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**BEYOND PROFITS:
ISLAMIC FINANCE, AN ETHICAL AND SUSTAINABLE SYSTEM**

**ALÉM DOS LUCROS:
FINANÇAS ISLÂMICAS, UM SISTEMA ÉTICO E SUSTENTÁVEL**

MOUNA Reda

Abdelmalek Essaâdi University, Tangier, Maroc

(reda.mouna@etu.uae.ac.ma)

Abstract:

This study explores Islamic finance as an ethical and sustainable alternative to the neoclassical financial system. The latter, with its emphasis on selfish individualism and wealth accumulation, often conflicts with genuine sustainability. Through a normative and conceptual analysis within a normative epistemology, we highlight Islamic finance's inherent ethical dimension, particularly its prohibition of interest and exclusion of harmful sectors. By aligning Maqasid al-Shari'ah with the Sustainable Development Goals (SDGs), this research demonstrates the ethical convergence of Islamic finance with sustainability, presenting it as a more fitting framework for resource protection and human well-being.

Keywords: Islamic Finance, Sustainable Development, Ethics, Maqasid al-Shari'ah, SDGs

Resumo:

Este estudo explora as finanças islâmicas como uma alternativa ética e sustentável ao sistema financeiro neoclássico. Este último, com a sua ênfase no individualismo egoísta e na acumulação de riqueza, muitas vezes entra em conflito com a sustentabilidade genuína. Através de uma análise normativa e conceptual dentro de uma epistemologia normativa, destacamos a dimensão ética inerente às finanças islâmicas, particularmente a sua proibição de juros e exclusão de setores prejudiciais. Ao alinhar Maqasid al-Shari'ah com os Objetivos de Desenvolvimento Sustentável (ODS), esta pesquisa demonstra a convergência ética das finanças islâmicas com a sustentabilidade, apresentando-as como uma estrutura mais adequada para a proteção dos recursos e o bem-estar humano.

Palavras-chave: Finanças Islâmicas, Desenvolvimento Sustentável, Ética, Maqasid al-Shari'ah, ODS

1. Introduction

The relegation of religion during the Enlightenment, alongside the rise of natural law, created a moral vacuum that reshaped moral philosophy. While this shift influenced many fields, this paper confines its focus to its impact on economics.

Classical liberal thought, deeply influenced by natural law, advanced two central ideas: spontaneous regulation and the pursuit of individual interest serving the public good. The market was believed to self-regulate through invisible forces, as conceptualised by Adam Smith's "invisible hand." Within this framework, individuals acting on rational self-interest were expected to generate collective benefit. In practice, however, this pursuit often fostered selfishness, inequality, and social antagonism. The liberal emphasis on spontaneous order diminished personal responsibility to society, leading to wealth concentration rooted in exploitation and resource depletion. The rise of conventional finance drew upon these same principles.

Neglecting the environmental and social consequences of wealth accumulation produced widespread inequality and ecological harm, yet also prompted the emergence of sustainability discourse. With its ethical foundation, sustainability challenges an economy indifferent to future generations. Islamic finance, grounded in ethical and religious principles, seeks to promote human well-being and cooperation beyond wealth accumulation.

This study investigates Islamic finance as an ethical and sustainable alternative to the neoclassic financial system. Given its focus on the ethical principles of economic systems, this inquiry is guided by a normative epistemological position. A normative and conceptual analysis is employed dealing primarily with abstract concepts and ethical principles allowing the analysis of ethicality between the Islamic and conventional systems and their alignment to sustainable principles.

This paper argues that the prohibition of interest (*riba*) and the unequivocal proscription of harmful sectors, derived from an objective morality based on religious principles, unequivocally demonstrate the inherent morality of Islamic finance. In contrast, the subjective morality of the conventional system renders ethical exclusion a matter of perpetual debate. As sustainability is fundamentally an ethical imperative, it aligns seamlessly with *Maqasid al-Shari'ah* (the objectives of Islamic law), the foundation of

Islamic finance. This congruence demonstrates an inherent synergy. In principle, Islamic finance embodies three core objectives: wealth circulation, transparency, and justice. It converges with sustainability in aiming to promote sustainable industries, achieve economic justice and well-being, and share a common ethical perspective. Consequently, the Islamic finance-SDG nexus theory finds its foundation in the broader finance-growth nexus theory. Several specific avenues through which Islamic finance can influence sustainability are identified: increasing financial sector stability, enhancing financial inclusion, reducing vulnerabilities and improving risk management, addressing environmental and social problems, and facilitating infrastructure development.

This paper aims to achieve a twofold objective: first, to establish the ethical nature of Islamic finance, and second, to demonstrate its consequent inclination towards sustainability through the following structure: a methodology section explaining the chosen methodology and the rationale behind it; a discussion section constructed of four main points: the ethical nature of Islamic finance; the ethical foundation of sustainability and its clash with neoclassical economics; the alignment of SDGs and Maqasid al-Shari'ah; and the Islamic sustainable finance avenue; followed by a limitations and future research prospects section, ending with a conclusion.

2. Methodology

A normative epistemology within economics interrogates how economic knowledge ought to be constructed, focusing specifically on its underlying ethical and methodological principles. The choice of a normative and conceptual approach is justified by the theoretical and ethical nature of our research question, investigating the ethical foundations between Islamic and conventional finance. The normative approach allows for an ethical critique of economic theories, focusing on what ought to be rather than what is. Conceptual analysis, therefore, complements it by clarifying the meanings and interactions between ethical concepts such as Riba/interest, risk-sharing, justice, fairness, well-being, and so on.

Through a qualitative approach, we selected foundational works from prominent Islamic economists due to their recognised authority in articulating the ethical principles of Islamic economics. Secondly, peer-reviewed theoretical and analytical studies addressing the relationship between finance, ethics, and sustainability, often including the alignment of SDGs with Maqasid al-Shari'ah, prioritise conceptual relevance and scholarly

credibility while excluding empirical works, given the focus of our study. Our analysis involved a critical reading of sources to identify convergence and contrast between ethics and sustainability for Islamic and conventional finance.

The objectives of our work are twofold: first, to establish the foundational ethical nature of Islamic economics and, by extension, Islamic finance, thereby highlighting the limitations of neoclassical economics and conventional finance; second, to provide an ethical rationale for the congruence between Islamic finance and sustainability, while simultaneously elucidating the paradox of integrating sustainability into a system derived from neoclassical principles.

Nonetheless, this approach presents certain limitations as its normative orientation focuses on theoretical reasoning rather than empirical validation, restricting its generalisability. Furthermore, the selection of sources reflects an interpretive bias. Finally, conceptual abstraction limits practical applicability, although our objective of constructing an ethical argument mitigates this limitation.

3. Discussion

3. 1. Islamic Finance and its Ethical Nature

Islamic finance is widely recognised as an alternative financial system, encompassing Islamic banking, capital markets, insurance (*Takaful*), and all related financial activities (Saba et al., 2021, p. 55). As a system underpinned by Islamic law (Shari'ah), its products must be Shari'ah-compliant. This necessitates adherence to foundational principles, including the prohibition of interest (*riba*), speculative transactions (*gharar*), and gambling (*qimar*) (Yusuf et al., 2024, p. 304). Conversely, the system is founded upon two core principles: profit-and-loss sharing and asset tangibility, rendering it inherently trade-based and investment-oriented. Saba et al. (2021) identify three key objectives for the Islamic financial system: the eradication of wealth hoarding, the establishment of a foundation for sustainability and practicality, and empowerment through equitable resource allocation. These objectives constitute the 'for-profit' aspect of Islamic finance, which operates through a distinct set of contracts. These include *Murabaha*, *Ijarah*, and *Salam* (debt or trade-based financing); *Musharakah* and *Mudarabah* (profit-and-loss sharing partnerships); *Sukuk* (capital market instruments); and *Takaful* (insurance).

Table 1: For-Profit Islamic Finance Products

Products	Definition
Murabaha	As the most prevalent financing contract, Murabaha involves the acquisition of a good at a client's request, which is then sold to the client on credit with an agreed-upon, known profit margin or mark-up. The lender's ownership of the good is a prerequisite for the contract's validity. The debt repayment remains unaffected by any losses incurred by the borrower.
Ijarah	This contract is inherently a sales agreement concerning the transfer of the right of usage rather than the asset itself, in return for rent. The asset must remain under the ownership of the lender; however, the lessor assumes the associated risks and rewards.
Salam	In a Salam contract, the buyer pays the full price upfront for a forward purchase of a precisely defined good. In return, the seller commits to delivering the good at a specified future date. This contract shares similarities with a conventional forward contract.
Istisnae'	This constitutes an engagement between the financier and the manufacturer, initiated by the buyer's request. The manufacturer provides the specified product at a future date following an agreement on its specifications, against a fixed or periodic payment covering the production cost and profit margin.
Mudarabah	A Mudarabah represents a partnership between two economic agents, where one provides capital and the other contributes expertise to economic activities. Losses are borne by the financier, as the entrepreneur is deemed to have lost their labour during the process, whilst profits are shared according to a pre-agreed ratio.
Musharakah	This contract takes two forms: permanent or diminishing equity investment. All participating agents contribute capital, which in turn determines their liability ratio in the event of losses. Profits are shared based on a pre-agreed ratio.
Takaful	Meaning 'joint' or 'mutual guarantee', Takaful is a cooperative insurance system wherein funds are pooled and subsequently invested in Shari'ah-compliant avenues. Participants make payments and may be liable for supplementary instalments, with a right to receive a surplus reimbursement at the end of the period, should one exist. Its cooperative nature ensures that the majority shares the burden with the minority.
Sukuk	The Islamic equivalent of conventional bonds, Sukuk are transferable certificates that denote a share of ownership. This entitlement grants the holder periodic payments and full redemption upon maturity. They manifest in various forms, with Sukuk-Mudarabah and Sukuk-Ijarah being the most common.

Source: Inspired from Hassan & Mollah (2018) & Iqbal & Mirakhor (2011)

Islamic social finance constitutes the 'not-for-profit' dimension of the Islamic financial system, distinguished by its philanthropic nature. It is primarily concerned with uplifting disadvantaged individuals through a distinct set of instruments, namely Zakat, Waqf, Qard al-Hassan, and Sadaqah. Both the 'for-profit' and 'not-for-profit' instruments originate from classical Islamic jurisprudence, though their contemporary applications have been adapted to modern financial contexts.

Table 2: Not-for-Profit Islamic Financial Products

Products	Definition
Zakat	Zakat is a mandatory charitable payment calculated as a proportion of an individual's total wealth that exceeds a determined minimum threshold (Nisab). The beneficiaries are specified sequentially in the Quran, while the payable rate and Nisab calculations are stipulated in Islamic law. Its primary objective is to assist those in need and to facilitate wealth redistribution within society (Bukowski, 2014).
Waqf	Defined in Islamic law as 'Waqf' or 'Habs' in North and West Africa, this involves holding and maintaining a specific property for philanthropic purposes, in accordance with its intended objective. It can take various forms, including religious, philanthropic, and posterity Waqfs (Kahf, 2003).
Qard al-Hassan	Qard al-Hassan (benevolent loan) is defined as a loan extended to individuals experiencing financial distress. By its nature, it is a non-rewarding loan, hence its benevolent character, with the primary objective of assisting those in need to foster social harmony and alleviate extreme poverty (Iqbal & Shafiq, 2015).
Sadaqah	Within the context of Islamic jurisprudence, Sadaqah is defined as a voluntary gift to the poor, given with the objective of seeking God's gratification (Dasar & Sujiman, 2018).

Source: Author

The prohibition of interest (*riba*) constitutes the foundational divergence between Islamic and conventional finance and is deemed illegitimate on both moral and logical grounds. *Riba* is associated with numerous negative societal impacts, with the present analysis focusing on the injustice it perpetuates. It is argued to foster class discrimination, arrogance, and the misuse of power. Interest is predicated upon an asymmetric contract wherein the borrower bears the primary risks of an economic venture. In essence, it functions as a mechanism of risk-shifting, which conventional banking theory frames as risk management. The lender's position is consequently more secure, being assured the

repayment of the principal and a predetermined profit margin (interest). This represents a secure return within an inherently uncertain market system, an asymmetry considered immoral in itself. Furthermore, this dynamic leads to wealth concentration in the hands of finance capitalists. The relationship between wealth and power is well-established in political economy, particularly within Marxist thought. As noted, power can foster arrogance—a quality condemned by Islam, other major religions, and virtue ethics. The resultant class distinction divides society and fosters exploitation, creating an antagonistic relationship between classes that directly opposes Islamic ideals of brotherhood and cooperation.

Riba implies the improper appropriation of property (Siddiqi, 2004, pp. 41-43). In Islamic jurisprudence, interest is not regarded as legitimate property; a claim for it is unlawful, with the lender's legitimate claim restricted to the advanced principal. This claim on others' property is described as a “mind-set that lead[s] to disruption of civil society” (Siddiqi, 2004, p. 43). Elaborating on this improper appropriation, Siddiqi (2004) states that “the claim [of interest] ignores the possibility and occurrence of losses that exist in trade. In other words, it ignores the uncertainty faced by the trader. That implies that even the recovery of the capital invested in trade is not assured” (p. 46). The trader, who bears the market forces, is thus the rightful owner of any profit. A rightful share in these profits is granted to a capital provider only through a willingness to share risks. The argument that default risk constitutes sufficient risk participation for the capitalist is unfounded, as default risk is incomparable to market risk and is often mitigated by insurance. Qureshi (1946) preceded Siddiqi in this critique, stating, “the creditor deriving a profit from every investment in business is uncertain whereas the additional amount from the debtor to the creditor is certain” (p. 52), and that the creditor never forfeits their principal (Qureshi, 1946, p. 115). Thus, interest, a pillar of conventional finance and a prohibition in Islamic finance, marks a fundamental ethical differentiation, clarifying the inherent morality of the latter.

The prohibition of financing harmful sectors is similarly rooted in ethical principles. Tobacco, alcohol, gambling, pornography, and similar activities are excluded from Islamic financing due to their physical, financial, and moral harms, which often extend beyond the individual to become societal problems. Finance, being an essential tool for enterprise growth and survival, possesses immense capacity to catalyse change. By refusing to finance such sectors, Islamic institutions contribute to their curtailment,

fostering a better future based on the legal maxim of 'prevention of corruption' (*Daf'u al-Mafsada*).

Arguments for moral subjectivity or absolute free will are often prevalent in such discussions. Moral relativism presents a particular challenge in sustainability, specifically concerning sectoral exclusion, as it posits that morality is a matter of individual judgement. Utilitarianism, equating good with pleasure on an individual basis, and Social Contract theory, which relies on a consensus view of rights, are both founded on subjective determinations. In traditional Islamic theology, God's commands are objective, precluding claims of moral subjectivity. While Islam affirms the existence of free will, it is the submission (*islam*) of one's will to the divine command that defines a Muslim.

The application of secular ethical frameworks to sectoral exclusion formed the basis of Schwartz's (2003) analysis. In his work, he examines moral relativism (p. 205), consent (p. 202), and Utilitarianism (p. 206), concluding that the exclusion of alcohol and gambling lacks a firm ethical basis, while tobacco remains debatable. What is definitively prohibited in Islamic finance becomes debatable in conventional finance, demonstrating the instability of moral relativism as a foundation for ethics. Leading environmentalists within the sustainability movement have cited the potential of religion in resolving problems of moral assessment (Moghul, 2017, p. 83). The paradox of integrating sustainability into a neoclassical economic system, viewed through this ethical lens, will be the subject of the subsequent section.

3. 2. Sustainability: An Ethical Imperative and the Paradox with Neoclassical Economics

The Brundtland Commission Report, published by the United Nations World Commission on Environment and Development in 1987, established the widely recognised definition of sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Kamali, 2016, p. 10). This definition frames sustainability as an intrinsic moral imperative. However, within the dominant conventional capitalist paradigm, which is founded upon Hotelling's linear economic model, safeguarding resources for future generations lacks an economic rationale, as the system prioritises resource exploitation and immediate economic growth.

A central paradox thus emerges, encapsulated by Friedman's assertion that the “only social responsibility [of enterprises] is to increase profits” (quoted in Chapra, 1992, p. 28). This perspective posits that enterprises serve society primarily through profit generation and economic growth. This is not a dismissal of morality but a redefinition of corporate morality within this framework. In this sense, individual self-interest and wealth accumulation find common ground in the assumption that individual interest, when realised, leads to collective welfare as the inherent individualism is transcended, shifting to a collectivist view leading to the distribution of wealth through a trickle-down effect. While intended to alleviate poverty, the trickle-down model has paradoxically proven counterproductive, with economic growth often correlating with rising poverty (Saba et al., 2021, p. 63). Given its naturalistic assumptions about human behaviour and its mechanistic view of the economy, this system provides little foundation for morality and ethics. Consequently, firms often operate with a singular focus on present returns, disregarding future repercussions. Indeed, “the neo-classical framework leads to corrupt and selfish societies with inequality in resources, opportunities, and thus, growth” (Saba et al., 2021, p. 64).

The conventional financial system is constructed upon the primacy of individual self-interest, where collective goals and cooperation find limited grounding. Consequently, sustainability itself can become instrumentalised for self-interest, driven by the pursuit of financial returns (Saba et al., 2021, p. 63). The issue is not the profit motive per se, but its supremacy, as “the conventional financial system focuses on financial risk and return considerations, without taking into account any negative externalities associated with investment decisions” (Saba et al., 2021, p. 65). Sustainable initiatives are therefore undertaken only if financially justifiable, rather than on ethical grounds. This relentless profit pursuit often leads to the misuse of sustainability principles, exemplified by 'greenwashing'.

In contrast, Islamic economic theory is founded upon moral principles that explicitly condemn selfishness. Instead, it promotes cooperation, brotherhood, and social harmony as societal norms. Greed is institutionally mitigated through mandatory redistribution mechanisms, notably *Zakat*. Within this framework, no fundamental behavioural change is anticipated; rather, the established moral and institutional framework is designed to foster social responsibility, discourage waste, curb over-consumption, and prevent hoarding. As Saba et al. (2021) affirm, “morality and ethics transcend the pursuit of

profits and everyone is responsible for their intentions and the consequences of their actions” (p. 64). Consequently, Islamic finance, as an integral component of this system, presents a more coherent paradigm for sustainable development. Its inherent ethical dimensions align seamlessly with the moral foundation of sustainability. Academic discourse on Islamic sustainable development frequently arises from alignments between the SDGs and the *Maqasid al-Shari'ah*; other analyses posit that the holistic nature of the *Maqasid* inherently encompasses sustainability itself. This alignment will form the basis of the subsequent chapter's inquiry.

3. 3. Islamic Sustainable Development, SDGs, and Maqasid Al-Shari'ah

The term "Islamic sustainable development" might initially appear tautological, given the inherent sustainability claimed for Islamic economics. Its primary use is to align with contemporary economic discourse and to facilitate a connection between *Maqasid al-Shari'ah* and the Sustainable Development Goals (SDGs). The validity of this claim of inherent sustainability will be substantiated in the subsequent analysis.

The foundation lies in *Maqasid al-Shari'ah*, commonly translated as the objectives of Islamic law. Al-Ghazali states, “The very objective of the Shari'ah is to promote the well-being of the people, which lies in safeguarding their faith, their self, their intellect, their posterity, and their wealth. Whatever ensures the safeguard of these five serves public interest and is desirable, and whatever hurts them is against public interest and its removal is desirable” (translated and quoted by Chapra, 2008, p. 5). In jurisprudential terms, these objectives provide the *raison d'être* for religious injunctions, representing the lawgiver's intent. *Maqasid al-Shari'ah* act as the “bridge that connects between texts and contexts, between ends and means, between goals and methodologies, between the latter and the spirit of the Islamic law as well as between the universal goals of Islam and the practical means to their actualisation” (Lamido, 2016, p. 30), thereby ensuring the law's adaptability. For this analysis, the five essential dimensions—faith, self, intellect, posterity, and wealth—constitute the core *Maqasid*.

A direct, one-to-one linkage between the SDGs and the five *Maqasid* often fails to yield a robust understanding. Two methodological approaches are therefore of particular interest: the division of the *Maqasid* into detailed corollaries and the convergence of the SDGs into thematic categories. These methods will be employed to establish a coherent and substantive link.

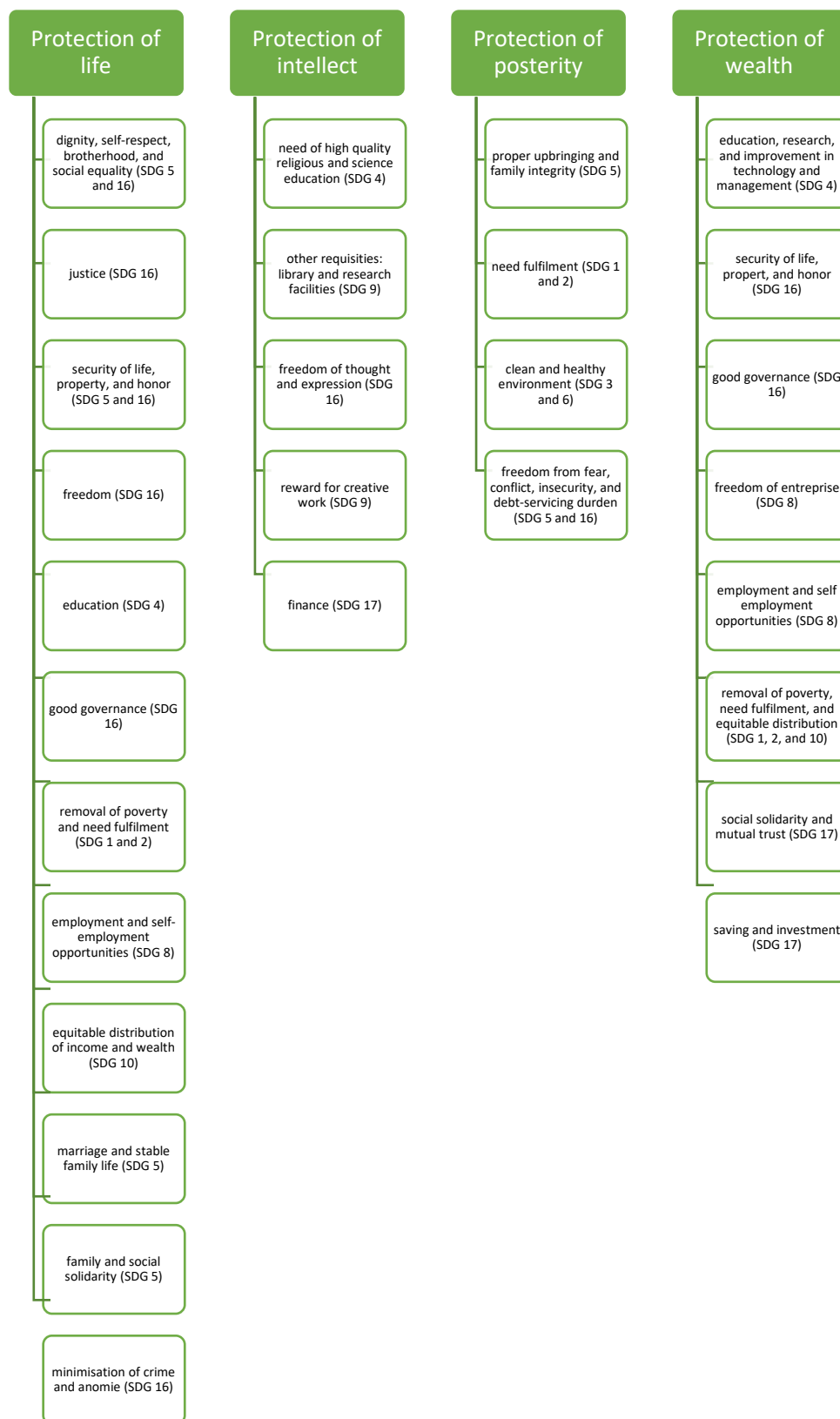
Chapra (2008) in his work, *The Islamic Vision of Development in the Light of Maqasid al-Shari'ah*, employed a deductive approach to expand the *Maqasid* beyond their traditional jurisprudential formulation, identifying 39 corollaries. Connecting these corollaries to the SDGs provides a more comprehensive framework than linking to the five primary *Maqasid* alone. Typically, the religious corollaries are excluded from such alignments, as the SDGs lack an inherent spiritual dimension, making a direct correlation contextually problematic. Hassan et al. (2021) provide an adaptation of Chapra's corollaries aligned with the SDGs (Figure 1). The 14 corollaries pertaining to the Protection of Life hold paramount importance, as life is a fundamental prerequisite for realising all other *Maqasid* and SDGs. Consequently, significant emphasis must be placed on SDGs that are essential for human survival and have an immediate impact on material conditions, namely: No Poverty (SDG 1), Zero Hunger (SDG 2), Good Health and Well-being (SDG 3), Quality Education (SDG 4), and Clean Water and Sanitation (SDG 6).

The Sustainable Development Goals (SDGs) can also be categorised into overarching thematic areas, which can then be systematically linked to the *Maqasid al-Shari'ah* (Figure 2). These themes are: **People** (encompassing SDGs 1, 2, 3, 4, 5, 6, 10), **Planet** (SDGs 6, 7, 11, 14, 15), **Profit** (SDGs 4, 8, 9, 10, 12), **Prosperity** (SDGs 6, 7, 8, 9, 10, 11, 12, 15), and **Peace** (SDGs 1, 2, 3, 4, 14, 15, 16, 17). Each theme corresponds to one or more dimensions of the *Maqasid*: the "People" theme aligns with the preservation of life and posterity; "Planet" with life, posterity, and intellect; "Profit" with posterity, wealth, and intellect; "Prosperity" with posterity and wealth; and "Peace" with life, religion, intellect, and posterity (Yusuf et al., 2024, pp. 309-310). This demonstrates that all SDGs can be methodically connected to the *Maqasid al-Shari'ah* through different categorical frameworks. The objective is to illustrate the profound synergy between the two systems, thereby substantiating the argument that the foundational principles of Islamic finance, being derived from the *Maqasid*, are inherently sustainable.

3. 4. Sustainable Financing and the Function of Islamic Finance

Within Islamic finance, three core objectives derived from the *Maqasid* can be identified: wealth circulation, fair and transparent financial practices, and justice. Financial products function as the instrumental means to realise these ends (Hassan et al., 2021, p. 28).

Figure 1: Maqasid corollaries and SDGs mapping inspired from Hassan et al. (2021)



Source: Author

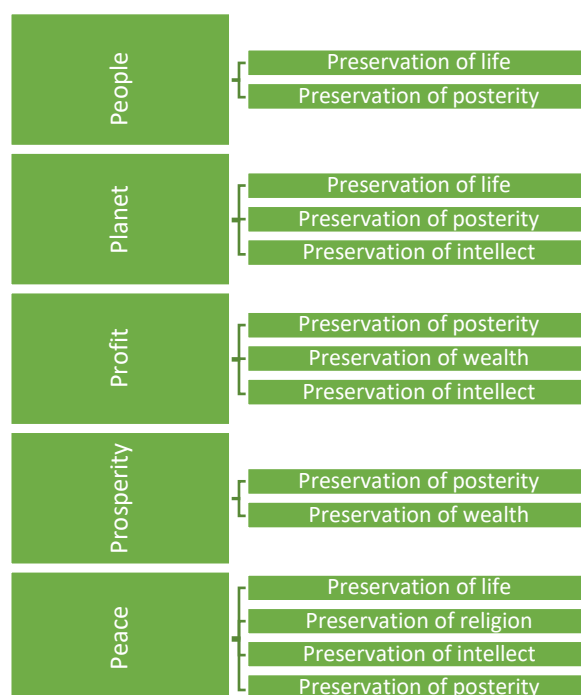
Operating within an ethical framework aimed at poverty eradication and the promotion of equality, wealth circulation seeks to improve financial conditions through enhanced intermediation and inclusion. Concurrently, the social finance sector employs non-profit instruments to support disadvantaged groups, thereby directly combating poverty. Both dimensions possess direct relevance to sustainable development goals. Furthermore, fairness and justice are manifest not only in financial inclusion but also, and more distinctly, in the design of financial practices. The prohibition of interest (*riba*), for instance, constitutes a fundamental mechanism of justice for borrowers. The social finance sector further promotes fairness by directing capital towards social strata frequently marginalised by conventional finance.

Consequently, the connection between Islamic finance and sustainable development is threefold. First, they share the fundamental objective of promoting human well-being and economic justice. Second, both function as strategic frameworks for fostering sustainable industrial development. Third, the inherent inadequacy of conventional finance in aligning with sustainability principles positions Islamic finance as a natural partner, given its foundational ethical tenets (Yusuf et al., 2024, p. 307).

This synergy gives rise to an integrated “Islamic finance-SDG nexus,” a relationship predicated on the established finance-growth nexus theory (Yusuf et al., 2024, p. 308). This theory posits two principal causal mechanisms: the demand-following (or demand-pulling) hypothesis and the supply-leading (or supply-pushing) hypothesis. Applying this framework, the supply-leading hypothesis suggests a unidirectional causality from Islamic finance to the SDGs, whereby capital is channelled from Islamic financial institutions to initiatives that promote sustainability and advance the Goals. Conversely, the demand-following hypothesis posits that the growth of a sustainable economy increases the demand for ethically-aligned financial services, thereby stimulating the expansion of the Islamic financial system.

Sustainability, understood as the integration of economic growth, social inclusion, and environmental protection, is an objective to which Islamic finance can contribute significantly. This contribution is realised through five principal avenues: increasing stability in the financial sector, enhancing financial inclusion, reducing vulnerabilities and improving risk management, addressing environmental and social challenges, and facilitating infrastructure development (Saba et al., 2021, p. 68).

Figure 2: SDG themes alignment to Maqasid al-Shari’ah inspired by Yusuf et al. (2024)



Source: Author

3. 4. 1. On Increasing Stability in the Financial Sector

The 2008 financial crisis is frequently attributed to factors including excessive debt, credit default swaps, and speculation (Saba et al., 2021, p. 68). An examination of the foundational principles of Islamic finance reveals its inherent potential to enhance financial stability. Firstly, the problematic decoupling of finance from the real economy, a source of excessive risk in conventional systems, is mitigated in Islamic finance by its core pillar of asset-backed financing. This principle intrinsically links financial intermediation to tangible economic activity. The system's emphasis on risk-sharing, as opposed to debt-based financing, would inherently increase stability and cushion the impact of financial crises on the involved parties. Secondly, speculation, a major contributor to financial instability, is prohibited in Islamic finance due to its association with excessive uncertainty (*Gharar*) and gambling (*Qimar*). The arbitrary nature of derivative transactions and the pronounced risk inherent in the trading of purely financial contracts are recognised as contributors to systemic financial risk, thereby precipitating or exacerbating crises.

3. 4. 2. On Enhancing Financial Inclusion

The imperative of justice and human well-being makes Islamic finance a promoter of ethical and socially responsible investments that support wealth and job creation, leading to poverty alleviation, where investments can come from non-profit and for-profit institutions. This fosters greater inclusion in economic life, thereby reducing inequalities and, consequently, poverty and hunger (Yusuf et al., 2024, p. 311). The Islamic social finance system, through its product offering with a benevolent nature, can serve as a lever for financial inclusion where the funds are funnelled into beneficiaries providing plans for productive use. Within the for-profit system, financial inclusion specifically entails providing financial services to marginalised social classes, often through microfinance institutions. Nonetheless, Islamic banks are positioned to serve population segments frequently overlooked by conventional banks and within the Islamic finance landscape, Islamic banks overwhelmingly dominate over Islamic microfinance institutions. In this case, Islamic banks can offer dedicated social financial products or collaborate with specialised institutions to extend their reach to these communities. Simultaneously, they should be more inclusive than their conventional counterparts rather than relying on Islamic microfinance institutions to provide the inclusivity inherent to Islamic finance.

3. 4. 3. On Reducing Vulnerabilities and Managing Risks

Research indicates a clear correlation between risk exposure and poverty (Saba et al., 2021, p. 70). To effectively manage risks and mitigate vulnerabilities, the conventional banking principle of risk-transfer should be supplanted by the Islamic model of risk-sharing. This approach ensures the distribution of risk broadly across participants, through a just system, according to the contribution of each participant, determining the pre-agreed ratios for sharing, thereby diminishing its concentrated impact on any single individual. Equity-based products, namely, *Musharaka* and *Mudaraba*, serve this purpose. For risk coverage, Islamic insurance (*Takaful*), operationalised through its various existing models, constitutes a significant mechanism for achieving this objective. It provides an interest-free alternative to the conventional insurance model, likewise built on the imperative of sharing, where risks are covered through contributions of participants. In this sense, the distributive nature of Islamic finance ensures stability against risks and therefore limits their singular impact, often leading to vulnerabilities, and within the financial system, to debt cycles.

3. 4. 4. On Tackling Environmental and Social Problems

For Islamic financial institutions to effectively address social and environmental challenges, they must progress beyond the application of exclusionary investment filters and adopt comprehensive Environmental, Social, and Governance (ESG) screening criteria. Environmental projects, which are typically long-term and require a strong ethical foundation, appear particularly well suited to profit-and-loss-sharing financing instruments. In this case, the participation of Islamic financial institutions ensures adherence to sustainability and ethical practices, having the ability to directly impact the firm's strategies, as an equity holder or through penalties to the borrower in case of contract breaches. Furthermore, the expansion of *Sukuk*, with Malaysia as a leader, and the emergence of Green *Sukuk* represent a significant advancement in mobilising capital for environmental protection. Socially responsible initiatives are concurrently upheld through the instruments and institutions of Islamic social finance. Yusuf et al. (2024) provide several illustrative case studies demonstrating the tangible impact of these mechanisms.

3. 4. 5. On Facilitating Infrastructure Development

Commonly, *Sukuk* serve as the bedrock for infrastructure development, often paired with *Istisna'* contracts. The pairing leads to ensuring funds through *Sukuk* issuance, whilst *Istisna'* is the principal contract binding the funder and manufacturer. The Islamic Development Bank (IsDB) employs the *Sukuk-Istisna'* contract for financing infrastructure projects. Consequently, an endeavour traditionally undertaken by the public sector has increasingly evolved into a co-operative venture between public and private entities, particularly in its financing. The necessity of infrastructure development and the adherence to interest-free financing gives the IsDB a primordial position as it guarantees Shari'ah-compliance within the endeavours of the public sector. Subsequently, interest-free financing is a step towards ethical financing as, previously argued, interest itself is unethical.

4. Conclusion: Islamic Finance as a Catalyst for Sustainable Development

Islamic finance, through its commercial and philanthropic instruments, possesses significant potential to advance sustainability. Its inherent ethical character is exemplified by the prohibition of interest (*riba*), a proscription stemming from the understanding that

riba creates a power asymmetry and shifts risks from lenders to borrowers. Therefore, the willingness to share risk is the sole justification for profit. Furthermore, Islamic finance explicitly excludes harmful sectors—a definitive stance that contrasts with conventional finance, where such exclusions are often contested due to their basis in subjective morality.

In contrast, the ethical foundations of Islamic economics elevate morality beyond the individualistic pursuit of profits, aligning with the moral imperatives of sustainability. It is the ethical nature of Islamic finance, integrating justice, transparency, and social responsibility into economic activity, that makes it inherently sustainable.

The shared aim for human well-being, equity, the preservation of human life and the environment underscores the convergence between Maqasid al-Shari'ah and SDGs. A shared moral foundation confirms the compatibility between Islamic finance and the global sustainability agenda, giving rise to the notion of an "Islamic finance–SDG nexus".

Through this study, we have demonstrated the ethical nature of Islamic finance, on a theoretical and moral basis, aligning its principles with sustainable development. Therefore, Islamic finance is an ethical and sustainable system offering an alternative model that reconciles economic objectives with social and environmental responsibility.

Nonetheless, this research remains limited. Its normative and conceptual nature implies an absence of practical validation, constraining its generalisability. Furthermore, the interpretive dimension inherent to ethical analysis may introduce subjectivity. Future research could therefore extend this theoretical framework into empirical investigation, measuring the contribution of Islamic financial institutions to sustainability, primarily green financing, financial inclusion, and the role of Islamic social finance institutions.

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