

Review

Does Islamic Sustainable Finance Support Sustainable Development Goals to Avert Financial Risk in the Management of Islamic Finance Products? A Critical Literature Review

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Abstract: Policymakers, governments, and Islamic financial institutions are increasingly focusing on sustainable development, leading to an in-depth examination of current sustainable finance practices, projects, and product portfolios. This study examines the role of Islamic sustainable finance (ISF) in promoting Sustainable Development Goals (SDGs) to avert financial risk in the management of Islamic Finance Products (ISFP). Through qualitative analysis, the study conducts a critical literature review (CLR) that incorporates conceptual, theoretical, and empirical perspectives on ISF and SDGs and addresses two specific research questions. Our study examines over 48 journals from 2010 to 2024 and provides insights into how ISF advances the SDGs across all environmental, social, and economic dimensions. It also highlights that ISF promotes green entrepreneurship by investing in sustainable projects, supporting SMEs, and offering alternative financing. ISF also promotes financial stability, justice, and growth and is consistent with the principles of Maqasid al-Shari'ah. Key ISF mechanisms that promote the SDGs include Islamic Green Sukuk, Socially Responsible Investment Funds, Islamic Microfinance, and Islamic Impact Investing. Integrating Islamic ethical principles into financial activities is crucial for inclusive and sustainable economic development. These qualitative insights are critical for policymakers, Islamic financial institutions, Halal entrepreneurs, environmentalists, and investors to understand the potential of Islamic social finance (ISF) to support sustainable practices, projects, and portfolios. Furthermore, the ISFs alignment with Maqasid al-Shari'ah highlights its importance in promoting sustainable development while mitigating financial risk in ISFPs management. The study offers robust contributions to the existing literature to provide comprehensive insights into how ISF can be effectively used to promote SDGs.

Keywords: critical literature review; Islamic sustainable finance; sustainable development goals



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1. Introduction

In recent years, as traditional financial instruments grapple with funding shortfalls, the global financial community has increasingly shifted its focus towards Islamic financing for infrastructure development and sustainable investments, aiming to fulfill the 17 Sustainable Development Goals (SDGs). The importance of Islamic financial practices and products, rooted in the Islamic faith, in advancing global aspirations and mobilizing resources for sustainable development is widely recognized (Gundogdu 2018; Pericoli 2020). United Nations projections suggest a massive \$5 trillion to \$7 trillion will be required annually by 2030 to effectively pursue the 17 ambitious SDGs, posing a huge financial challenge for the world (Dirie et al. 2023). Considering diverse perspectives, values and resources in SDG implementation is meaningful and urgently needed to promote a more inclusive and culturally sensitive approach to addressing pressing global issues. The intersection of the

SDGs with the principles of Islamic finance offers an integrated, faith-based framework to address all 17 SDG objectives (Dirie et al. 2023). Islamic Finance garners acceptance among Muslim nations due to its adherence to Shariah principles, which forbid unethical practices like interest (Riba) and investments in activities deemed detrimental to society or the environment (Hussain 2015; Zarrouk 2015). For example, Islamic finance explicitly avoids investing in activities that are considered harmful to society, such as those that involve excessively uncertain financial transactions (Gharar) and gambling (Maisir). This helps prevent economic activities that could lead to social instability or environmental degradation (Simanjuntak et al. 2023). Also, avoid sectors that harm society or the environment. For example, investing in industries such as alcohol, gambling, and tobacco, which are considered unethical investments and harmful to the environment (Al-Roubaie and Sarea 2019a, 2019b), including financial transactions in an interest-bearing financial transaction (Riba) that exploit the less fortunate, entails risks, and an unequal distribution brings with it wealth (Hassan et al. 2017). Moreover, Islamic finance appeals to halal entrepreneurs and ethical investors seeking alternative avenues to establish and operate businesses following Shariah principles, thus providing halal products and services (Raimi et al. 2023). It fosters risk-sharing, profit-sharing, and asset-backed transactions, aligning financial endeavors with ethical and sustainable objectives (Hassan et al. 2017).

To bridge the financing gaps and combat the environmental challenges posed by unsustainable practices in the global business realm, the concept of Islamic Sustainable Finance (ISF) has emerged as an innovative solution. ISF surpasses traditional Islamic finance by intertwining financing practices and products with sustainability considerations and impact investing (Hassan et al. 2021b). It represents a harmonious blend of Islamic finance principles and sustainability goals linked to the SDGs, tackling urgent socio-economic and environmental issues while upholding principles of justice, fairness, and economic stability. By aligning Islamic finance principles with sustainability objectives, ISF will offer a comprehensive approach to finance that promotes both economic prosperity and social-environmental well-being. This integration is rooted in the Finance Growth Nexus Theory (FGNT) and the Maqasid al-Shariah, which provide theoretical foundations for Islamic finance (Wan Ibrahim and Ismail 2015). The FGNT posits that a robust financial system stimulates economic growth, as sustained growth demands increased availability of financial resources (Al Fathan and Arundina 2019; Raimi and Uzodinma 2020). On the other hand, Maqasid al-Shari'ah prioritizes the preservation of religion, life, progeny, intellect, and wealth (Yusuf and Raimi 2021). The fusion necessitates that ISF offer diverse financial products and instruments consistent with Shariah principles, such as Islamic Green Sukuk, Socially Responsible Investment Funds, Islamic Microfinance, Islamic Social Impact Bonds, Islamic Micro Takaful, Islamic Waqf Funds, and Islamic Impact Investing (Hariri 2022). By directing investments towards renewable energy, clean water, sustainable agriculture, and other environmentally beneficial sectors, ISF contribute to progress across various SDGs such as affordable and clean energy, clean water and sanitation, climate action, poverty alleviation, decent work, and reduced inequalities.

Despite the obvious potential of ISF to promote the SDGs, there is still little research on this connection. To address this gap, this conceptual study addresses the question: How does Islamic Sustainable Finance contribute to achieving Sustainable Development Goals (SDGs) while mitigating financial risk in the management of Islamic finance products? Our contribution to existing knowledge unfolds in four ways. Firstly, this study enhances practical understanding by elucidating how Islamic sustainable finance facilitates the SDGs. Secondly, it conducts a comprehensive review encompassing conceptual, theoretical, and empirical dimensions to synthesize existing literature and generate robust insights for further exploration. Thirdly, it unveils the principal products and mechanisms through which ISF promotes sustainable development and the SDGs. Fourthly, the critical literature review offers significant insights into risk management, financial stability, and sustainable investment practices. These aspects are crucial for scholars and practitioners in risk and financial management, making the topic highly pertinent.

Consequently, we address the following two thematic questions: (a) How does Islamic sustainable finance contribute to fostering sustainable development, or the SDGs? (b) What are the key products and mechanisms through which ISF promotes sustainable development, or the SDGs? The paper is structured into five sections. Section 1 presents the introductory background. Section 2 outlines the methodology employed. Section 3 delves into the critical literature review (CLR), focusing on conceptual, theoretical frameworks, and empirical examinations of ISF and the SD-SDGs relationship. Section 4 synthesizes insights gleaned from the CLR. Finally, Section 5 concludes with a comprehensive summary of the findings, practical implications, and limitations.

2. Methodology

In this study, we adopted a qualitative research methodology, particularly the Critical Literature Review (CLR) approach within the interpretive research paradigm. We aim to fill knowledge gaps by examining scholarly works on how Islamic sustainable finance (ISF) promotes sustainable development (SD) and/or sustainable development goals (SDGs) while simultaneously mitigating financial risk when managing ISF products. Based on the methods described by Yusuf and Raimi (2021). This methodological choice proved invaluable in clarifying the understanding, acceptance, and dissemination of these deeply held ideals. Through systematic analysis and evaluation, CLR involves examining multiple articles and texts on a given topic to gain new insights, uncover additional facts, and promote deeper understanding (Saunders and Rojon 2011; Saunders et al. 2012). To ensure the objectivity of our selection process, we conducted searches in academic databases such as Google Scholar and SCOPUS from 2010 to 2024. The topics/themes searched in the databases were “Islamic sustainable finance AND Islamic social finance”, and “sustainable development AND sustainable development goals”.

After completing the literature search, we systematically selected 48 articles and texts from over 89 articles from different countries and reviewed them using a purposive sampling technique supported by inclusion criteria such as year (recency), relevance, and quality. This selection and screening process followed the study by Raimi et al. (2023). Our study therefore followed a structured five-step approach to conducting CLR, as shown in Figure 1.

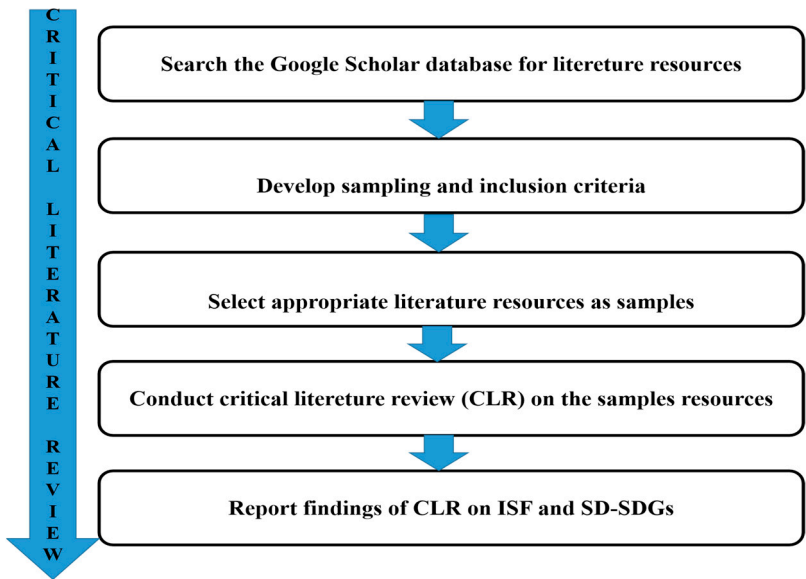


Figure 1. Five-step approach to conducting CLR.

3. Critical Literature Review

In this section, the conceptual definition of Islamic sustainable finance (ISF) and sustainable development goals (SDGs) are critically analyzed and discussed.

3.1. Islamic Sustainable Finance: Principles and Financial Products

Explaining the disparity between Islamic finance (IF) and Islamic sustainable finance (ISF) illuminates the evolution and purpose of these financial paradigms. IF, rooted in Shariah principles, prohibits unethical practices like interest (riba) and investments in activities deemed harmful (haram). Instead, it champions risk-sharing, profit-sharing, and asset-backed transactions, aligning financial endeavors with ethical and sustainable goals (Hussain 2015; Zarrouk 2015). In contrast, ISF emerges as a fusion of Islamic finance and sustainability. While existing literature often references ISF in connection with sustainable development, its terminology varies, encompassing concepts like Islamic Finance for a Green Future, Islamic Lives and Livelihoods Fund, and Islamic social finance instruments (ISFIs) (Hassan et al. 2021a; Tok et al. 2022). ISF addresses multifaceted socio-economic and environmental challenges such as climate change, poverty, and inequality while adhering to principles of justice and economic stability (Hassan et al. 2021b). Its potential lies in leveraging Islamic principles to combat environmental crises, exemplified by innovative instruments like green sukuk, which fund eco-friendly projects and hold promise for expansion into diverse sectors (Pathan et al. 2022). By amalgamating Islamic finance with sustainability objectives, ISF offers a comprehensive financial approach to fostering economic prosperity and social-environmental well-being. Scholars highlight ISFs' uniqueness, grounded in ethics and sustainability, as a catalyst for promoting green entrepreneurship and advancing the Sustainable Development Goals (SDGs) (Dirie et al. 2023).

In exploring the financial products of ISF, literature illuminates a diverse array of instruments that not only align with Shariah principles but also espouse sustainability and ethical values. Among these, Islamic Green Sukuk (IGS) stands out as a prime example, representing Shariah-compliant bonds meticulously tailored to fund projects promoting environmental sustainability for the benefit of both humanity and the ecosystem. IGS not only enables investors to uphold Islamic finance tenets but also to actively contribute to sustainable development endeavors. Projects under the umbrella of IGS span a broad spectrum, encompassing renewable energy infrastructure, energy efficiency initiatives, sustainable agriculture, clean transportation, and waste management (Ali et al. 2023; Elamin 2023). Similarly, Socially Responsible Investment Funds (SRIFs) epitomize an approach to investment that harmonizes Shariah principles with a steadfast commitment to environmental, social, and governance (ESG) standards (van Dijk-de Groot and Nijhof 2015). SRIFs, rooted in Islamic investment ethos, undergo rigorous due diligence processes, meticulously screening out investments incompatible with Islamic ethics—such as those in alcohol, tobacco, gambling, and arms. Instead, they prioritize investments in ventures that foster social responsibility, empower communities, and enhance societal well-being (Ahmed 2018; Hariri 2022).

Furthermore, Islamic Microfinance (IM) is a generic product of Islamic microfinance institutions that offer financing modes and investment services that comply with Shariah principles to provide access to credit, savings, and insurance for the people at the bottom of the pyramid, otherwise called the underserved populations in rural areas and among low-income communities. Islamic microfinance promotes financial inclusion, entrepreneurship, and poverty alleviation while adhering to ethical and sustainable principles (Begum et al. 2019; Rohman et al. 2021). Whereas Islamic Social Impact Bonds (SIBs) are distinct financial instruments that link the social outcomes of projects and investments with financial returns. The SIBs provide financing for social welfare projects such as education, healthcare, affordable housing, and job creation, with returns tied to the achievement of predefined social impact metrics (Syed Azman et al. 2022). Islamic SIBs enable investors to support social initiatives while aligning with Islamic ethical principles and global ethical agendas such as the SDGs (Raghibi and Oubdi 2021; Syed Azman et al. 2022).

Regarding, Islamic Micro Takaful (IMT), it is a Shariah-compliant form of microinsurance that protects against the incidence of risks and disasters for low-income individuals and communities (Rapi et al. 2022). Islamic Micro Takaful emerges as a potent instrument for poverty alleviation and social development, offering insurance coverage across health,

life, property, and agriculture. By fostering poverty resilience and ensuring financial security among marginalized communities, Islamic Micro Takaful operates following Islamic principles of cooperative risk-sharing and mutual benefit (Hasim 2014; Haroun and Yusoff 2019). Similarly, Islamic Waqf Funds mobilize pooled resources, primarily through cash waqf donations from Muslim benefactors, to establish enduring endowment funds. These funds are dedicated to financing various social welfare initiatives, educational programs, healthcare services, and infrastructure projects. Managed under Shariah principles, the generated income sustains sustainable development efforts and addresses community needs over the long term (Shulthoni and Saad 2018; Saiti et al. 2021).

Furthermore, Islamic Impact Investing (IMI) epitomizes a dynamic approach to capital deployment, channeling investments into ventures that generate positive social and environmental outcomes alongside financial returns. Aligned with Shariah principles, Islamic Impact Investing targets sectors like renewable energy, affordable housing, healthcare, education, and sustainable agriculture. By advancing sustainable development goals and fostering societal well-being, IMI underscores the fusion of Islamic values with sustainability objectives (Dirie et al. 2023). In integrating Islamic principles with sustainability considerations, ISF not only fosters inclusive economic growth and social equity but also champions green policies and environmental stewardship. Its impact resonates not only within Muslim-majority nations but also across diverse global contexts, signaling a paradigm shift towards a more ethical and sustainable financial landscape (Harahap et al. 2023; Hassan et al. 2017).

3.2. Sustainable Development Goals

The term Sustainable Development Goals (SDGs) refers to a comprehensive framework of 17 global goals set by the United Nations General Assembly in 2015 as part of the 2030 Agenda. These goals cover a wide range of social, economic, and environmental challenges, including eradicating poverty, ensuring access to clean energy, water, and sanitation, promoting gender equality, combating climate change, and promoting peaceful and inclusive societies (Raimi and Lukman 2023). Comprised of 17 carefully crafted goals, 169 carefully structured targets, and 230 verifiable indicators, the SDGs aim to eliminate endemic poverty and hunger, protect the environment, and promote peace and inclusivity in societies worldwide (Bello-Bravo and Lutomia 2020). For clarity, Table 1 provides a summary of these 17 SDGs and outlines pragmatic policies to be advocated and implemented by member governments and development partners in the final phase of the agenda. These goals are not only crucial but also extremely relevant to the vision of a better and more sustainable future for the planet and its inhabitants, especially given the daunting global challenges facing both developed and developing countries (Yusuf and Raimi 2021).

The proposed link between ISF and SDGs holds great potential for countries where the ISF is used to promote the SDGs. By focusing on financing anti-poverty programs, zero hunger projects, renewable energy, clean water, sustainable agriculture and other environmentally friendly sectors, the ISF facilitates progress towards the implementation of SDG 1 (No Poverty), SDG 2 (No hunger), SDG 3 (Good health and well-being), SDG 4 (Quality education), SDG 5 (Gender equality), SDG 6 (Clean water and sanitation), SDG 7 (Affordable and clean energy), SDG 8 (Decent Work and Economic Growth), SDG 10 (Reduced Inequalities), SDG 16 (Peace, Justice and Strong Institutions) and SDG 17 (Partnerships for the Goals), thereby promoting inclusive and equitable development. Furthermore, ISFs inherent emphasis on ethical, economic, and social responsibility is consistent with SDG 7 (Affordable and Clean Energy), SDG 6 (Clean Water and Sanitation), SDG 9 (Industry, Innovation, and Infrastructure) and SDG 12 (Responsible production and consumption), SDG 13 (climate protection measures), SDG 14 (life below water) and SDG 15 (life on land).

Table 1. The 17 SDGs of the United Nations.

SN	Goal Description	Pragmatic Policies for SDGs Realization
Goal 1	No Poverty	Policymakers must pursue an economic growth process that is inclusive enough to provide sustainable jobs and promote equality among the citizens
Goal 2	Zero Hunger	To attain zero hunger, the agriculture sector and related sectors must embrace smart agricultural practices that support sustainable development, and fight hunger and endemic poverty.
Goal 3	Good Health and Wellbeing	All countries that are signatories to SDGs must design and implement measures that would ensure healthy lives and promote the well-being of all citizens.
Goal 4	Quality Education	Investment in quality education by all UN member nations is the most enduring approach to improving people's lives and sustainable development.
Goal 5	Gender Equality	Pursuance of gender equality by all UN member nations is expedient because SDG 5 is a fundamental human right, and a potent vehicle for building a peaceful, prosperous, and sustainable world.
Goal 6	Clean Water and Sanitation	All responsive governments must make provisions for clean water and sanitation key priorities for nation-building and sustainable development.
Goal 7	Affordable and clean energy.	To achieve the net zero target, all UN member nations must make affordable and clean energy a priority.
Goal 8	Decent Work and Economic Growth	Decent work drives economic growth, and sustainable economic growth in return creates better conditions that allow people to have more quality jobs.
Goal 9	Industry, innovation, and infrastructure	The 3IRs of industry, innovation and infrastructure are resilient strategies for building and promoting sustainable modern societies.
Goal 10	Reduced Inequality	No meaningful development can take place in societies with endemic inequality. To reduce inequalities, therefore, governments should pay attention to institutional conditions that engender inequality and marginalization.
Goal 11	Sustainable cities and communities	All governments must develop sustainable cities and communities because access to safe and affordable housing by the citizens accelerates sustainable development.
Goal 12	Responsible Production and Consumption	The roles of industrial society and buying society are imperative for actualizing the ideals of responsible production and consumption, respectively.
Goal 13	Climate Action	All governments must design and implement climate change adaptation and mitigation measures to meet the UN net zero emission target.
Goal 14	Life Below Water	Water and its vast resources need careful management for an enduring and sustainable future for humans and other species.
Goal 15	Life on Land	Sustainable conservation, utilization and management of land resources and forests are enduring ways to combat desertification, halt and reverse land degradation, and halt biodiversity loss and other threats to life on land.
Goal 16	Peace, Justice, and Strong Institutions	To forestall threats to peace and halt wars at national, regional, and international levels, all UN member nations must build strong institutions to ensure peace and provide access to justice for all citizens.
Goal 17	Partnerships for the Goals	The realization of the SDGs requires multilateral collaboration and global partnership among governments, international institutions, and private sectors.

Source: [Raimi and Lukman \(2023\)](#).

3.3. Theoretical Building for Nexus of ISF and SD-SDGs

In contemporary research in Islamic finance, entrepreneurship, economics, and management, Maqasidul Shariah provides a logical explanation and theoretical basis for how Islamic sustainable finance promotes sustainable development or the SDGs. The Maqasid al-Shari'ah is central to Islamic business ethics and the functioning of the corporate landscape, as it provides a morally sound theological basis for the need to protect individuals

from aggressive behavior in business, ensure justice, and develop an organization's contribution to society (Abbasi and Raj 2022). The term Maqasid al-Shariah refers to the goals of Sharia (Islamic law). Maqasid al-Shariah is used by Islamic jurists to analyze and evaluate bio-ethical issues to determine their compatibility and relevance with the principles of Islamic law (Yusuf and Raimi 2021; Abdur-Rauf and Raimi 2023). The problem analysis based on the Maqasid al-Shariah is essentially centered on three aspects: intention, method, and result/end goal, while the assessment of the problems based on the Maqasid al-Shariah is grounded in the hierarchy of human interests, inclusiveness, and the degree of certainty (Ibrahim et al. 2019).

In the contemporary discourse, Duderija (2014) and Yusuf and Raimi (2021) note that Maqāṣid al-Sharī'ah also includes concepts such as (a) public interests (al masalih al-ammah), (b) interests (al-masalih al-murs), (c) juridical preference (istihsan), (d) presumption of continuity (istihsab), and (e) avoidance of mischief (al-mafsadah). The five Maqāṣid al-Sharī'ah include safeguarding religion (Hifzul Deen), safeguarding souls (Hifzul Nafs), safeguarding intellect (Hifzul Aqeel), safeguarding offspring/lineage (Hifzul Nasl), and safeguarding wealth (Hifzul Mal). The Maqasid al-Shari'ah, together with its five safeguards, provides a theoretical basis for understanding how Islamic sustainable finance promotes green entrepreneurship and sustainable development, or the Sustainable Development Goals (SDGs) in Muslim-majority countries. In particular, the Maqasid al-Shari'ah, with its five principles, contributes to a holistic approach to economic development that balances environmental, social, and economic goals and promotes inclusive and sustainable growth for current and future generations. as shown in Figure 2 below.

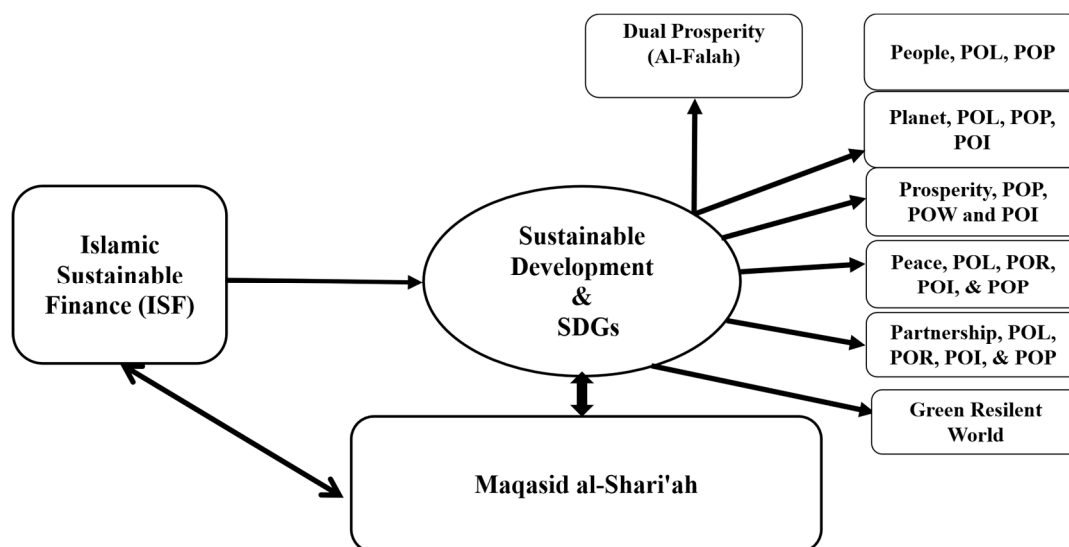


Figure 2. Theoretical building for nexus of ISF and SD-SDGs.

The first pillar of Maqasid al-Shari'ah, known as the Preservation of Religion (POR) or Hifz al-Din, underlines the commitment of Islamic sustainable finance (ISF) to ensure that financial activities and investments comply with Shariah principles. This includes ethical considerations and avoiding involvement in industries considered harmful, such as alcohol, gambling, and tobacco. By adhering to these principles, ISF cultivates an economic environment conducive to green entrepreneurship and sustainable development while respecting religious values and promoting social cohesion and moral integrity.

The second pillar, Preservation of Life (POL), or Hifz al-Nafs, guides ISF to prioritize investments in projects and initiatives that contribute to environmental sustainability, public health, and safety. This includes financing renewable energy projects, clean water and sanitation initiatives, health facilities, and disaster relief efforts. By supporting investments that protect people's lives and well-being, ISF financing promotes green entrepreneur-

ship and advances sustainable development goals related to health, clean energy, and environmental protection.

The third pillar, Preservation of Progeny (POP), or *Hifz al-Nasl*, directs ISF to promote investments in initiatives that promote intergenerational equity and environmental protection. This includes a commitment to financing sustainable agriculture, conservation projects, and educational programs that allow future generations to contribute to sustainable development. By supporting initiatives to conserve natural resources and promote sustainable livelihoods, ISF addresses the needs of current and future generations and promotes goals related to poverty reduction, food security, and quality education.

The fourth pillar, the Preservation of the Intellect (POI), or *Hifz al-Aql*, highlights the ISFs' support for investments in education, research, and innovation that promote human capital and technological advancement. This is achieved by financing green technology start-ups, research institutions, and educational programs with a focus on sustainable development. By promoting initiatives that promote intellectual growth and creativity, ISF promotes green entrepreneurship and innovation and contributes to sustainable development goals related to innovation, industry, and infrastructure.

The fifth pillar, Preservation of Wealth (POW), or *Hifz al-Mal*, explains ISFs' use of risk-sharing mechanisms and ethical investment principles to preserve and increase wealth. This promotes economic stability and social justice through financing small and medium-sized enterprises (SMEs), microfinance initiatives, and community development projects that create employment opportunities and alleviate poverty. By promoting inclusive economic growth and equitable wealth distribution, ISF supports green entrepreneurship and sustainable development goals related to economic growth, decent work, and reduced inequality.

3.4. Empirical Review

The literature review provided evidence of the potential of Islamic Sustainable Finance (ISF) to contribute to sustainable development, particularly through its alignment with the Sustainable Development Goals (SDGs) to avert risk in the financial management of Islamic Finance Products. There are two propositions contained in this preamble. The first proposition is that Islamic Sustainable Finance (ISF) has the inherent potential to support the Sustainable Development Goals (SDGs), as the sustainability principles are consistent with the *Maqasid al-Shari'ah*. The second proposition is that ISF promotes the SDGs by investing in sustainable projects, programs, and investment portfolios that are consistent with *Maqasid al-Shari'ah*. These two theses are examined in the context of previous academic research.

Islamic Sustainable Finance Supports the SDGs

From previous discussions above, the rationale behind Islamic sustainable finance for the SDGs lies in its ability to offer a holistic and ethical approach to finance that not only generates economic growth but also promotes social well-being and environmental conservation. By leveraging Islamic finance principles such as risk-sharing, profit-sharing, and asset-backed transactions, Islamic sustainable finance aims to create inclusive economic systems that benefit society, particularly marginalized communities and future generations (Hasim 2014; Haroun and Yusoff 2019; Raghbi and Oubdi 2021; Rapi et al. 2022; Syed Azman et al. 2022). In redefining ISF as a development-oriented tool, Gundogdu (2018) claims that Islamic banks, realizing the inherent potential of Islamic finance as a sustainable development model, have embarked on product development and implementation aimed at leveraging the first 11 sustainable developments to address goals (SDGs). This change has become imperative due to the frequent crises in conventional finance, which often require regular bailouts. In terms of benefits, Islamic sustainable finance (ISF) has been found to promote financial stability, equity, and growth through a two-tier banking system with 100% reserve deposits and venture capital or investment banking (Askari and Krichene 2014). The ISF can inherently leverage innovations such as blockchain to reduce risk, increase productivity, and mitigate debt-based financing. In addition, it promotes socially

responsible financing and, above all, contributes to achieving the three sustainability dimensions of economic, social, and environmental sustainability, which require adaptation to new technologies (Kamdzhlov 2020).

It is also argued that, from a theological perspective, the Islamic financial system, as a pioneer in financing sustainable development, has the inherent potential to be a key driver in the transformation towards a circular economy for several reasons. Essentially, the principles of Islamic finance, coupled with Shariah regulations and the Sustainable Development Goals (SDGs), will provide a solid guideline and framework as well as numerous sources of financing for a smooth transition of the current linear economy into the sustainable circular economy (Hassan et al. 2020). Islamic finance significantly contributes to the SDGs through diverse channels, including financial instruments, corporate governance practices, Islamic financial technology, green investments, and adherence to Maqasid al-Shariah principles. Particularly noteworthy is Islamic finance's facilitation of essential services like education, microfinance, and healthcare, alongside empowerment initiatives for women and communities. Through a risk-sharing system, Islamic finance fosters a community-oriented economy, supported by mechanisms such as profit-sharing financing and joint partnerships. This collaborative approach not only spurs economic growth but also nurtures a sustainable investment cycle, thus aligning with the overarching objectives of sustainable development (Harahap et al. 2023).

From a theoretical perspective, Islamic green finance, an aspect of the ISF, is viewed as an innovative financial instrument called Islamic Sustainable Transformation (IST), which combines principles of environmental sustainability and Shariah standards for Islamic financial institutions. Islamic green financial instruments such as Green Sukuk and Awqaf have the potential to contribute significantly to sustainable development. However, there is a recognized need for enhancements in Shariah-compliance criteria to ensure that green economy objectives can be effectively implemented within Islamic finance (Piratti and Cattelan 2018). Another study also confirmed that Islamic finance is an important driver in supporting the implementation of sustainable development goals for two main reasons. First, the fundamental principle of Islamic finance is consistent with the SDGs. Second, the application of Islamic social financial instruments, particularly Zakat, Waqf and Sadaqah, has the potential to support certain SDGs in practice (Rosman et al. 2022). Moreover, the implementation of the Islamic Development Bank's ISF called Lives and Livelihoods Fund, which focuses on poverty alleviation, health, agriculture, and infrastructure projects in vulnerable Muslim countries, has been found to foster sustainable growth through a collaborative effort between Muslim and non-Muslim donors (Pericoli 2020).

To support green entrepreneurship and accelerate the process of achieving the SDGs, Islamic banks, through their ISF measures, play a crucial role in sustainable development by investing in green projects, promoting environmental protection, and promoting ethical choices in investments and corporate entrepreneurship (Al-Roubaie and Sarea 2019a, 2019b). In combating climate change and environmental degradation, ISF (normal balance between Islamic money and green money) has been used in some Muslim countries, such as Indonesia and Pakistan, as a green money instrument to finance sustainable projects and promote green economic development in the areas of sustainable energy, regular assets, and energy literacy projects (Pathan et al. 2022).

In Bangladesh, Julia et al. (2018) found that green firms' sustainability is positively related to the Maqasid Shariah, an affirmation that green firms' activities are in line with Shariah. In the realm of business-focused entrepreneurship and empowerment of the populace, Islamic financing institutions adopt diverse mechanisms and programs to support SMEs and entrepreneurs, emphasizing the importance of collaboration between financial institutions, the government, the private sector, and NGOs to promote Islamic sustainable finance in Muslim countries. This process has been discovered to be effective in funding entrepreneurs and offers technical support to the projects and ideas of SMEs, thereby guaranteeing the success of investment and entrepreneurship (Kooli 2020). Relatedly, the ISF of Islamic banks offers a better alternative to conventional finance for entrepreneurs,

providing stability and sustainability through its Profit and Loss Sharing (PLS) products and services (AbdulGaniyy et al. 2021).

The process of advancing the SDGs through green entrepreneurship is promising in developed countries where pragmatic steps are being taken. In 2019, the new green product development (GNPD) penetration rate in the U.S. rose from 7 in 2011 to 37% in 2019, an indication that end consumers spent 5% more on eco-friendly products. It has been predicted that, by the end of 2021, sustainable green product sales in the US will have a value of USD142.3 billion and USD150.1 billion (Holbrook 2019; Statista 2021). In this context, leading automobile manufacturers have responded positively to environmental protection programs and committed to reducing their CO₂ emissions and controlling the burning of fossil fuels within their supply chains (Reza-Gharehbagh et al. 2023). For example, Tesla Motors Incorporation in the USA has so far reduced a total of 19,277,610.40 tons of CO₂ emissions (Impact Report 2020). Meanwhile, Ibrahim and Shirazi (2020) noted that ISF promotes Green Entrepreneurship (GE) by advocating the economic paradigm of reduce, reuse, and recycle as conceptualized in the Circular Economy (CE) model or circular business. This paradigm helps achieve economic growth without endangering the environment. ISF therefore facilitates GE through CE in Organization of Islamic Cooperation (OIC) countries by providing compassionate contracts, equity-like financing, and risk-sharing financing. These financial mechanisms are tailored to support circular businesses that are aligned with Maqasid's holistic purpose, which includes social, economic, and environmental well-being, all ideals of the SDGs.

In Malaysia, the Islamic finance green sukuk, in collaboration with the World Bank, was found to draw on the existing international green bond system to strengthen Kuala Lumpur's competitiveness as a global Islamic finance center. The introduction and implementation of green sukuk have been found to contribute to Malaysia's nation-building goals, particularly by expanding the country's sukuk market and strengthening its status as a pioneer of Islamic financial innovation (Liu and Lai 2021). In Indonesia, the use of ISF for green economy transformation has been found to bring benefits, especially in preventing and reducing natural damage, which is an important and preferred criterion for promoting green economy transformation. This discovery is in line with the objectives of Islamic law, known as Maqasidul al-Shariah. Furthermore, Islamic Asset Management is proving to be the most preferred Islamic financial instrument for facilitating the transition to a green economy (Syarifuddin 2022).

From the above empirical reviews, ISF supports the SDGs by promoting financial stability, equity, and growth through innovative approaches such as investing in green projects and promoting ethical decision-making and blockchain. It promotes a community-oriented economy and helps achieve economic, social, and environmental sustainability. Combined with Sharia principles, the ISF advances the transition to a circular economy, contributing significantly to the goals of sustainable development. ISF supports green economic development in Muslim countries by financing sustainable projects. ISF also supports SMEs and offers stability and sustainability. In addition, ISF promotes green entrepreneurship through circular economy principles and benefits from compassionate contracts and risk-sharing financing methods. In Malaysia, the green sukuk strengthens the country's Islamic financial status, while in Indonesia, the ISF supports the transformation of the green economy, in line with the goals of Maqasidul al-Shariah.

4. Findings

Research question 1: How does Islamic sustainable finance contribute to fostering sustainable development or the SDGs?

Finding 1: The CLR found that ISF contributes to promoting sustainable development and achieving the Sustainable Development Goals (SDGs) by integrating ethical principles such as risk-sharing, profit-sharing, and asset-backed transactions. It also promotes SDGs based on its financial stability, equity, and growth, leveraging innovations like blockchain to mitigate risks and enhance productivity. ISF supports socioeconomic and environmental

sustainability through diverse instruments and practices, including green sukuk, microfinance, and socially responsible investments, aligning with the holistic objectives of Maqasid al-Shariah (Hasim 2014; Haroun and Yusoff 2019; Raghibi and Oubdi 2021; Rapi et al. 2022; Syed Azman et al. 2022). From the above-cited empirical findings, the nexus is achieved through several key mechanisms. First, ISF promotes financial stability, equity, and growth by introducing a two-tier banking system with 100% reserve deposits and risk-sharing capital, thereby mitigating the risks associated with debt-based financing. Second, ISF relies on innovations such as blockchain to increase productivity and reduce risk. Third, ISF promotes socially responsible financing in line with the three sustainability dimensions of economic, social, and environmental well-being. Fourth, from a theological perspective, the Islamic financial system pragmatically promotes sustainable development and advances the transition to a circular economy by integrating Islamic financial principles, Shariah regulations, and the SDGs. In addition, ISF contributes to the SDGs through various channels, such as financial instruments, corporate governance practices, Islamic financial technology, and green investments. ISF enables essential services such as education, microfinance, healthcare, and empowerment initiatives for women and communities. Through a risk-sharing system and mechanisms such as profit-sharing financing and joint partnerships, ISF promotes a community-oriented economy and a sustainable investment cycle. Overall, the ISF, coupled with Sharia principles, plays a critical role in achieving economic, social, and environmental sustainability and contributes significantly to promoting sustainable development goals.

Research question 2: What are the key products and mechanisms through which ISF promotes sustainable development or the SDGs?

Finding 2: The CLR found that Islamic sustainable finance (ISF) promotes sustainable development and SDGs through several key products and mechanisms. These include profit-sharing contracts like Mudarabah and Musharakah, green sukuk for financing environmentally sustainable projects, and social financial instruments such as zakat, waqf, and sadaqah for supporting community welfare. ISF also leverages technological innovations like blockchain to enhance productivity and reduce risk. Furthermore, ISF fosters green entrepreneurship, ethical investments, and circular economy principles, aligning financial activities with Maqasid al-Shariah for comprehensive socioeconomic and environmental benefits (Hasim 2014; Haroun and Yusoff 2019; Raghibi and Oubdi 2021; Rapi et al. 2022; Syed Azman et al. 2022). In particular, the above papers noted that ISF promotes sustainable development through various key products and mechanisms. The first is Islamic Green Sukuk (IGS), a Sharia-compliant bond designed to finance environmentally sustainable projects such as renewable energy infrastructure, sustainable agriculture, and waste management. The second is Socially Responsible Investment Funds (SRIFs), which are used to finance companies or projects that adhere to Sharia principles and ESG criteria. Socially responsible companies and initiatives are supported, and at the same time, non-compliant industries are sorted out. The third product is Islamic Microfinance (IM), which provides financial services such as loans, savings, and insurance to underserved populations, promoting financial inclusion, entrepreneurship, and poverty alleviation while adhering to ethical and sustainable principles. Another product is Islamic Social Impact Bonds (SIBs), which link social outcomes to financial returns and finance projects such as education, healthcare, and affordable housing, with returns tied to predefined social impact metrics. Additionally, Islamic Micro Takaful (IMT) is a Sharia-compliant microinsurance product that protects low-income individuals and communities from risks and disasters, thereby promoting financial security and poverty resilience. The sixth product is Islamic Waqf Funds, which are established endowment funds collected through pooled resources to finance social programs, education, healthcare, and infrastructure projects following Shariah principles. The seventh product is Islamic Impact Investing (IMI), a financing system that provides capital for companies, infrastructure facilities, and projects that generate positive social and environmental impacts in addition to financial returns, targeting sectors such as renewable energy, affordable housing, and sustainable agriculture.

5. Conclusions, Implications, and Limitations

Considering the limited scholarly resources on Islamic sustainable finance, green entrepreneurship, and sustainable development goals, this study offers a thorough exploration of their interconnectedness. Through a critical literature review of more than academic papers, the study underscores the pivotal role of Islamic sustainable finance in advancing and realizing sustainable development goals to avert risk in the financial management of ISF products. The qualitative findings underscore the capacity of ISF to advance the SDGs by financing sustainable projects, supporting SMEs, and aligning with principles consistent with Maqasid al-Shari'ah. The theoretical, methodological, and practical implications and limitations of this study are elaborated upon below.

5.1. Theoretical Implications

The study contributes to theory building by establishing that the theoretical basis of the ISFs' role in promoting SDGs is rooted in Maqasid al-Shari'ah. Its theoretical contribution highlights the importance of the ISF in adhering to the five safeguards of the Maqasid al-Shari'ah and ensuring ethical and sustainable financial practices that contribute to the well-being and development of society.

5.2. Methodological Implications

The CLR methodology provides a rigorous and systematic approach to synthesizing existing literature and uncovering conceptual and theoretical insights. By critically reviewing scholarly works, the study fills knowledge gaps and provides a comprehensive understanding of the interplay between ISF and the SDGs by identifying key themes, mechanisms, and products through which ISF promotes sustainable development.

5.3. Practical Implications

The study provides policymakers, Islamic financial institutions, and Islamic entrepreneurs with practical insights into using ISF products to promote and achieve the SDGs. It highlights the importance of aligning financial activities with Shariah principles and ethical considerations to create an enabling environment for sustainable development. Identifying key ISF products and mechanisms provides actionable strategies for implementing sustainable finance initiatives that address environmental issues and promote economic development.

5.4. Limitations

Despite the wealth of insights provided by this study, relying solely on existing literature may limit the exploration of new trends and developments in the field of Islamic sustainable finance (ISF) and the Sustainable Development Goals (SDGs). Although the Critical Literature Review (CLR) methodology used is comprehensive, it is susceptible to researcher bias in the selection and interpretation of the literature. Third, reliance on literature ignores the perspectives of key stakeholders such as entrepreneurs, investors, and policymakers, highlighting the need for additional empirical research to capture a diverse range of viewpoints. These key limitations require further investigation in different contexts. Despite its shortcomings, the study contributes significantly to improving the understanding of the theoretical foundations, methodological approaches, and practical implications of ISF in promoting sustainable development. This is conducted while acknowledging its limitations and highlighting opportunities for future research.

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