similar to traditional bonds, raising critical severe issues from a sharia-compliant perspective (Usmani, 2007; Miller et al., 2007; Wilson, 2008; Rahim and Ahmad, 2014); vice versa, another part of the doctrine has emphasised the structural differences between the two instruments, remarking the undoubted compliance of Sukuk with the principles of Islamic finance and, according to some scholars, their lower levels of risk (Cakir and Raei, 2007; Alam et al., 2013) also thanks to the guidelines developed by the AAOIFI. Hence, the precise choice of this institution is to name sukuk "investment sukuk" to differentiate it from conventional shares or bonds.

However, there is no doubt that green sukuk are now universally recognised as suitable tools for pursuing sustainable development objectives, in a sharia-compliant context (Suriani et al., 2024; Dey et al., 2020).

In particular, in a recent study, the authors analysed the effects of green sukuk - in particular, those issued from 2018 to 2022 - concerning the negative consequences of climate change, going so far as to argue that, both in the short and long term, green sukuk can contribute to reducing these adverse effects in the issuing countries (Suriani et al., 2024).

Technology development has caused innovations in Islamic financial technology, including combining fintech with products from Islamic finance (Calandra et al., 2022), such as Sukuk and waqf. The combination of blockchain and Sukuk can increase the transparency of cash flows, and the underlying assets of Sukuk can improve investment decision-making with an ample supply of information, which is also beneficial for the realisation of the SDG program in the economic field (Harahap et al., 2023). However, caution is still needed when combining innovative technology in Sukuk, as is the case with other Islamic financial products, such as protecting these products from legal, regulatory, Shariah, and other risks. Although the Sukuk blockchain innovation has many benefits, there will still be risks that must be overcome in running the Sukuk blockchain (Kunhibava et al, 2021).

3. Methodology

The present article applies the comparative law methodology. Namely, it considers how culture determines the parameters of the judicial legal reasoning, the systems of law that jurists would borrow from, and even the extent to which they would borrow, as well as how such approach determines the standing of each individual within the culture; also arguing how the nature of this culture varies from one society to another, and concluding that unless one has an awareness of the importance of this rootedness in a particular legal culture, one can never understand the parameters of legal debate (Watson, 1995). Furthermore, it contemplates that comparative law's primary purpose is acquiring knowledge and that the connected "legal formants" must be considered to understand a legal system properly. In particular, legal formants are elements that characterise a specific legal system. Paradigmatic examples include legislative provisions, court rulings, academic writing, and professional and administrative practices developed in a particular context.

Furthermore, hidden factors ("crittotipi") affecting the interpretation and application of the rule of law shall be considered, too (Sacco, 1991). Concerning this aspect, the Article also applies the concepts expressed in Trento's Theses – i.e., the cultural manifesto of comparatists – according to which one of the aims of comparatists is to highlight the dissociations between theoretical statements and operational rules (Gambaro et al., 1989). Under the First thesis, "The task of legal comparison, without which it would not be a science, is the acquisition of a better knowledge of the law, just as the task of all comparative sciences, in general, is the acquisition of a better knowledge of the data belonging to the area to which it applies. Further research and promotion of the best legal or interpretative model are very considerable results of comparison, but the latter remains a science even if these results are lacking"; the Second thesis stresses the importance of facts and legal phenomena realised in the past or the present; according to the Third thesis: "Comparison does not produce useful results until the differences that exist between the legal systems considered are measured. Comparison is not made until one limits oneself to cultural exchanges or the parallel exposition of the solutions explained in the different areas; under the Fourth thesis: "Knowledge of legal systems in comparative form has the specific merit of checking the coherence of the various elements present in each system after having identified and reconstructed these same elements. In particular, it checks whether the operational rules present in the system are compatible with the theoretical propositions elaborated to make the operational rules knowable". Finally, the Fifth thesis states: "Knowledge of a legal system is not a monopoly of the jurist belonging to the given system; if, on the one hand, he is favored by the abundance of information, however, he will be more hindered than anyone else by the assumption that the theoretical statements present in the system are fully coherent with the operational rules of the system considered" (Sacco, 1991).

Finally, it considers that comparative law methodology operates in a rapidly evolving social, economic, and political context, where cultural and legal uniformity, dictated by the global model, clashes with the different cultural contexts in which it spreads and that challenge its effectiveness. Nowadays, the relationship between legal rules and their effectiveness is transforming, influenced not only by their juridical content but also by the complex web of social relationships and cultural influences originating in the space in which norms are supposed to be applied. While globalisation tends to impose a single legal rule valid worldwide, the social complexity forces the law to dialogue in transnational, intercultural, and multilingual contexts, requiring continuous and complex adjustments that often prove borderline (Ioriatti and Pradi, 2023).

4. Results

The choice to focus attention on Malaysia and Indonesia, on the one hand, and the countries of sub-Saharan Africa, on the other, is because both models, for different reasons, are particularly interested in the objectives of the SDGs and the problems related to these. Furthermore, both contexts are characterised by the influence of Islamic law: dominant in the former and highly significant in the latter. The sub-Saharan area, on the other hand, constitutes a very heterogeneous context, characterised by the fact that a large part of the population is Muslim, and which, alongside some countries with a more structured economy and social development (for example South Africa, which however has recently been suffering from a crisis in access to energy resources, so much so that interruptions in the supply of electricity and sudden blackouts are frequent in the country), there are many others characterised by a high rate of poverty and illiteracy, by the scarcity of infrastructure and limited access to energy sources. All key themes of the United Nations 2030 Agenda.

In this regard, the case of Nigeria is emblematic because, although the country is the leading producer of oil and gas on the African continent, these resources, in any case, are not compatible with the sustainable development objectives, are in the hands of a few private corporations, and the population has limited access to them. According to data updated to 2024 from the World Poverty Clock, 31% of the Nigerian population lives in conditions of extreme poverty (World Poverty Clock, 2024). Furthermore, while Malaysia is in the group of OIC member countries with the best score in terms of initiatives and SDGs' achievement (the other countries are: UAE, Turkey, Qatar, Tunisia, Kazakhstan, Jordan, Morocco, Azerbaijan, Egypt, Kyrgyzstan), many sub-Saharan African countries not only fall within the group of OIC countries with the lower score (i.e., Mozambique, Mali, Gambia, Sierra Leone, Nigeria, Guinea, Burkina Faso, Chad, Niger) but even among the countries with the worst score at all (i.e., Nigeria, Guinea, Burkina Faso, Chad, Niger, Democratic Republic of Congo, Liberia, Central African Republic (Ahmed, 2017; World Bank Group, 2018).

The selected models, therefore, fall respectively at opposite ends of the spectrum about the initiatives and results in terms of SDGs, as well as the level of development of Islamic finance (more advanced in Southeast Asia, still limited in sub-Saharan African countries), represent, for these reasons, an exciting model for examination and comparison.

Furthermore, Malaysia and Indonesia constitute for the comparatist a model of investigation worthy of attention, especially for recent developments in the fields of Islamic finance, transnational trade, and international arbitration; Sub-Saharan Africa, due to its historical, cultural, and legal peculiarities, has long been the subject of comparative studies (Sacco, 2012; Vanderlinden, 1987).

Establishing Zakat and proper collection and distribution processes ensures social security and equality (Rehman & Pickup, 2018). Many countries, such as Malaysia and Indonesia, have adopted policies relying on the Zakat for sustainable development. Moreover, Malaysia, Indonesia, the UAE, and Qatar have established government-linked organisations that collect and distribute Zakat funds. Recently, a few countries, including Malaysia and Indonesia, have started donating Islamic Social Finance funds from local needs to international priorities (Tok et al., 2022). In the case of poverty alleviation, particularly in Malaysia, Zakat distribution has always been a vital and significant factor in reducing income inequalities among the various strata of the community: this, in connection with the development of Fintech and the use of mobile phone services has resulted in a significant improvement of financial inclusion in Malaysia (Yahaya and Ahmad, 2018). These countries spend part of their Zakat funds to support needy people living outside their territories through their national Zakat agencies, through international organisation platforms that collect Zakat, or through non-profit organisations. (OECD, 2020). Indonesia has established a National Sharia Finance Committee and an Islamic Economy Masterplan for 2019-24, with the central goal of boosting the role of Islamic finance in driving economic growth (OECD, 2020). For example, the Indonesian National Amil Zakat Agency delivers scholarships, humanitarian aid, refugee support, food aid, and cooperation related to peace and security to other countries using Zakat funds. In addition, international organisations have been showing a high interest in collecting Zakat through their transparent and accessible platforms aimed at using their funds in global aid activities. Different UN entities have already introduced platforms, mainly in the region of Zakat trust funds and international equity philanthropy funds (UNESCWA, 2021).

The UNHCR has been seeking fatawa from religious institutions, including from the OIC Fiqh Academy, to collect Zakat and to raise funds using other Islamic social finance tools to support refugees residing in Egypt, Iraq, Jordan, Bangladesh, Yemen, Lebanon, Mauritania, and Myanmar (UNESCWA, 2021). Religious organisations in some countries, such as Malaysia, issued fatawa to use Zakat funds to provide humanitarian aid to those who need it, regardless of their religion (IFRC, 2024). The Malaysian National Zakat Council and the Kenya Red Cross undertook support for people living in the Keitu region in Kenya. The Malaysian Zakat organisation donated nearly 1.2 million USD through the International Federation of Red Cross and Red Crescent Societies to support poor social groups in Kenya affected by the 2016 drought. They use cash-based interventions to help communities cope with drought. The IFRC, together with the Zakat Council of Malaysia, uses Zakat funding from Malaysia to make use of untapped contributions that Islamic social financing can bring in the area of global priorities and development cooperation. The justification for delivering the Zakat fund to a non-Muslim society is to support or save humanity (IFRC, 2024).

Furthermore, the IFRC, in collaboration with the Islamic Development Bank, launched a new fund using Islamic social finance instruments. The fund, known as The One WASH (Water, Sanitation and Hygiene) Fund, aims to fight cholera and other diarrheal diseases in 29 OIC member countries. By the end of 2030, the project is expected to cut cholera deaths by 90 percent and to improve the lives of 5 million people in 29 OIC member countries. The project is financed using partnership modalities: philanthropic donor financing (Zakat and Sadaqat funds) and proceeds from the issuance of impact Sukuk. The IFRC's global One WASH program supports UN Sustainable Development Goals 3, 5, 6, and 17 (Tok et al., 2022).

In addition, providing access to banking and other financial services has been deemed a powerful tool to foster financial inclusion and reduce poverty: according to a recent study (Okudowa et al., 2023), the banking sector development contributed

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significantly to poverty reduction in Nigeria, while stock market development and financial inclusion had an insignificant effect in that country. The study concluded that the relationship between financial development and poverty reduction depends on how financial development is measured. Hence, the study recommends that the banking sector increase the volume of loans to people experiencing poverty and ease constraints on credit accessibility for people with low incomes. Moreover, in the opinion of the authors of the study, special financial instruments such as SME Bonds will help to raise funds for SMEs and other small business units (Okudowa et al., 2023).

Furthermore, the relationship between financial inclusion, institutional quality, and bank stability in sub-Saharan Africa has been recently examined. Using a sample of 48 countries from 2002 to 2021, a study suggests that financial inclusion, measured by account ownership, ATMs, borrowers, depositors, and bank branches, positively impacts bank stability, indicating its importance in reducing transaction costs and addressing asymmetric information. The study also explores the moderating role of institutional quality, revealing that the presence of institutions enhances the positive effects of ATMs, borrowers, and depositors on bank stability while negatively impacting the relationship between bank branches and stability (Ofoeda et al., 2024).

Moreover, it is interesting to highlight that financial inclusion fosters gender empowerment as well, contributing to achieving the UN SDG number 5 (Senghore, 2023). In this regard, it is interesting to consider the development of so-called "gender bonds" within the Asian context. Aside from documented outperformance, academic literature points to gender diversity on boards lessening the frequency of securities fraud (Cumming et al., 2015), enhancing a firm's corporate social responsibility (Shaukat et al., 2016) and a positive relationship between board gender diversity and renewable energy consumption (Atif et al., 2020). With these significant benefits associated with investing in gender equality, gender bonds provide a precise mechanism to match investors with investment opportunities in these firms that have shown heightened levels of success (IISD, 2021). Currently, the number of investors in gender bonds has been quite limited. Gender bonds have typically been offered to a limited number of large institutional investors and allow customisation to meet the financial and impact-related needs of both the issuer and investor. Prominent examples of these private placements include the Asian Development Bank's (ADB) ¥10 billion gender bond, issued in 2017 and purchased in its entirety by Dai-ichi Life Insurance Company, Limited of Japan; the International Finance Corporation's (IFC) and Deutsche Investitions- und Entwicklungsgesellschaft's (DEG) USD 220 million subscription of Bank of Ayudhya's Gender Bond issuance in 2019, and the IFC's 2020 commitment to fully support Indonesia bank OCBC NISP's gender bond (IISD, 2021). As highlighted by the International Institute for Sustainable Development, despite the modest size of the gender bond market in the ASEAN region and globally, there is reason for optimism regarding its expansion, given the example of the trajectory of the green bond market. As investors have become more sensitive to sustainability issues, demand for green bonds seems to outstrip supply, issuer premiums have increased, and issuers enjoy lower capital costs. Even as the green bond market matures and the issuances increase, plenty of capital remains ready to invest. Gender bonds will likely follow a similar path as a greater acknowledgement by investors, which will induce demand for more bonds and capital from more diverse investors. A key catalyst to this acknowledgement will be a deeper understanding of the impact that gender bonds can deliver alongside the financial returns they can generate (IISD, 2021).

5. Discussion

5.1 Critical elements of Islamic finance Law

Despite the undoubted activism and attention to achieving sustainable development objectives, it has been observed that the emerging picture needs to be more cohesive and consistent, as well as characterised by the absence of a consistent legal framework (Richardson, 2020). Though this is a common feature when dealing with financially sustainable instruments at a transnational level, the context at stake is particularly enhanced due to the peculiar features of the Islamic Finance Law, which is in continuous tension between positive law and Sharia's respect. The legal framework of countries involved in developing Islamic Finance Law, especially in the MENA area (i.e., Middle East/North Africa), is not yet consolidated. Critical elements remain: for example, the lack of transparency, the problematic interaction between Sharia principles and positive law, the absence of mechanisms for practical enforceability of contractual obligations assumed, and the unpredictability of judicial decisions. As pointed out by a scholar, "Several systemic legal issues or 'legal gaps' undermine investor confidence and impede the sustainable development of the Islamic finance industry. Legal gaps include but are not limited to undeveloped securities laws, enforceability issues, and a lack of clarity concerning the role and effect of Sharia in the municipal legal systems of many

MENA states. More generally, these highly complex legal environments are associated with a reduced flow of information (lack of transparency), which results in diminished legal certainty and foreseeability” (Ercanbrack, 2019).

5.1.1 The case of Dana Gas Sukuk

A paradigmatic example of the above remarks is a Sukuk issued in the UAE.

In 2017, Dana Gas, a company incorporated in the UAE and operating in the energy field, officially declared to its investors that it would not be able to pay for certificates issued under a US$700 million *sukuk* created in 2013 because, according to the company, the structure underlying the sukuk was no longer Sharia-compliant. Dana Gas, therefore, submitted a request to the UAE courts to ascertain the mudarabah sukuk's conflict concerning that country's law. It also obtained judicial injunctions prohibiting investors from suing against the *Mudarabah* agreement until the UAE courts had finally ruled on the merits of the action taken (Dana Gas, 2017). The purpose of Dana Gas was to restructure the sukuk issued in such a way as to halve the distribution of profits due in 2017, justifying it in light of the alleged unlawfulness of the Sukuk due to the evolution of Islamic financial instruments and their interpretation (Howard, 2017). This kind of episode, being the expression of opportunistic behaviour by the company involved, does not contribute to strengthening the confidence of both the market and investors in these forms of investment and represents a dangerous precedent because other companies could try to release from their contractual obligations, invoking the supervening non-compliance with sharia of the financial instrument issued (Ercanbrack, 2019).

5.2 The sub-Saharan Africa context

As already highlighted, the countries of sub-Saharan Africa represent an extremely heterogeneous context characterised by widespread poverty and illiteracy, exposure to the adverse effects of climate change (for example, desertification), water scarcity, and infrastructures that are still underdeveloped. All themes coincide with the SDGs identified by the United Nations 2030 Agenda. In addition, these countries are characterised by the presence, whether in the majority or not, of a large segment of the Muslim population; accordingly, many of them belong to the OIC.

As emphasised in para. 4 above, one of the most perceived problems is the need to promote forms of financial inclusion to guarantee access to this type of service to a large population segment, which is instead excluded from it. From this perspective, many commentators have highlighted the suitability of Islamic finance in contributing to the pursuit of the SDGs in a Sharia-compliant form (Kabir-Hassan et al., 2022). Islamic banks' financing activities are making significant contributions to real economic activities in the short and long runs, with the long-run contribution being more substantial. This finding suggests that the Islamic banks in Malaysia are effectively carrying out the financial intermediation role of pooling and channelling funds to productive investment activities. The above contributions of Islamic finance to real economic activities are made possible by the equity participation principle. The investor–investee relation between the depositors and the Islamic banks based on the concept of risk sharing should lead to better monitoring of investments, hence higher productivity, a more stable financial sector due to the absence of interest rate risk, among others, and therefore, more sustainable economic growth (Kassim, 2016).

Various innovations in the context of realising the SDG program were carried out in Malaysia, including developing green programs correlated with efforts to protect the environment sustainably. One application of this green economy is green banking. The green, inclusive behaviour of Islamic bankers significantly affects the growth of green banking. The five types of green behaviour, namely, conservation, sustainable work, avoiding harm, influencing others, and taking the initiative, have significant positive impacts on the growth of green banking (Ali et al., 2020). Global mobilisation to improve financial stability, achieve the SDGs, and mitigate climate change requires innovative structures and frameworks to develop new financing instruments and improve the efficiency of existing ones. The ethical principles and legal contracts inherent in Islamic finance offer a different avenue for financial innovation that incorporates the principles of Maqashid al-Shariah. The unleveraged green investment trust represents a case of financial innovation because it allows the pooling and allocation of investment funds for development projects and facilitates liquidity management for Islamic Finance and open market operations for central banks (Harahap et al., 2023).

It has been observed that the global financial crisis of 2008 has established the credentials of the Islamic financial system as a sustainable financial system that can save the long-term interests of the average citizens worldwide while adding value to the real economy. The fundamental ethical tenets available in the Islamic financial system make it more suited and ready to fight the economic aftershocks of a pandemic like COVID-19. The basic principles of ethical Islamic finance have solid connections to financial stability and corporate social responsibility within the wide-reaching business context (Raza Rabbani et al., 2021; Moosa, 2023).

Islamic social financing (ISF) is an untapped source of funds to finance humanitarian aid globally. ISF institutions play a facilitative role in society, ensuring economic development and social justice. They have a vital role in instrumentalising religious development aid. Among others, Zakat and Waqf instruments are essential in reducing income inequality in society and channelling funds to meet humanitarian needs. Debt and high interest rates cause financial, social, and moral problems. Shariah-based ISF can be an alternative source of financial support for marginalised people in Muslim countries (Tok et al., 2022).

ISF has various hybrid instruments that link philanthropic and commercial activities, such as microfinance, Micro-Takaful and SRI Sukuk, and are used to support development activities. Islamic social finance's redistributive and social equality elements are essential in helping refugees residing in various countries and realising SDGs (Kassim, 2016; Tok et al., 2022). They address financial constraints, funding shortfalls, and financing inequalities. Therefore, through innovative hybrid approaches, it is possible to utilise the potential of Islamic social financing to stimulate economic activities, promote social welfare, enhance financial inclusion, and boost shared prosperity (Tok et al., 2022).

Namely, among the five categories into which Islamic finance is divided, the most important are, on the one hand, Islamic banking and Fintech (Corapi & Lener, 2019), especially to meet the needs of individual users; on the other hand, Sukuk, especially to attract investments in the business sector and for the development of infrastructure (Amuda, 2023).

From the first point of view, the so-called digital finance can open up new opportunities for low-income users and micro-businesses, currently without access to financial services. According to the World Bank Global Findex Report, in 2017, only 33% of the adult population held a bank account in sub-Saharan Africa (Demirgüç-Kunt et al., 2020). In recent years, the banking institutions operating in this context have expanded the range of the digital services offered to attract new customers and increase their competitiveness: the most significant forms of financial inclusion are those relating to home-based applications, mobile banking and other forms of payment, based on the use of mobile devices (Chinoda and Kapingura, 2023).

In particular, it is believed that to ensure greater financial inclusion of people in conditions of economic poverty, it is necessary to expand the offer of so-called ‘user-friendly products,’ especially low-cost financial services. From this perspective, it is thought that FinTech can open up new opportunities for low-income users and micro-enterprises without access to financial services (Amuda, 2023).

In recent years, banking institutions operating in this context have distinguished themselves by expanding the digital services offered to attract new customers and increase their competitiveness. The most significant forms of financial inclusion are home banking applications for mobile phones and other payment methods based on mobile banking functions that are easy to use, economical, accessible anytime and anywhere, especially at low cost: for example, financing at sustainable economic conditions, reasonable profits on investments and also on savings, availability of automated services and simplified forms of internet banking (Chinoda and Kapingura, 2023; Nutassey et al., 2023).

Specifically, two models have been identified in sub-Saharan Africa: the “additive model” and the “transformative model”. The additive model allows bank account holders to access their bank account via mobile phone and benefit from additional services, such as transferring funds, paying bills, etc. Instead, the transformative model offers financial access to those who do not have a bank account: this always happens from a mobile device and through services provided by MNO - Mobile network providers and microfinance institutions (Yahaia and Khalid, 2018). An example of the transformative model is M-PESA: it is an application created in Kenya in 2007 by Safaricom, a company owned inter alia by the Vodafone Group and the Kenyan government, which allows to transfer funds, even abroad, make payments via the Paypal circuit, make purchases on e-commerce platforms, withdraw money at affiliated points and request financing for both consumers and businesses (Yahaia and Khalid, 2018). Another significant example is Ghana, where many people live below the international poverty line and do not have access to financial products or services. Furthermore, most of the population lives in rural areas, making it difficult to access banking or financial services in the main cities. Thanks to mobile banking, a large segment of the population now has access to these services, and it is estimated that financial inclusion has increased from 29% in 2011 to 58% in 2020 (Adabor et al., 2023).

In this context, it is believed that Islamic finance, combined with technological and digital innovations, can play a leading role in improving financial inclusion, especially for those who do not want to resort to conventional finance because it is not Sharia-compliant. Considering that the widespread use of interest characterises the products and services of traditional banks and that this constitutes an obstacle to the inclusion of Muslim customers, it is believed that the development of Islamic banking can overcome this inconvenience, allowing access to banking and financial services for a broader segment of the population.

6. Conclusion

The analysis carried out highlights the significance of Islamic Finance in promoting sustainable development and financial inclusion: the selected models of comparison give evidence of the achievements, even in terms of SDGs, fulfilled in countries – like Malaysia and Indonesia - where Islamic Finance is more developed, as well as of its potentialities in countries – like those of sub-Saharan Africa – more affected by the issues that the SDGs are aimed at overcome. As highlighted, financial inclusion plays a vital role in reducing poverty and inequalities (SDG-01 and SDG-10), promoting gender equality (SDG-05), contributing to decent work and the economic growth of the society (SDG-09), and developing industry, innovation, and infrastructure (SDG-09) as well as sustainable cities and communities (SDG-11). Among the different products of Islamic Finance, Islamic banking, Islamic fintech, and Sukuk appear to be the most suitable tools to promote financial inclusion for consumers and SMEs. However, the scenario is constantly evolving, and verifying the developments in light of the parameters set forth by the SDGs will be interesting.

The current topic appears particularly interesting from a comparative perspective, both for the developments that are transversally affecting the Islamic finance law sector - especially in some significant experiences, such as the South East Asia and the countries of sub-Saharan Africa - and because of some paradigmatic issues of comparative law that can be identified in it: indeed, the acquisitions of this science can offer a significant contribution.

First, consider the leading role played by the doctrine, for example, the AAOIFI and other equivalent institutions, as well as the business community. Both of them have led to the consolidation in the market of shared rules, which, especially in a transnational context in which uniform rules of law are lacking, constitute forms of self-regulation par excellence, increasing the certainty and trust of market operators and the heterogeneous public of investors. The reference is, for example, to two regulations voluntarily, somewhat similar to each other: on the one hand, the *Green Bond Principles* ("GBPs"), published by the International Capital Markets Association ("ICMA") and, on the other, the *Climate Bond Standards* ("CBDs") published by the Climate Bond Initiative ("CBI"). Both emphasise compliance with the requirements of transparency, information, and independent verification of the green character of a new product or financial instrument. The guidelines also identify a non-exhaustive list of suitable projects, which includes projects linked to renewable energy, eco-compatible transport, and infrastructure for water distribution. All objectives are consistent with the SDGs in the United Nations 2030 Agenda.

In addition, the Security Commission of Malaysia published the first standards to regulate responsible finance sukuk in 2014 to integrate the regulations already in force regarding sukuk. This regulation, however, applies only to sukuk issued in Malaysia. ICMA then released the "Social Bond Principles". They are very similar in content to the GBPs but aim at regulating financial instruments for social purposes. Currently, the trend is to distinguish between "social bonds", "sustainability bonds", and "social impact bonds", namely social bonds finance projects that seek to mitigate social problems or intend to achieve socially valuable objectives. In 2018, ICMA updated its Sustainability Bond Guidelines, providing that those instruments whose proceeds finance projects that have both a green and social purpose can be classified as sustainability bonds; social impact bonds are structured in such a way that the distribution of profits depends on the achievement of the objectives indicated in the financed project. The latter, however, are not yet subject to specific government regulations or guidelines developed on a customary basis (Richardson, 2020).

As can be inferred, such self-regulation phenomena undoubtedly have positive aspects and merit in responding to new market needs; however, these are sectoral and fragmented interventions. Accordingly, policymakers need to develop a uniform framework to enhance a consistent regulatory scenario to help practitioners deal with these issues and promote cooperation among countries while decreasing transaction costs and uncertainties due to this piecemeal context.

A further issue directly related to the above is the lack of a uniform and unambiguous terminology: currently, not only among practitioners and operators but also in scientific literature, terms such as "responsible finance", "impact finance", "sustainable finance," and "social finance" are adopted as equivalents. As has been authoritatively highlighted, "language" and "law" are an inseparable pair, and legal norms are indeed conveyed through a language that is neither common nor literary but rather scientific, which implies and expresses technical concepts, the expression of cultural heritage, and legal traditions (Sacco and Rossi, 2019). The absence of precisely defined boundaries enhances the risk of opportunistic behaviour (for example, the well-known phenomenon of greenwashing) and increases transaction costs (Ioriatti, 2023). Currently, the benchmark is the so-called Taxonomy Regulation (i.e., EU Regulation 2020/852) on establishing a framework to facilitate sustainable investment, which sets forth the criteria to assess whether a business activity can be deemed sustainable to determine the level of environmental sustainability of an investment. The EU Commission has amended such Regulation – Delegate Regulation 2021/2139, establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for deciding whether that economic activity causes no significant harm to any of the other environmental objectives (Europa, EU).

For the same reason, the World Bank published 2020 a general guideline addressing the need among financial market participants for clarity and transparency in what is understood and what qualifies as green (World Bank, 2020). However, the scenario is constantly evolving, and alongside these interventions, numerous others aim at regulating this varied and complex phenomenon. Consequently, this is an additional concern for policymakers and practitioners.

A further aspect worthy of consideration is the perceived need for a suitable legal framework and jurists and operators equipped with the necessary transnational skills, i.e., what could be defined as an adequate "technostructure" (Gambaro and Sacco, 2018).

The issues above point out interesting topics for future research: as highlighted, legal concerns, in a broad sense, tend to be neglected in current analysis while playing an essential role in the development of Islamic finance and the achievement of the

SDGs. Moreover, this peculiar context further enhances the opportunity for a comparative law approach. The present research, therefore, contributes to promoting the development of this kind of analysis and future regulatory interventions that should consider the essential features of both conventional finance and Islamic finance to enhance the cooperation of these different models in fostering financial inclusion.
In light of the above remarks, it is worthwhile to recall the words of an Author, who observes: “The theme is that of change, innovation, the evolution of a legal system (Legal Change) over time due to the reception, transplantation, circulation, influence of models, institutions, rules originating in space from alien legal systems” (Guarneri, 2022).

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purepofo: A Cutting-Edge Tool for Comprehensive Halal and ESG Screening with Multi-Faceted Stock Performance Assessment

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Abstract

This article examines the application of the stock screening tool "*purepofo" (www.purepofo.com)*, which integrates Halal and Environmental, Social, and Governance (ESG) criteria with a comprehensive performance assessment based on widely used financial metrics. The article evaluates *Purepofo*'s ability to align Shariah compliance and ESG standards with performance-driven investing, addressing ethical and financial imperatives. The study presents a comparative analysis of the financial performance of stocks screened using a combined screening approach versus non-screened counterparts, while also outlining methodological limitations. Key findings reveal that Halal and ESG-screened stocks outperformed peers in several financial dimensions, including operational efficiency, dividend reliability, and resilience to market volatility. Notably, these stocks demonstrated higher Sharpe Ratios, more substantial gross margins, and consistent revenue growth, challenging the perception of a trade-off between ethical compliance and financial performance. However, limitations, such as the underrepresentation of high-growth stocks and valuation complexities, highlight the need for further methodological refinement. The discussion emphasises the potential of a customised financial metrics model to support investors in achieving competitive returns without compromising ethical integrity. The results suggest that Halal-ESG stocks offer more than symbolic ethical Value; they exhibit measurable financial resilience, governance, and sustainability strength. While alignment with Maqasid al-Shariah principles remains central, the data—rather than ideals alone—positions Islamic finance as a leader in sustainable investing. This article contributes to the growing discourse on Halal-ESG integration by offering actionable insights for Islamic finance portfolio managers, Shariah scholars, and thought leaders. Bridging ethical compliance, sustainability, and financial performance highlights the role of integrated tools in advancing innovation and inclusivity in global finance.

Keywords: Halal Investing, Shariah Compliance, ESG Screening, Stock Performance, Islamic Finance

1 Introduction

Environmental, Social, and Governance (ESG) investing has gained momentum since the early 2000s, bolstered by initiatives such as the United Nations' Principles for Responsible Investment (PRI), which have solidified its role in global finance. Since 2018, assets under management in ESG funds have surged 42% (Pedersen et al., 2019). Importantly, investing with a conscience is proving to be a moral choice and a financially sound strategy. Studies show that companies with strong ESG practices often outperform their peers. Between 2014 and 2019, ESG investments in North America outperformed

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traditional investments by an average of 2–4% annually (Drei et al., 2019). Similarly, high-ESG portfolios in China demonstrated superior stability during market downturns and outperformed low-ESG counterparts by 3–5% (Broadstock et al., 2020). The resilience of ESG investments was particularly evident during the COVID-19 crisis.

This global shift toward ethical business practices is also evident in Muslim communities, where Halal compliance aligns with sustainability principles. A study of 270 publicly listed companies in Muslim-minority countries found that firms with both Halal and high ESG ratings significantly boosted earnings per share (Kartikasari, 2023). Over five years, ESG index funds outperformed non-ESG counterparts by up to 1.5%, underscoring the synergy between Halal compliance and sustainability as a globally robust investment strategy (Volodina & Trachenko, 2023). As demand for ESG-compliant offerings among Halal investors grows, tools are urgently needed to combine Islamic financial principles with widely adopted sustainability criteria.

Despite this progress, significant gaps remain. The accessibility and quality of detailed data on ethical stocks are still limited. While data-centric tools, such as screening platforms integrating Halal and ESG aspects, have emerged, the landscape remains immature. For example, existing tools like Zoya and Musaffa excel in determining Halal compliance but often underemphasise ESG criteria and lack comprehensive financial performance analysis. Similarly, robo-advisors and custom portfolio builders like ShariahPortfolio and Wahed Invest do not provide stock-by-stock selection capabilities. These limitations highlight the need for a solution integrating Halal compliance, ESG screening, and detailed financial metrics.

Purepofo addresses this gap through an integrated framework that combines Halal and ESG screening criteria with extensive financial performance metrics. This tool formed the basis for our data-driven empirical research.

This paper presents the methodology and findings of an empirical analysis of Halal and ESG-compliant stocks assessed using *purepofo*. In August 2024, the study analysed 644 Nasdaq-listed stocks using publicly available data on fundamentals and ESG metrics. The sample was selected for consistency and completeness. The paper is structured as follows: the introduction sets the stage and identifies the research gap; the literature review explores existing approaches to Halal and ESG screening and stock performance assessment; the methodology section details the analytical approach; the results section presents key findings; the discussion examines implications for portfolio management and Islamic finance; and the conclusion summarises the paper's contributions and outlines directions for future research.

2 Literature Review

2.1 Halal Investing

2.1.1 Historical Context and Evolution of Halal Investing

Halal investing aligns financial management with Shariah law, emphasising justice and economic equity. Prohibited activities like interest-based lending are avoided, while permissible structures like profit-sharing arrangements (e.g., *mudharabah*) are encouraged. Over time, Halal investing has evolved to include Shariah-compliant financial instruments such as *sukuk* (Islamic bonds), which emphasise asset-backed and profit-sharing mechanisms (Iftikhar, 2022; Suharti, 2021; Yussof & Haron, 2017). While debates about the Shariah compliance of specific *sukuk* structures persist, these instruments have empowered Muslim investors to participate in global markets without compromising their principles.

Islamic finance has extended its ethical framework to emerging fields like renewable energy. For instance, renewable energy initiatives in Indonesia are financed through Shariah-compliant contracts such as *istisna* (manufacturing contracts) and *wakala* (agency contracts) (Iskandar et al., 2021). This adaptability underscores the resilience and relevance of Islamic finance, which continues to innovate while adhering to Shariah principles by offering investment opportunities that are both globally appealing and ethically responsible (Billah, 2019; Hassan, 2020).

The growth of Halal investing has been closely linked to global Islamic finance standards established by organisations such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Since its inception in 1991, AAOIFI has standardised practices across accounting, auditing, governance, and Shariah compliance. These standards have enhanced financial performance and transparency, particularly in regions where they are mandatory, such as Bahrain and Qatar (El-halaby et al., 2020). Research indicates that Islamic banks adhering to AAOIFI standards exhibit higher transparency and reduced earnings management compared to those that do not (Mnif & Tahari, 2023).

Key milestones in Halal finance include the global adoption of AAOIFI standards and strengthening governance and risk management practices. For example, Malaysia's leadership in sukuk issuance has attracted a broad range of investors, reinforcing the global appeal of Islamic financial products. Beyond traditional finance, Halal investments now encompass sectors such as tourism, real estate, and technology. Innovations in smart investment platforms have further enhanced access to Shariah-compliant financial literacy tools and financing options (Gunawan, 2020).

Despite its growth, the sector faces challenges such as differing interpretations of Shariah law and limited awareness in non-Muslim markets. Nevertheless, the emphasis on ethical and sustainable investments continues to strengthen its appeal. Halal investments integrate environmental and social responsibility with financial growth (Meylinda et al., 2023).

2.1.2 Halal Compliance Screening

AAOIFI's framework is instrumental in ensuring that financial products and services avoid Haram activities. These standards uphold the ethical integrity of Islamic finance while enhancing transparency and trustworthiness (Ercanbrack, 2019). AAOIFI's standards influence corporate governance by providing clear directives for Shariah supervisory boards (Brahim & Arab, 2020; Jaffar et al., 2021).

AAOIFI is regarded as the gold standard for Islamic financial practices due to its comprehensive and globally recognised framework. Research shows that banks adhering to AAOIFI standards demonstrate improved transparency, reduced earnings management, and enhanced ethical compliance compared to those following regional or hybrid models (Elhalaby et al., 2023). This consistency strengthens investor confidence and underscores the credibility of Islamic finance.

Halal investing mandates the exclusion of industries such as alcohol, gambling, and interest-based services. Rigorous qualitative and financial screenings, such as debt-to-equity ratio limits, are applied to ensure compliance with Shariah principles. These screenings are integral to indices like the Dow Jones Islamic Index to maintain the ethical standards of investment portfolios (Sukor & Halim, 2022). Shariah compliance standards adopt a two-tiered approach that combines activity-based assessments with financial evaluations to classify stocks (Nor et al., 2019). While methodologies vary across regions, global index providers adhere to core Shariah principles (Bakar et al., 2023).

2.1.3 Challenges in Halal Investing

Halal screening tools face significant challenges, including the lack of standardisation across Islamic finance jurisdictions. This leads to inconsistent criteria and methodologies. For instance, the Dow Jones Islamic Indexes and the FTSE Shariah Global Equity Index Series employ differing screening methods that result in fragmented definitions of Shariah compliance (Bakar et al., 2023). Transparency and traceability in the Halal certification processes add complexity, particularly with emerging technologies such as blockchain, which remain in early stages of scalability and implementation (Tan et al., 2020).

Existing tools often lack the nuance to evaluate complex financial instruments that involve mixed activities. Cryptocurrencies and hybrid financial products pose additional challenges, as clear Shariah guidance remains under development (Al-Khalifa, 2022). Integrating ESG factors into Halal investing adds further complexity, as ESG metrics vary widely among providers (Atta-Darkua et al., 2020).

More sophisticated screening methodologies are needed to address these challenges. These should navigate complexities in modern financial instruments and emerging sectors like fintech while adhering to Islamic law. Enhancing transparency and traceability through technologies such as blockchain will play a critical role in maintaining the ethical integrity of Halal investing in a rapidly evolving financial landscape (Rahim et al., 2020; Wu et al., 2021).

2.2 ESG Investing

2.2.1 Emergence of ESG Investing

The evolution of Environmental, Social, and Governance (ESG) investing reflects a significant shift in the financial industry toward integrating ethical considerations into investment decisions. Rooted in the socially responsible investing (SRI) movements of the 1960s and 1970s, ESG investing initially gained traction through advocacy for civil rights, environmental preservation, and anti-war efforts. Over the decades, this framework became more formalised, particularly with the launch of the United Nations Principles for Responsible Investment (PRI) in 2006. The PRI provided global guidelines for incorporating

ESG factors into financial strategies, and by 2020, it had attracted over 2,300 signatories managing more than $80 trillion in assets (S. Kim & Yoon, 2022; Rubanovici, 2020).

In contemporary finance, ESG considerations are now central to investment practices and regulatory frameworks. For instance, mandatory disclosures have been introduced in Europe to promote transparency and sustainability (Vorontsova et al., 2023). ESG-themed investments have demonstrated their alignment with long-term societal benefits and their capacity to deliver competitive financial returns, reinforcing their relevance in modern portfolio management (Naffa & Fain, 2020). Companies with robust ESG practices often attract greater investment due to their resilience, operational efficiencies, and alignment with emerging societal trends (Efimova et al., 2021; Zhan & Santos-Paulino, 2021).

A related but distinct aspect of ethical investing involves screening for controversies associated with certain business activities. These include industries or practices such as producing controversial weapons, animal testing, and the unsustainable use of resources like palm oil. Addressing these controversies alongside ESG metrics enables investors to avoid supporting companies whose operations conflict with broader societal and ethical values.

2.2.2 Key Components of ESG Criteria

The emphasis on ethics and sustainability in investments has elevated ESG criteria to indispensable tools for evaluating corporate practices. These criteria extend beyond traditional financial metrics and align closely with Islamic finance principles. Integrating ESG with Shariah values enables investors to craft portfolios that uphold ethical integrity and compliance.

2.2.2.1 Environmental Criteria

Environmental criteria focus on a company's impact on the planet. They examine resource use, pollution, and climate change mitigation. In Islamic finance, stewardship (*khilafah*) underscores the duty to protect the environment as trustees of God's creation. Initiatives like the Islamic Development Bank's (IsDB) sustainable water management projects exemplify this commitment. Similarly, Islamic microfinance institutions fund environmentally sustainable agricultural practices, promoting resource efficiency and pollution reduction (Kim & Li, 2021).

2.2.2.2 Social Criteria

Social criteria assess how companies manage relationships with employees, suppliers, customers, and communities. These align with Islamic finance's emphasis on justice (*adl*) and public welfare (*maslahah*). Practices like *Takaful* (mutual support) operationalise these principles through collective insurance models, fostering social solidarity (Park & Oh, 2022). Ethical sourcing practices and equitable workplace arrangements, such as profit-sharing *mudarabah* contracts, further integrate Islamic values into ESG frameworks, ensuring social justice and inclusion (Powaski et al., 2021).

2.2.2.3 Governance Criteria

Governance criteria evaluate accountability, transparency, and ethical behaviour in corporate operations. Islamic finance mandates principles such as *taharah* (purity, cleanliness) and *hisbah* (accountability), exemplified by Shariah supervisory boards that oversee compliance with Islamic law. These boards enhance governance structures by reviewing contracts and auditing financial products. They foster investor trust and mitigate risks associated with opaque practices (Zhong, 2023). Additionally, Islamic governance emphasises participatory decision-making (*shura*) and ensures inclusivity and alignment with communal welfare (do Amaral et al., 2023).

2.2.3 Intersection of ESG and Financial Performance

Empirical evidence consistently highlights the positive correlation between ESG performance and financial returns. For example, a study of Chinese A-share listed companies found that strong ESG performance significantly enhances financial performance, particularly during a company's growth phase (Gao et al., 2023). ESG-compliant firms also benefit from improved stakeholder relations, operational efficiencies, and alignment with long-term societal trends (Giese et al., 2019).

In Islamic finance, ESG integration complements Maqasid al-Shariah principles, which prioritise ethical behaviour and social welfare. Instruments like green sukuk exemplify this synergy by combining financial innovation with sustainability objectives (Azman & Ali, 2016; Liu, 2023; Muhamad et al., 2022). However, these outcomes are not universal. Variability exists depending on regional market dynamics, regulatory frameworks, and the maturity of ESG initiatives. These highlight the need for tailored strategies in applying ESG within Islamic finance. The COVID-19 pandemic underscored ESG's resilience, with high-ESG portfolios often outperforming low-rated peers. However, sector-specific factors also played a role, as industries like hospitality faced financial strain despite high ESG ratings (Broadstock et al., 2020).

2.3 Integration of Halal and ESG Criteria

2.3.1 Convergence of Halal and ESG Screening

Halal and ESG investing share a common foundation of ethical integrity, albeit with distinct focuses. Halal investing adheres to Shariah principles, prohibiting interest, excessive uncertainty, and unethical business activities. ESG, on the other hand, emphasises environmental sustainability, social equity, and corporate governance. Despite these differences, both frameworks align in promoting accountability, transparency, and long-term value creation.

This convergence is exemplified by Shariah-compliant ESG indices, which screen for both Islamic and sustainability criteria. For instance, Islamic banks in Southeast Asia are adopting ESG metrics to enhance credit risk assessments and embed ethical practices into financial operations (Chen & Mussalli, 2020). Similarly, green sukuk bonds illustrate the practical application of Halal-compliant financing to support environmentally sustainable projects (Khavarinezhad et al., 2021; Liu, 2023).

2.3.2 Challenges in Integrating Halal and ESG

Despite their synergies, Halal and ESG integration pose unique challenges. Shariah compliance excludes interest-based financial institutions and companies with excessive debt, reducing the pool of eligible investments. This contrasts with ESG frameworks, which evaluate companies on diverse metrics, including debt sustainability. Moreover, regional variations in Shariah standards complicate the development of uniform screening methodologies that pose challenges for global investors (Hassan et al., 2021).

Additionally, some industries that meet ESG standards may still conflict with Islamic prohibitions. For example, alcohol manufacturers with strong environmental initiatives are excluded under Halal principles. Addressing these challenges requires innovative tools, such as AI-driven robo-advisors that customise portfolios to align with both frameworks (Irfany, 2022).

2.3.3 The Role of Extended Screening Methodologies

Integrating ESG and Halal principles represents a transformative approach to ethical finance. By aligning Shariah compliance with global ESG standards, investors can achieve portfolios that balance financial performance with societal and environmental goals. The emergence of innovative tools like ESG robo-advisors and Shariah-compliant ETFs signals progress while underscoring the need for continued innovation and standardisation.

Emerging technologies further facilitate this integration. Machine learning algorithms, for instance, can assess compliance at scale and provide real-time updates on ESG and Shariah adherence. These tools empower investors to construct diversified portfolios without compromising ethical principles or financial performance (Katterbauer & Moschetta, 2022).

2.4 Stock Performance Assessment in Halal and ESG Contexts

2.4.1 Stock Performance Metrics

Traditional stock performance metrics such as Return on Equity (ROE), Price-to-Earnings (P/E) ratio, and dividend yield provide quantitative insights into a company's financial health. ROE, for instance, evaluates how efficiently a company utilises its equity to generate profits (Lucia et al., 2020). While these indicators are valuable for conventional investing, they are insufficient in Halal and ESG investing, where ethical considerations are paramount. For instance, ROE does not address whether profits are generated from permissible (Halal) activities or align with broader ethical values.

Shariah-compliant investments employ financial ratio analysis to address these gaps. They also set thresholds for non-permissible income and debt-to-equity ratios. For example, Islamic finance standards typically cap income from non-Halal sources at 5% of total revenue (Naimy et al., 2021). Similarly, while the P/E ratio helps evaluate a stock's valuation, it fails to account for adherence to Shariah principles. A company with an attractive P/E ratio might still be excluded if it engages in gambling or interest-based finance activities. Likewise, dividend yield metrics do not distinguish whether dividends originate from permissible sources, a critical concern in Islamic finance (Banerjee, 2019).

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Conventional metrics also fall short in ESG investing by overlooking environmental, social, and governance factors. For instance, a high ROE might reflect strong financial performance but could mask environmentally harmful practices or poor labour standards (Garrido-Merchán et al., 2023). Recognising these limitations, dual-layered screening mechanisms have been developed in Islamic finance, combining sector-based exclusions with financial ratio analysis. This ensures compliance with both financial and ethical principles (Khan, 2019).

Emerging Shariah-compliant ESG indices integrate traditional financial metrics with ethical and sustainability screens. These indices provide a holistic assessment by incorporating environmental stewardship, governance quality, and social responsibility alongside Shariah compliance. This dual approach supports the construction of financially robust, ethically aligned portfolios resilient to market shocks (López-Toro et al., 2021).

2.4.2 Stock Assessment Tools

Ethical investing requires frameworks integrating traditional financial metrics with qualitative evaluations of Shariah and ESG compliance (Jabeen & Kausar, 2021). Such frameworks enable investors to identify risks overlooked by conventional metrics, such as ethical misalignments or governance weaknesses. By integrating these assessments, investors can evaluate long-term stability and growth potential while ensuring alignment with financial and ethical objectives (Qoyum et al., 2021).

Recent advancements in stock assessment tools address the dual objectives of financial performance and ethical integrity. Algorithm-driven platforms like robo-advisors deliver personalised investment recommendations (Katterbauer & Moschetta, 2022). Dual-layered indices simplify investment decisions by integrating financial benchmarks with rigorous ethical standards. These tools reduce complexity and maintain competitive financial performance. This appeals to investors who seek simplicity without compromising ethical alignment (Lee & Isa, 2022).

User-centred platforms, often called "Do-It-Yourself" tools, allow investors to tailor portfolios based on specific ethical preferences and performance criteria. Despite these advancements, there remains a need for sophisticated tools that seamlessly integrate financial performance metrics with robust Halal and ESG screening capabilities. Meeting this need is crucial as Halal and ESG investing continue to evolve to accommodate growing investor demands for tools that align financial objectives with broader ethical values.

2.4.3 Case Studies and Empirical Evidence

Research demonstrates the growing integration of Halal and ESG criteria in portfolio management. For instance, studies on the Indonesia Shariah Stock Index (ISSI) reveal that portfolios combining Islamic screening with ESG criteria often outperform conventional portfolios, offering greater flexibility and superior long-term performance (Qoyum et al., 2020). Similarly, Islamic equity funds incorporating ESG screening deliver competitive risk-adjusted returns, challenging the misconception that ethical investing compromises financial performance (Abdullah, 2022).

However, integrating ESG and Halal criteria is not without challenges. In China, ESG screening limits portfolio diversification, reducing performance compared to non-screened funds (Wang et al., 2021). Emerging markets face similar issues; strict ESG filters increase transaction costs and lower returns, particularly for Islamic equity funds with already restricted investment options (Jin, 2020). The MENA region's Islamic banks often score lower on ESG metrics due to underdeveloped sustainability practices and a narrow focus on Shariah compliance (Jawad & Abdulla, 2022). In Europe, aggressive ESG screening excludes high-performing stocks that eventually constrain diversification and returns (Kuzmina et al., 2023). Globally, concentrated ESG screenings in markets with limited ESG-compliant assets result in higher volatility and reduced returns (Plagge & Grim, 2020).

Despite these limitations, studies underscore the resilience of ESG and Islamic funds. For instance, Islamic stocks have consistently outperformed conventional stocks during financial crises (Al-Yahyaee et al., 2020). Bayesian optimisation techniques in ESG portfolio construction further demonstrate that integrating ESG criteria can enhance performance without compromising ethical standards (Garrido-Merchán et al., 2023). Moreover, European portfolios with high ESG scores perform on par with traditional portfolios, proving ethical investing does not necessitate lower returns (Zehir & Aybars, 2020).

Investor demand for ESG and Islamic funds continues to rise as these funds align with sustainability goals while offering competitive returns. For example, ESG-themed funds were preferred during the COVID-19 pandemic due to their perceived resilience (Ferriani & Natoli, 2020). In India, ESG funds have shown strong diversification potential and attract investors aiming to mitigate risks while supporting sustainable objectives (Dutta & Paul, 2023). Globally, ESG investments are increasingly regarded as viable vehicles for delivering societal impact alongside financial returns (Naffa & Fain, 2020).

Islamic banks are also integrating ESG principles into their operations. The Value-Based Intermediation (VBI) initiative in Malaysia has supported renewable energy projects and community development, showcasing how ESG integration enhances resilience and sustainability (Ahmad Yani et al., 2020). Similarly, Jordanian Islamic banks adopting ESG strategies report improved governance, social responsibility, and environmental awareness, leading to strategic success (Khalaf Alafi, 2023).

3 Methodology

The methodology employed in this study integrates multiple dimensions of stock evaluation, emphasising financial performance while integrating Halal compliance and ESG alignment. This approach highlights the intersection of ethical investing and strong financial performance.

3.1 Data Sources

The study utilised publicly available and standardised sources for data collection on company fundamentals, ESG scores, and controversies. Financial metrics were calculated using widely recognised methods to ensure comparability and reliability. The stock universe was defined based on the availability of data across the following dimensions:

- Fundamentals: Including market capitalisation, revenues, earnings, and dividend payments.
- ESG scores: Obtained from established ESG rating agencies, encompassing environmental responsibility, social impact, and governance practices.
- Controversy data: Focused on involvement in controversial activities, such as controversial weapons, animal testing, and pesticide usage.
- Halal Compliance: Determined as part of *Purepofo's* screening process, based on AAOIFI Shariah standards.

3.2 Data Preparation and Screening

The empirical process focused on screening and categorising stocks to ensure ethical compliance and strong financial metrics. Key steps included:

- Screening stocks for Halal compliance, according to AAOIFI Shariah standards.
- Filtering for non-controversial status and ESG alignment using *Purepofo's* proprietary methodology.
- Calculation of financial performance indicators, including revenue growth, profitability ratios, and dividend quality metrics.
- Data will be compiled into performance quality dimensions, including performance quality, dividend quality, and growth quality.

3.3 Analysis and Visualisation

The analysis leveraged Python-based tools to process Purepofo's screening results and conduct subgroup comparisons. Key steps included:

- Classifying stocks into subgroups based on Halal compliance, ESG alignment, and non-controversial status.
- Evaluating the financial performance of these subgroups using *Purepofo's* performance metrics.
- Comparison of results across subgroups to identify trends and generate actionable insights.
- Visualising findings through line and bar charts to improve interpretability and clarity.

By focusing on empirical validation, the study aligns ethical compliance with financial effectiveness, ensuring that screened stocks comply with Shariah principles while delivering strong returns and growth potential. This dual focus underscores the

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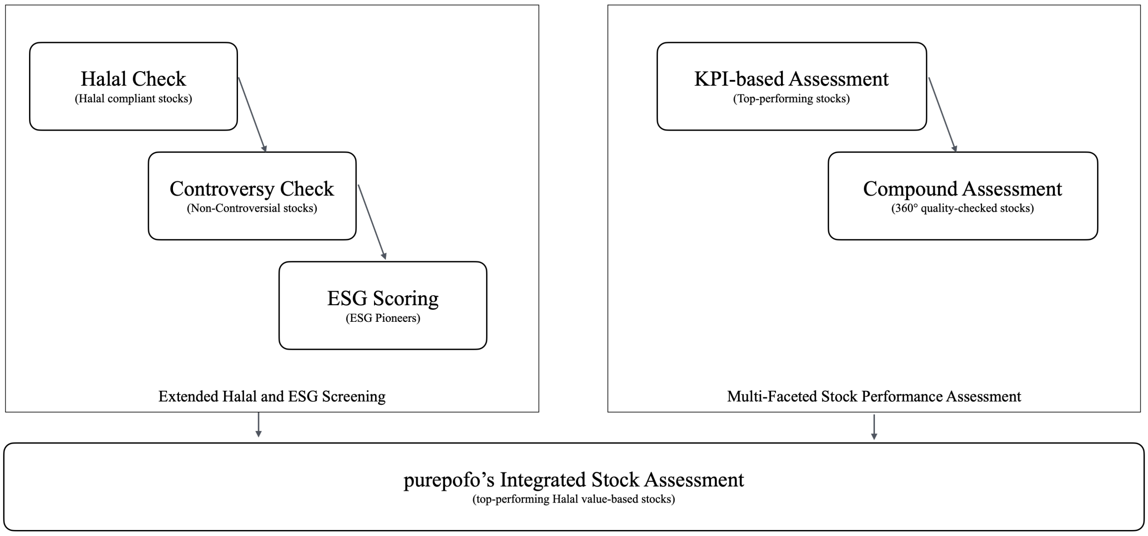
sustainable competitiveness of ethically aligned stocks, contributing to the broader discourse on integrating Halal and ESG principles into mainstream finance.

4 Results: Analysis of the Impact of Halal and ESG Compliance on Stock Performance

This section presents the findings derived from applying *Purepofo's* methodology to a diverse portfolio of stocks. The results illustrate how the approach identifies top-performing stocks within the expanded Halal investment universe, bridging the gap between ethical integrity and financial performance. Furthermore, the methodology provides empirical evidence that ethically aligned stocks, screened for Halal compliance and ESG criteria, consistently outperform their peers across key financial metrics.

Figure 1. *Purepofo's* Integrated Stock Assessment



Source: Created by the authors of this paper, August 2024

4.1 Methodology for Stock Assessment

Before diving into the findings, this section briefly outlines the screening and performance assessment approach employed by *Purepofo*. The approach is built on a two-layer model, combining a comprehensive Extended Halal and ESG Screening with a Multi-Faceted Stock Performance Assessment. This concept is illustrated in Figure 1.

4.1.1 Extended Halal Screening

- Halal Check: This stage ensures that stocks align with AAOIFI standards, filtering out companies involved in non-compliant activities and ensuring that financial ratios fall within acceptable Islamic limits.
- Integration of Controversy Check: A controversy check is performed based on business activities flagged for controversies, such as Animal Testing.
- Integration of ESG Scoring: ESG scoring is seamlessly integrated with the Halal compliance check, evaluating companies based on their environmental stewardship, social responsibility, and governance practices.

4.1.2 Multi-Faceted Stock Performance Assessment

4.1.2.1 KPI-based Assessment

The KPI-based Assessment evaluates stock performance based on established key performance indicators for assessing stocks. *Purepofo* compiles metrics based on the following categories:

- Dividends Analysis: Evaluates the consistency, long-term reliability, and growth of dividend payments over time. This is crucial for income-focused investors and reflects the company's financial health and shareholder commitment.

- Financials Overview: Analyses critical financial ratios such as return on equity (ROE), debt-to-equity ratio, and interest coverage. These indicators provide insights into a company's profitability, financial stability, and risk profile.
- Past Performance Metrics: Focuses on short-term metrics, including revenue growth, profit margins, and operational efficiency. These metrics help assess a company's immediate performance and competitive position.
- Future Trend Analysis: Examines forward-looking indicators like earnings projections, market trends, and strategic initiatives. This analysis predicts the company's growth potential and long-term viability.
- Stock Price Evaluation: Considers the stock's market performance, including price-to-earnings (P/E) ratio, cumulated price returns, and volatility. This helps determine the stock's valuation and investment risk.

4.1.2.2 Compound Assessment

Purepofo uses this cross-category assessment that validates basic performance metrics using a 360° perspective. The concept lies in the inherent interdependence of stocks and a company's performance. A company may demonstrate, for instance, strong dividend payments at a given point in time. However, a reliable dividend payment in the future may not be ensured if this company does not generate strong cash flows and has weak financials to cover dividend payments in the future. With this, *purepofo* adds a layer assessing the quality of metrics. It distinguishes the following aspects:

- Performance Quality: This core metric assesses a critical combination of financial and performance ratios that ensure growth and stability, profitability and returns, and price trends and volatility. These indicators provide insights into a company's operational quality and stability.
- Dividends Quality: Focuses on the ability of the company to generate or keep strong dividend payments over time. It assesses the continuity of dividend payments and dividend returns, taking into account the company's operational quality.
- Growth Quality: Evaluates the context of forward-looking indicators to determine growth potential and reliability. This metric analyses the company's business trend, performance trend, and financial robustness to cope with business growth.

This multi-layered screening and assessment form the foundation for identifying stocks that are both ethically sound and capable of delivering strong financial performance. Stocks that went through this assessment process built the basis for the empirical analysis presented in this paper.

4.2 Quantitative Results

4.2.1 Extended Halal and ESG Screening

4.2.1.1 Sample Selection

A diverse set of 644 stocks across various industries was subjected to the integrated Halal and ESG screening and the subsequent empirical analysis. The sample represents companies that consistently disclosed ESG data. It includes companies traditionally known for strong financial performance and others with emerging potential in ethical investing.

4.2.2 Screening Steps

Halal screening was performed according to the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) standards. Applying those standards with its two-layered approach, business and financial screening revealed that 58% of the sampled stocks failed to meet Halal criteria.

Among the companies that passed the Halal criteria, 20% failed to meet the Controversy criteria, such as involvement in controversial weapons or animal testing. A subset of stocks, representing 34% of the initial pool, successfully passed the Halal and Controversy screens.

Further ESG assessment evaluated companies based on their ESG ratings sourced from Sustainalytics, a leading ESG research and analytics firm. This assessment identified 9% of the Halal-compliant and non-controversial stocks as outperforming their industry peers across all three ESG categories ("ESG Pioneers").

4.2.3 Multi-Faceted Stock Performance Assessment

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The "Multi-Faceted Stock Performance Assessment" methodology outlined in the previous chapter is applied here to evaluate the financial and operational strengths of the stocks identified through *Purepofo's* screening process.

4.2.3.1 Sample Selection

The same sample of 644 stocks initially selected in the integrated Halal screening was subjected to the multi-faceted performance assessment. The following section outlines the assessment results.

4.2.3.2 Screening Results Overview

Purepofo's screening underscores ethically compliant stocks' financial health and resilience across five KPI categories. Dividends Analysis Results revealed that over half of the selected stocks demonstrated consistent dividend payouts, with a balanced approach to reinvesting in the business and providing shareholder value. While a smaller portion achieved high dividend yields, these stocks indicated strong operational performance. Financials Overview Results showed robust financial stability among the screened stocks, with nearly half maintaining favourable liquidity ratios and outperforming industry peers in profitability metrics such as a 15.6% average Return on Equity (ROE). These findings emphasise the financial prudence and operational efficiency of Halal-compliant companies.

Past Performance Analysis Results underscored consistent growth, with average revenue growth rates of 6.8% and a significant portion of stocks achieving above-industry-average free cash flow yields and profit margins. These metrics demonstrate both operational strength and market competitiveness. In the Future Trend Analysis Results, 43% of the companies received strong buy recommendations from analysts, and 13% showed forward-looking revenue and cash flow growth potential, highlighting promising long-term investment opportunities. Lastly, the Stock Price Evaluation Results revealed that over 60% of the stocks had cumulative price returns equal to or exceeding industry medians, supported by reasonable valuation metrics (e.g., P/E and PEG ratios) and low volatility, positioning them as attractive options for risk-averse investors.

Purepofo's Compound Assessment Results further validated the KPI-based findings, offering a holistic view of stock quality. The Performance Quality metric identified a distinguished 4% of stocks as top performers, with the majority achieving intermediate scores indicative of strong but varied performance. The Dividend Quality assessment revealed similar trends, identifying reliable dividend payers with consistent returns.

Growth Quality, which assesses a stock's potential for sustainable growth, indicated room for improvement, with only 1% of stocks achieving top scores. This outcome may be attributed to several factors, including many Halal-compliant companies' naturally conservative financial strategies, which often prioritise steady operations over aggressive expansion. Additionally, growth metrics in this category may reflect sectoral constraints, as some industries with higher ethical compliance overlap (e.g., consumer goods or utilities) tend to have slower growth trajectories compared to high-growth but less ethically aligned sectors, such as technology or biotech.

4.3 Comparative Analysis of Stock Performance

The findings from *Purepofo's* integrated screening and performance assessment establish a robust foundation for comparative analysis, refining our understanding of stock quality and financial performance. This analysis shows that stocks selected through *purepofo* adhere to ethical and sustainability standards and demonstrate varying levels of financial performance across multiple dimensions.

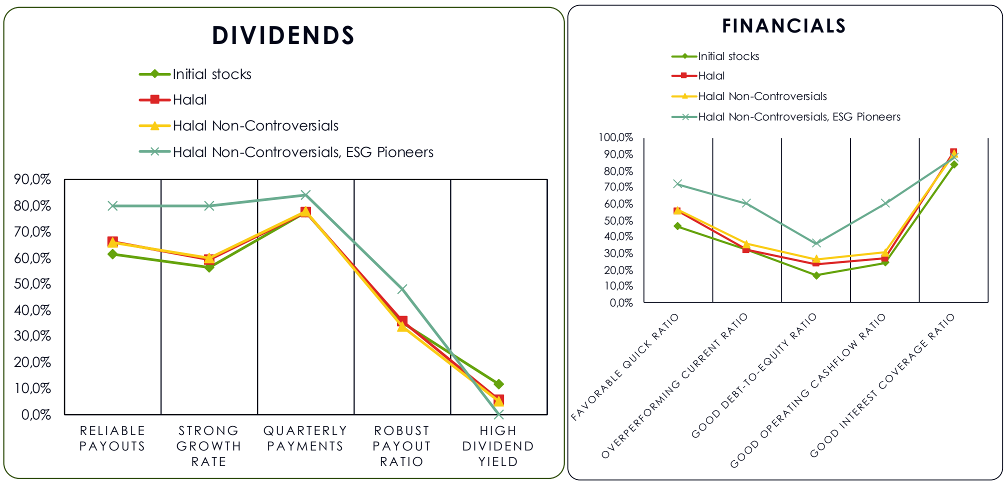
4.3.1 Performance per Metrics Category

The same subset of 644 stocks analysed in Section 4.1.2 was evaluated using Purepofo's Integrated Stock Assessment for the comparative analysis. Stocks were categorised into four groups:

- Initial stocks – The complete set of stocks before any ethical screening.
- Halal-compliant stocks – Stocks that meet Shariah compliance criteria.
- Halal-compliant Non-Controversial stocks – A subset of Halal-compliant stocks that additionally avoid exposure to controversial activities such as controversial weapons, animal testing, or pesticide use.
- Halal-compliant Non-Controversial ESG Pioneers – A refined subset of Halal-compliant Non-Controversial stocks that excel in environmental, social, and governance (ESG) practices.

Scores were analysed across five basic performance categories (Dividends, Financials, Past Performance, Future Trends, and Stock Price) and three compound categories (Performance Quality, Dividends Quality, and Growth Quality). The following sections interpret key trends from the resulting scores derived from the charts included within each comparison metric category. These charts illustrate the analysis results, enabling independent verification of the trends and observations discussed.

Figure 2: Percentage of stocks that succeeded “Dividends” and “Financials” checks



Source: Figures based on purepofo.com data from August 2024

4.3.2 Dividends

The results in the “Dividends” category (Figure 2, left side) reveal a progressive improvement in specific metrics as screening criteria intensify. Halal Non-Controversial ESG Pioneers showed substantial advantages in Reliable Payouts and Strong Growth Rate (80.0%), outperforming the initial subset. However, High Dividend Yield was lower across Halal-compliant subsets, with no ESG Pioneers achieving a high yield. This may reflect a preference for reinvesting profits over distributing them among ethically compliant companies.

4.3.3 Financials

The “Financials” category (Figure 2, right side) highlights a consistent trend of improved financial resilience in the Halal Non-Controversial ESG Pioneer group. Metrics such as Favourable Quick Ratio (72.0%) and Good Operating Cash Flow Ratio (60.0%) peaked in this group, indicating stronger liquidity and operational performance. The Good Debt-Equity Ratio improved progressively across categories, suggesting a shift toward more financially stable stocks.

4.3.4 Past Performance

The analysis of past performance (Figure 3, left side) shows that ethical screening does not come at the expense of operational efficiency. Metrics such as Competitive Return Indicators (Returns on Equity, Assets, and Capital Employed at 76.0%) and Competitive Revenue Growth (44.0%) were notably higher in the ESG Pioneer group than in the initial subset. However, Competitive Net Income (24.0%) declined slightly at the ESG Pioneer stage, possibly due to sector-specific constraints or reinvestment priorities.

4.3.5 Future Trend

In the “Future Trend” category (Figure 3, centre), Revenue Trend (28.0%) and Competitive Free Cash Flow Growth Trend (48.0%) were most pronounced among Halal Non-Controversial ESG Pioneers, suggesting forward-looking potential for sustainable growth. Net Income Trend and Net Margins Trend remained negligible across all groups, likely reflecting sector-specific dynamics or conservative financial strategies.

4.3.6 Stock Price

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The "Stock Price" category (Figure 3, right side) highlights the strong performance of Halal Non-Controversial ESG Pioneers. Metrics such as Strong Price Returns (84.0%) and Competitive P/E Ratio (56.0%) demonstrate this group's ability to deliver Value and growth. However, favourable intrinsic Value was rare across all groups, peaking at just 1.5% in the Halal group, indicating challenges in traditional valuation metrics for ethical stocks.

Figure 3: Percentage of stocks that succeeded "Past Performance", "Future Trend" and "Stock Price" checks

Source: Figures based on purepofo.com data from August 2024

4.3.7 Compound Assessment

Figure 4: Percentage of stocks per quality score in the categories "Performance Quality", "Dividends Quality" and "Growth Quality"

Source: Figures based on purepofo.com data from August 2024

Performance Quality

Performance Quality (Figure 4, left side) shows a rising trend in Strong and Excellent Performance Quality scores. Stocks scoring 5 (Excellent Quality) rose from 5.5% in the Halal group to 16.0% in the ESG Pioneers. Likewise, Strong Quality scores (4) increased from 22.1% to 40.0%. Meanwhile, lower-quality scores (3 and below) declined, suggesting that extended ethical and ESG screening correlates with stronger performance.

4.3.8 Dividends Quality

In the “Dividends Quality” category (Figure 4, middle), stocks achieving Strong Dividends Quality rose to 36.0% among Halal Non-Controversial ESG Pioneers, demonstrating an upward trend. However, excellent dividend quality remained limited across all subsets, suggesting that while ethical screening enhances stability, achieving exceptional dividend quality may require more refined stock selection criteria.

4.3.9 Growth Quality

The “Growth Quality” analysis (Figure 4, right side) indicates room for improvement. Strong Growth Quality scores were only 0.9% in the Halal Non-Controversial group and 0.0% in ESG Pioneers. This suggests that while ethical stocks offer stability and resilience, strong growth trajectories remain challenging, possibly due to conservative business models or sector-specific limitations.

4.3.10 Summary of the Results and Implications

Stocks that pass Purepofo’s integrated screening tend to outperform peers, particularly in financial resilience, past performance, and dividend stability. However, particular areas, such as Growth Quality and intrinsic valuation, reveal opportunities for refinement. This suggests that while ethically compliant stocks excel in stability and sustainability, proactive strategies are needed to better capture high-growth stocks without compromising ethical compliance.

The results also indicate opportunities for refinement in certain assessment criteria. As an emerging tool, *purepofo* prioritises transparency and recognises that continuous improvement is integral to its methodology. Future iterations of the assessment framework will incorporate nuanced adjustments based on observed trends and user feedback to support informed, long-term investment decisions.

4.4 Comparative Analysis of Returns Metrics

This analysis evaluated five distinct stock groups derived from a comprehensive dataset of 644 stocks ("Full Sample"). The performance metrics assessed include Gross Margins, Return on Equity (ROE), and the Sharpe Ratio, representing profitability, financial efficiency, and risk-adjusted returns.

4.4.1 Stock Group Definitions

- “Full Sample”: All 644 stocks, including Halal-compliant, non-compliant, controversial, and non-controversial stocks, and those passing or failing ESG criteria.
- “purepofo Best Rated”: Stocks from the Full Sample assessed as best-performing based on purepofo’s financial performance criteria.
- “purepofo Halal Best Rated”: The subset of Halal-compliant stocks assessed as best-performing according to purepofo’s financial performance criteria.
- “Halal Non Controversials Best Rated”: The subset of Halal-compliant stocks that also passed controversy screening, further assessed as best-performing based on purepofo’s financial metrics.
- “purepofo Halal Non Controversials ESG Pioneers Best Rated”: The subset of Halal-compliant and controversy-screened stocks that achieved superior ESG scores and were subsequently assessed as best-performing based on purepofo’s financial metrics.

4.4.2 Analysis Results

Figure 5: The impact of Halal and ESG screening on critical performance metrics

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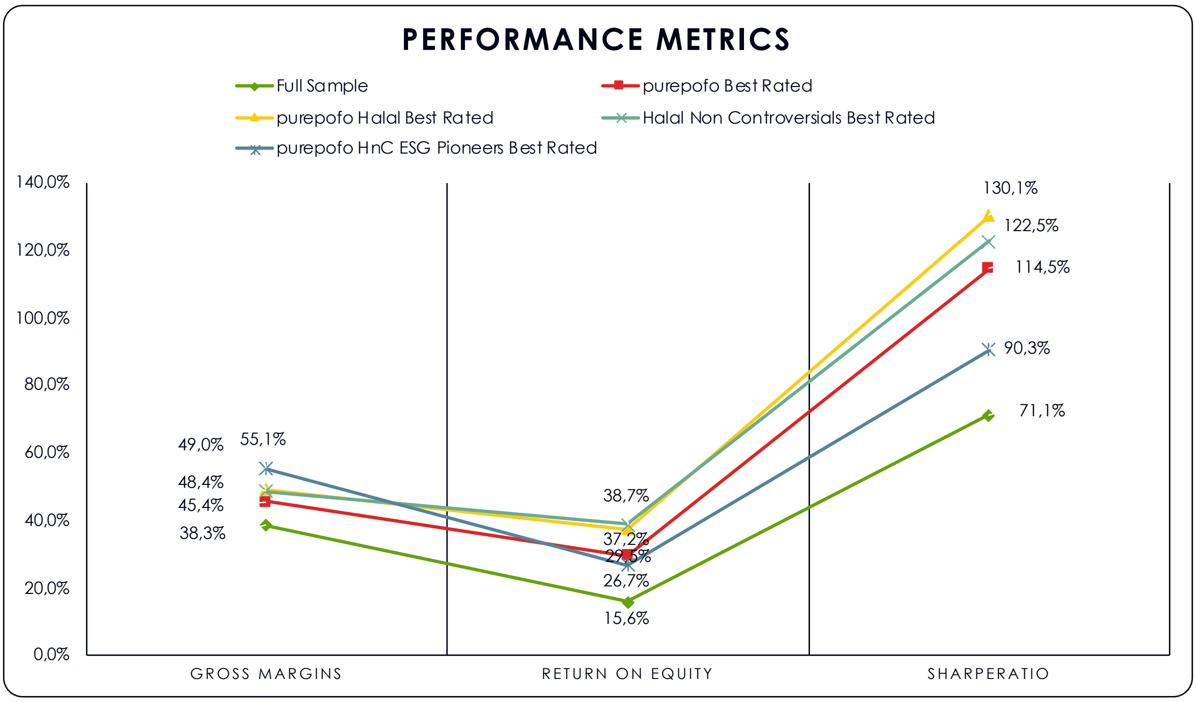

Source: Figures based on purepofo.com data from August 2024

Figure 5 illustrates Gross Margins, ROE, and the Sharpe Ratio for all five stock groups. It clearly depicts these performance trends, offering insights into the financial and ethical trade-offs associated with various screening criteria.

4.5 Key Findings

4.5.1 Gross Margins

Gross margins progressively increased from the Full Sample to more selective and ethically refined groups. While the Full Sample exhibited gross margins of 38.3%, purepofo Halal Non Controversials ESG Pioneers Best Rated stocks achieved the highest gross margins of 55.1%. This suggests that integrating ethical, controversial, and ESG screening criteria aligns with operational efficiency and cost-effectiveness.

4.5.2 Return on Equity (ROE)

The ROE results exhibit a nuanced pattern. The Full Sample's ROE was 15.6%, significantly increasing across all filtered groups. Notably, the Halal Non Controversials Best Rated stocks achieved the highest ROE of 38.7%, suggesting that stocks aligned with Halal and controversy criteria deliver superior financial performance efficiency. Notably, purepofo Halal Non Controversials ESG Pioneers Best Rated stocks showed a comparatively lower ROE of 26.7%, indicating a potential trade-off between ESG compliance and equity returns.

4.5.3 Sharpe Ratio

Risk-adjusted returns, represented by the Sharpe Ratio, showed consistent improvement across refined groups with some exceptions. The scaled percentage of the full sample Sharpe Ratio was 71.1%, whereas purepofo Halal Best Rated stocks achieved the highest Value of 130.1%. However, the scaled percentage of the Sharpe Ratio for purepofo Halal Non Controversials ESG Pioneers Best Rated stocks was 90.3%, reflecting a balance between risk mitigation and returns within this group.

4.5.4 Synthesis and Interpretation

The empirical analysis reveals a general trend: refined screening of stocks using ethical, Halal, controversy, and ESG criteria often correlates with higher gross margins and Sharpe Ratios, indicating operational efficiency and enhanced risk-adjusted

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returns. The slightly lower ROE and Sharpe Ratio observed in the most ethically refined group may reflect a trade-off between ESG leadership and maximum financial returns.

5 Discussion

5.1 Implications for Investors and Portfolio Managers

The findings from *Purepofo's* empirical analysis provide valuable insights for investors and portfolio managers seeking to align financial performance with ethical and ESG compliance. The results underscore that ethically compliant stocks, particularly those passing stringent Halal and ESG screening criteria, exhibit robust financial health, operational efficiency, and dividend reliability. Specifically, over half of the selected stocks demonstrated consistent dividend payouts, and approximately 15.6% achieved a high Return on Equity (ROE), outperforming industry averages. These results suggest that Halal and ESG-aligned portfolios are viable and potentially superior options for investors prioritising financial stability.

The consistent revenue growth rate of 6.8% and above-industry-average free cash flow yields highlight the screened stocks' market competitiveness and operational strength. The finding further corroborates that over 60% of stocks achieved cumulative price returns equal to or exceeding industry medians. Portfolio managers can leverage this evidence to advocate for ethically aligned investments, demonstrating that they do not compromise on financial returns but enhance resilience and sustainability.

However, the analysis also reveals areas requiring strategic consideration. For example, the limited presence of high-growth stocks (with only 1% achieving top scores in Growth Quality) reflects a sectoral constraint in industries commonly associated with ethical compliance, such as consumer goods and utilities. Portfolio managers should adopt a nuanced approach that balances growth-oriented investments with stable, ethically aligned stocks. Additionally, the findings on valuation challenges - evidenced by the low occurrence of favourable intrinsic values - highlight the need for improved valuation models tailored to ethical portfolios.

The implications for risk-averse investors are particularly significant. With low volatility and strong Sharpe Ratios (e.g., 90.3% for Halal Non-Controversial ESG Pioneers Best Rated stocks), these portfolios offer compelling options for investors seeking steady returns with minimised risks. This evidence bolsters the case for integrating ethical screening criteria without sacrificing financial resilience, enabling portfolio managers to cater to diverse investor profiles.

5.2 Implications for Research on Halal and ESG Stock Investing

The findings contribute to the growing literature on ethical investing by providing empirical evidence that robust Halal and ESG screening enhances financial performance across key metrics. The analysis reveals a progressive improvement in gross margins and Sharpe Ratios, demonstrating the alignment between ethical compliance and operational efficiency. For instance, gross margins increased from 38.3% in the full sample to 55.1% in the Halal Non-Controversial ESG Pioneers Best Rated group, highlighting the financial advantages of stringent screening.

These results challenge the traditional perception of a trade-off between ethical compliance and financial returns. While the slightly lower ROE and Sharpe Ratio observed in the most refined group (e.g., 26.7% ROE for Halal Non-Controversial ESG Pioneers Best Rated stocks) suggest a potential trade-off, this may reflect conservative financial strategies and sector-specific characteristics, rather than limitations of ethical screening itself. Future research should explore the causal mechanisms underlying this trend, such as the impact of reinvestment priorities or sectoral dynamics on financial performance.

Furthermore, the study identifies opportunities for refining assessment frameworks. Metrics like Growth Quality and Net Income Trend showed limited improvement across all groups, indicating the need for targeted improvements in stock selection criteria. Researchers could build on this foundation by investigating methods to enhance the identification of high-growth opportunities within ethically compliant portfolios. Additionally, integrating advanced valuation models and machine learning techniques could address the challenges associated with intrinsic valuation metrics.

This research advances the discourse on Halal and ESG stock investing by bridging the gap between financial performance and ethical compliance. It highlights the importance of multi-faceted performance assessments that account for financial resilience, market competitiveness, and long-term growth potential. Future studies should also consider the broader socio-economic impact of ethical investments, particularly in fostering sustainable development and promoting financial inclusion.

5.3 Broader Impact on Islamic Finance

The findings have significant implications for the broader field of Islamic finance, reinforcing its potential to integrate ethical principles with financial performance. The analysis shows that Halal ESG stocks deliver practical outcomes in economic stability, social welfare, and sustainability. While their alignment with Maqasid al-Shariah principles strengthens their ethical foundation, their tangible performance across key metrics makes them exemplary within Islamic finance. For instance, the strong liquidity ratios and favourable debt-equity ratios observed in the screened stocks reflect prudent financial management and robust ESG integration, reinforcing the synergy between ethical compliance and sound financial practices.

The upward trend in dividend quality and performance quality among Halal Non-Controversial ESG Pioneers highlights the alignment between Islamic finance and ESG principles. This intersection allows Islamic financial institutions to position themselves as leaders in sustainable investing, leveraging their expertise in ethical compliance to address the growing demand for ESG-aligned products.

However, the findings also reveal areas for growth within Islamic finance. The limited representation of high-growth stocks and the challenges in achieving favourable intrinsic values underscore the need for innovation in product development and investment strategies. Islamic finance institutions could address these gaps by fostering collaboration with technology-driven sectors and adopting innovative financial instruments that balance growth potential and ethical compliance.

Moreover, the study highlights the importance of transparency and continuous improvement in assessment methodologies. By incorporating user feedback and adapting to emerging trends, tools like *purepofo* can enhance Islamic finance's credibility and effectiveness in meeting modern investors' needs. This supports the broader goal of positioning Islamic finance as a dynamic, inclusive system capable of addressing global challenges such as economic inequality and environmental sustainability.

6 Conclusion

The empirical findings of this study underscore the potential of ethically compliant investments to deliver competitive financial performance while adhering to stringent Halal and ESG criteria. Stocks selected through Purepofo's integrated screening demonstrated robust financial health, operational efficiency, and dividend reliability, with key metrics such as ROE, revenue growth, and Sharpe Ratios outperforming industry averages. These results challenge the conventional perception of a trade-off between ethical compliance and financial returns, demonstrating the viability of Halal and ESG-aligned portfolios as both sustainable and financially attractive options.

However, the analysis also identifies areas for improvement, such as the limited representation of high-growth stocks and challenges in intrinsic valuation metrics. These findings suggest that while ethical portfolios excel in stability and resilience, targeted efforts are required to unlock their full growth potential. Future iterations of *Purepofo's* assessment framework should incorporate refined criteria and advanced analytical tools to address these gaps, ensuring more actionable insights for investors and portfolio managers.

The broader implications for Islamic finance are equally significant. By aligning with ESG principles and emphasising transparency, tools like *purepofo* can position Islamic finance as a leader in sustainable investing. This study highlights that integrating ethical principles with measurable financial performance builds a financial system that is resilient and inclusive. While values aligned with Maqasid al-Shariah remain an essential compass, the delivery of tangible outcomes positions Halal ESG strategies to meet the expectations of modern investors.

In conclusion, embedding ethical screening into a comprehensive performance assessment framework adopted by *Purepofo* represents a pioneering step toward comprehensive Halal and ESG stock screening, offering a more holistic basis for investment decisions. Bridging the gap between ethical compliance and financial performance paves the way for a more sustainable and equitable future in Islamic finance. Further research and innovation will be essential in advancing this vision, ensuring that ethical investing continues to evolve and meet the demands of a rapidly changing economy.

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