

ISLAMIC GREEN FINANCING IN MALAYSIA: A SYSTEMATIC REVIEW OF ISSUES, CHALLENGES, AND A MAQASID-VBI FRAMEWORK

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ABSTRACT

This paper conducts a systematic literature review (SLR) on issues in Islamic green financing, highlighting the problems that arise in this area. It covers potential challenges in Islamic finance, the ethical values that govern business activities, and the core concepts of Islamic and green finance. To establish a solid foundation for understanding, the Maqasid al-Shariah principles and Value-Based Intermediation (VBI) ethical values are embedded to address the issues discussed and to provide further guidance in the development of shariah-compliant green financing instruments. The Reporting Standards for Systematic Evidence Synthesis guide this SLR and inform the formulation of research questions using the mnemonic “issues, challenges, limitations, and obstacles” in the context of Green Islamic financing. Using Google Scholar, we gathered and analysed thirteen articles to develop themes. The themes that emerged concern issues in Islamic green financing, including its purposes and benefits in relation to the Maqasid al-Shariah. Drawing on the analysis, this study proposed a Maqasid al-Shariah and VBI framework to address challenges in Islamic green financing in Malaysia.

Keywords: Green finance, Maqasid al-Shariah, Value-Based Intermediation, Islamic, systematic literature review, ESG.

INTRODUCTION

Environmental issues, such as climate change and pollution, have intensified, underscoring the need for eco-friendly development across the finance and banking sectors. Within the Maqasid al-Shariah framework, a robust Islamic financial system is necessary to protect society's *maslahah*. A strong Islamic financial system is important because it facilitates business activities in line with shariah principles and bridges ethical transactions with sustainable, green objectives. Integrating these constructs encourages environmentally friendly investment projects.

At the same time, the people in Muslim-majority countries seek ethical, shariah-compliant finance schemes that are based on the Quran and Sunnah. These schemes should prohibit *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling), while promoting equity, profit-and-loss sharing, and real economic activity (Uddin, 2015). Examples of typical Islamic modes of financing are *Murabahah* (sale-based profit), *Ijarah* (leasing), *Musharakah* (partnership), and *Sukuk* (Islamic bonds). In line with shariah principles, Maqasid Shariah serves as an underlying philosophical foundation for strengthening ethical values in business and trading activities and protecting the nation's interests. The Maqasid al-Shariah orientation reflects the extent to which Islamic financial institutions integrate the higher objectives of shariah into their strategic decisions, governance practices, and financial products. Institutions with a strong maqasid orientation prioritise not only profitability but also societal welfare (*maslahah*), justice (*adl*), stewardship (*khilafah*), and the prevention of harm (*mafsadah*). Maqasid Shariah is the philosophical framework that promotes human well-being and prevents harm, which connects Islamic ethical philosophy into enforceable regulations, which is sustainability. In this sustainability context, maqasid principles encourage financial institutions to promote investments that preserve life (*hifz al-nafs*), protect wealth (*hifz al-mal*), safeguard future generations (*hifz al-nasl*), and ensure responsible utilisation of natural resources. Consequently, institutions with stronger maqasid orientations are expected to demonstrate greater commitment towards environmentally responsible financing activities.

Much of the recent literature positions Maqasid al-Shariah as the conceptual anchor for green finance. The combination of Islamic finance instruments and environmental concerns has given rise to a new concept: Islamic green financing. This Islamic green financing introduces a financial solution that protects the environment while adhering to shariah law (Liu & Lai, 2021). For example, a study on green sukuk development in Indonesia argues that shariah-compliant environmental financing instruments philosophically align with Maqasid al-Shariah, which emphasises the protection of religion, life, intellect, lineage, and poverty (Rafiq & Raza, 2025). This exemplifies the application of maqasid categories, i.e., *hifz al-din*, *al-nafs*, *al-aql*, *al-mal*, *al-nasl*, and *al-bi'ah* (environmental), in the design of green sukuk.

Islamic green financing aims to direct financial resources to projects that support environmental sustainability, including renewable energy, green buildings, and climate change mitigation initiatives. The instrument offers a potent solution to global environmental issues by combining ethical investment standards with interest-free financing to support sustainable projects. In Malaysia, for example, Bank Muamalat offers special financing to society, known as Green *Ijarah*, for solar panels, electric vehicle chargers, and similar initiatives (Bank Muamalat Malaysia Berhad, 2023). Additionally, the most common instrument used for green financing is sukuk. Green sukuk is a tool recognised for funding environmentally friendly projects. The financial model employs environmental, social, and governance (ESG) standards to guide socially responsible investments.

Islamic green financing plays a pivotal role in Malaysia's sustainable development strategy by integrating shariah-compliant financial principles with environmental objectives. Islamic green financing enhances financial inclusion and risk-sharing models, ensuring that sustainability projects are economically viable while adhering to shariah principles. The Islamic Financial Services Board

(IFSB) reports that Malaysia's regulatory frameworks, such as mandatory ESG reporting for Islamic banks, have strengthened transparency and attracted ethical investors. However, challenges such as gaps in standardisation and limited stakeholder awareness persist, requiring stronger cross-sector collaboration. By leveraging instruments such as waqf (endowment funds) for environmental conservation and green microfinance for small and medium enterprises (SMEs), Malaysia demonstrates how Islamic finance can help bridge the annual USD 5 to 7 trillion Sustainable Development Goal (SDG) funding gap while upholding ethical finance principles. Thus, Islamic green financing is not only a tool for environmental stewardship but also a catalyst for Malaysia's leadership in sustainable Islamic finance innovation.

Background and Regulatory Framework of Islamic Green Financing in Malaysia

Islamic green financing in Malaysia has emerged at the intersection of shariah-compliant finance and environmental sustainability, driven by the country's dual leadership in Islamic finance and its commitment to global climate goals. Rooted in Maqasid al-Shariah (objectives of Islamic law), which emphasises environmental stewardship (hifz al-bi'ah) and social welfare (maslahah), Islamic green finance aligns with Malaysia's national policies, such as the Twelfth Malaysia Plan (2021–2025) and the National Energy Transition Roadmap (NETR), which target carbon neutrality by 2050. The regulatory framework is spearheaded by Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SC), which have introduced guidelines like the Value-Based Intermediation (VBI) Initiative (2017) to integrate ESG principles into Islamic banking operations and the Sustainable and Responsible Investment (SRI) Sukuk Framework (2014) to standardise green Islamic capital market instruments. This initiative shows that Malaysia not only adopted conventional ESG principles and labelled the activities as “halal,” but it also built a comprehensive ecosystem that places Islamic objectives at the core of financial decision-making.

To operationalise the philosophy of Maqasid al-Shariah, BNM introduced the VBI in 2017. VBI serves as a pivotal marker that bridges Maqasid al-Shariah and business operations, particularly in financing. BNM developed this framework for Malaysian Islamic banks, with rigid sectoral guidelines, covering agriculture, mining, and waste management. It requires banks to assess the environmental risks of corporate clients' projects they finance that could cause severe ecological harm. In this regard, the project should not violate the shariah principle of *La Darar wa la Dirar* (Do no harm).

Notably, Malaysia pioneered the world's first sovereign green sukuk in 2017, mobilising funds for renewable energy projects and setting a global benchmark. Challenges persist, including regulatory fragmentation and the need to harmonise shariah screening and ESG criteria, but initiatives like BNM's Climate Change and Principle-Based Taxonomy (CCPT) and tax incentives for green sukuk issuances aim to address these gaps. Academic studies highlight the potential of instruments such as green waqf and Islamic microfinance to expand sustainable investment, though stakeholder awareness and scalable, shariah-compliant models remain critical for future growth.

Past literature on Islamic green financing has focused largely on the SDGs. Nevertheless, these studies are fragmented across several streams, for example, Islamic green financing and green sukuk; Maqasid al-Shariah and sustainable development; and VBI in Islamic banking. Most studies in this area focus on the priority of environmental protection and sustainable development, which align with shariah's higher objectives through Islamic financing instruments such as sukuk and green sukuk. Although many past studies highlighted the limitations and challenges of adopting Islamic green financing, they offer fewer critical arguments on these issues. Consequently, the limitations and challenges of Islamic green financing remain underexplored and debatable. Therefore, this current study extends existing research in two ways. First, this study identifies research gaps related to the challenges in adopting Islamic green financing in Malaysia. Although

the Islamic green financing literature has expanded considerably within Islamic finance and sustainability, particularly in Malaysia, studies conceptualising Maqasid al-Shariah orientation remain limited. Second, this study links ethical behaviour to promoting Islamic green finance as a business financing tool by developing a Maqasid al-Shariah and VBI framework to address challenges in Islamic green finance. This framework is expected to expand the scant literature on using Maqasid al-Shariah and VBI to advance Malaysia's SDGs. Existing research tends to focus on conceptual discussions, document analysis, and individual instruments, without critically examining the shariah and ethical efforts to improve the adoption of Islamic green finance.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Previous studies debate the concept of green finance and its role in ESG contexts, including Islamic finance. Liu and Lai (2021) argue that green investment resembles ethical investment and helps enhance environmental management and sustainable development. From an Islamic economic perspective, investment must adhere to the shariah principles stipulated in the Quran and Sunnah. This includes justice and balance in protecting stakeholders' well-being, safeguarding the environment, and promoting sustainable economic growth. Yasmeen et al. (2024) asserted that Islamic ethical and moral values are fundamental in supporting the shift towards a more ecological and evolutionary mindset in the Islamic financial and banking sector, aiming to achieve the SDGs and transition to a circular economy. This mindset shift depends critically on stakeholders' understanding of core Islamic ethical principles, including respect for future generations and the incorporation of moral frameworks from Islamic philanthropic institutions (e.g., zakat, infaq, sadaqah, and waqf). The growth of Islamic finance and green finance is evident in the mechanisms and instruments designed to create a sustainable investment ecosystem over the past few years, particularly in many Islamic countries (Maouloud, 2023; Sekreter, 2017).

Previous studies, such as Ahmed et al. (2024) and Smolo et al. (2024), have empirically demonstrated that integrating green and Islamic finance supports eco-friendly and sustainable development. Reforming Islamic finance product governance to be development-oriented requires shifting from a linear to an ecological framework. Linear thinking drives wealth accumulation and resource exploitation while ignoring ecological damage that leads to disasters such as floods and landslides. An ecological framework, however, prioritises long-term sustainability. Consequently, both human security and biodiversity will be severely disrupted, potentially leading to the extinction of numerous species in a relatively short time.

Under the ecological paradigm, strict adherence to environmental standards must govern all business activities, from upstream to downstream operations, and from initial Islamic investment screening to ongoing financial portfolio assessment. This holistic approach incentivises investors to reallocate capital to economic activities that balance societal, economic, and environmental needs, promoting prosperity, mitigating climate change, and maintaining biodiversity and natural equilibrium (Thaker et al., 2022). Green financing is a game-changer in Islamic finance, capable of innovating new project-based financial instruments for green projects and significantly narrowing the ESG gap.

Regarding commercial projects, Islamic green financing provides vital support for environmentally friendly infrastructure, green buildings, and urban sustainability programs. These efforts help reduce environmental impact and enhance community well-being. A study by Mohamed and Akande (2025) found that some parts of the literature have introduced Islamic green finance, such as green waqf. The study found that green waqf accelerates and supports green infrastructure and building initiatives. Nevertheless, green waqf implementation remains limited. This finding aligns with a study by Wayan Budiasa (2020) in Indonesia, which reported that

although green finance channels funds to the agricultural sector, it remains underutilised in the country's national sustainable development policy. The study confirmed that Islamic banks contribute negligibly to green finance. This highlights the gap between managers' awareness of environmental responsibility and Islamic banks' limited actual contributions to green finance.

Recognising the importance of a green economy, many countries have encouraged companies to use green financing across sustainability initiatives, such as renewable energy, energy efficiency, sustainable transport, and biodiversity restoration, to promote environmental goals and a sustainable economy. In the context of Islamic finance, Islamic green financing is grounded in shariah principles that prohibit *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling) and emphasise risk-sharing, profit-sharing, and asset-backed transactions. Grounded in shariah, Islamic finance also offers a distinct, inherently ethical framework that aligns closely with the objectives of sustainable development. The motivation for Islamic green financing, therefore, stems not merely from a reactive response to global trends but from proactive fulfilment of its core theological and philosophical principles. It represents the convergence of faith-based ethics with contemporary environmental necessity, creating a compelling model for financing a sustainable future.

Islamic green financing closely aligns with several United Nations SDGs, underscoring its critical role in achieving sustainable development. First, Islamic green financing is most strongly motivated by Islamic principles. It draws on Islamic concepts such as *khalifah* (stewardship), the prohibition of *israf* and *ihthikar* (waste and hoarding), the protection of *maslahah* (public interest), and *Maqasid al-Sharia*.

Within the context of *Maqasid al-Sharia*, the concepts of *Hifz Al-Din* (preservation of religion), *Hifz Al-Nafs* (preservation of life), *Hifz Al-Aql* (preservation of intellect), *Hifz Al-Nasl* (preservation of lineage), and *Hifz Al-Mal* (preservation of wealth) are the five fundamental concepts derived from the Quran and Sunnah that can be used to underpin and provide a better understanding of the objectives of Islamic law, and relate to the SDGs and finance. *Maqasid al-Sharia* includes maintaining natural resources by emphasising the responsible use and conservation of Allah's bounties. It emphasises protecting Earth's systems and preserving human well-being. This is evident in climate change and climate finance, where *Maqasid al-Sharia* encourages environmental protection and long-term resource sustainability. Hence, Islamic green financing can promote eco-friendly businesses, encouraging and supporting organisations that operate in harmony with the environment without harming it.

For example, SDG 7 (Affordable and Clean Energy) aims to provide modern, sustainable, and affordable energy to everyone. Through instruments such as green sukuk, Islamic green financing supports renewable energy projects, including solar, wind, and hydropower plants. Additionally, Islamic green financing addresses socio-economic and environmental challenges, including climate change, poverty, and social inequality. As for Malaysia, the country is committed to the SDGs by initiating various Islamic green financing transitions to clean energy. A study by Faizi et al. (2024) found that Islamic financing in Indonesia, such as sukuk, has successfully supported green projects, including clean energy, water conservation, forestry, and low-carbon technology.

Concerning SDG 6 (Clean Water and Sanitation), Islam places immense emphasis on the prudent use of water. Through sustainable projects such as water management infrastructure, wastewater treatment and recycling plants, and renewable-powered desalination plants, Islamic green finance demonstrates stewardship (*khalifah*) and the prohibition of waste, helping create a resilient environment. This fact has been empirically evidenced in Indonesia. According to Arafah and Nugroho (2016), Islamic banks provide clean water financing to poor people through appropriate risk management (*al-ghorm bill ghonm* and *al-kharaj bill daman*). The study revealed that financial viability for clean water and sanitation is crucial to providing solutions for poor people who lack the collateral required to secure clean water supply for their homes. Furthermore, Islamic

green financing expands access to shariah-compliant financial products, such as Socially Responsible Investment Funds (SRI), which advance SDGs related to clean water and sanitation (Hariri, 2022).

Additionally, SDG 11, which aims to establish safe, resilient, and sustainable urban environments, is often linked to developing sustainable cities and communities. Examples include green building sustainability, sustainable transportation, and urban green spaces. A study by Mustofa and Wahyudi (2024) in Indonesia demonstrated the government's commitment to issuing sovereign green sukuk to fund green buildings and sustainable transportation under SDG 11.

Mechanisms and Instruments in Islamic Green Financing

Greening in Islamic finance involves a range of shariah-compliant financial products that promote sustainability, including finance, investment and takaful. Green sukuk, for example, is the most prominent and developed instrument in Islamic green finance. This Islamic bond is defined as sukuk, where the proceeds are exclusively applied to finance or refinance eligible green projects. Green sukuk is the most widely used instrument, allowing investors to invest in environmentally friendly projects with shariah-compliant returns. Unlike conventional interest-bearing bonds, sukuk structures are repaid through profit-sharing, leasing, or agency agreements, such as *ijarah*, *murabahah*, or *wakalah*. Common green sukuk structures include Sukuk al-*Ijarah*, Sukuk al-*Musharakah*, Sukuk al-*Wakalah*, and Sukuk *Tawarruq*. For example, Malaysia issued the world's first Green Sukuk in 2017 through the Tadau Energy project. The project refinanced a 50 MW solar photovoltaic power plant in Sabah through a combination of *ijarah* and *istisna'* underwriting contracts (Thaker & Salleh, 2026). Subsequently, another large-scale issuance, Quantum Solar Park, amounting to RM1 billion in sukuk, and PNB Merdeka Ventures, amounting to RM2 billion under the ASEAN Green Bond Standards, have significantly helped position Malaysia as a global leader in issuing green sukuk. Besides Malaysia, countries such as Indonesia have also successfully launched their Sovereign Green Sukuk (financing renewable energy and climate resilience), and the United Arab Emirates (UAE) has launched the Majid Al Futtaim Corporate Green Sukuk.

Projects funded by green sukuk could help create a sustainable investment ecosystem. As the industry has grown significantly through the emergence of Islamic finance hubs and shariah-compliant products and services, the global Islamic finance industry is projected to reach USD 6 trillion by 2026 (EY, Pakistan). These products avoid interest-bearing loans, so the Islamic finance system supports society's welfare. Iran is the largest player, accounting for 29% of the global total, followed closely by Saudi Arabia at 25%. Other nations include Malaysia (11%), the UAE (8%), Kuwait (6%), Qatar (6%), Turkey (2.6%), Bangladesh (2.1%), Indonesia (2%), and Bahrain (1.8%). As a result, ten countries account for almost 95% of all sharia-compliant assets, all in the Middle East and South Asia. These statistics show that these countries are moving aggressively toward technology-based banking and financing schemes to encourage Islamic banks to integrate ESG principles into their core operations. This shows that the Islamic finance sector and benchmark tools are equally important for tracking progress toward sustainability goals and upholding shariah-aligned nature-preservation values.

Apart from sukuk, equity-based products like *musharakah* are also available. The partnership agreement between the client and the financier documents this investment in green activities, such as green housing projects or green energy companies. The profit is divided according to a mutually agreed ratio, with losses shared proportionately in relation to each party's contribution. An example of *musharakah* green financing in Malaysia is a residential project in Selangor, the first Green Building Index Platinum-rated home. In this project, the developer and the homeowner used a *musharakah* structure to co-invest in sustainable features, including a rooftop solar system and rainwater harvesting. Profits from sales or rentals were shared proportionally, and losses were allocated based on each contributor's share (Yusuf, 2025).

In addition, Islamic green financing, such as murabaha, is used to finance technology and infrastructure. The cost-plus sale agreement involves the financier purchasing an environmentally friendly asset, such as energy-efficient machinery, and selling it to the customer at a disclosed, agreed-upon profit margin. Murabaha is often paired with sukuk in infrastructure projects. An example of this green financing is the Bakun Hydroelectric Dam in Malaysia (Abdullah & Nayan, 2020). Islamic green financing also includes charitable elements, as seen in the waqf instrument as an alternative vehicle for environmental sustainability. Waqf, or endowment, allows donors to relinquish property whose income will be used for the public good. Projects carried out with waqf funds include tree planting, water conservation, and promoting sustainable agriculture. The waqf green schemes are gaining popularity among Islamic groups and non-governmental organisations (NGOs). This shows that green waqf embodies a green paradigm of natural stewardship, well established in Islamic ethics.

Complementing the financing and charitable instruments is takaful, or Islamic insurance. Takaful is based on cooperation and serves as a risk-mitigation mechanism for green projects. Based on cooperation and donation (tabarru'), takaful can protect renewable energy infrastructure and climate-sensitive assets against environmental risks like floods or storms. In Malaysia, providers such as Takaful Malaysia and Etiqa have begun designing and promoting green takaful products, aligning with the national ESG agenda (Zain et al., 2024). This enhances the resilience of environmentally conscious investments and reassures stakeholders of their long-term viability.

The Theoretical Framework

This study reinforces the integration of Maqasid al-Shariah and VBI, providing the institutional and operational mechanisms and the normative and ethical foundation for Islamic green financing. Within these principles, Islamic green financing is evaluated and realised at a higher level of Maqasid al-Shariah, alongside financial profitability, aligning with VBI and sustainability objectives. Additionally, Islamic green financing should be recognised as an extension of environmental stewardship (hifz al-bi'ah), reflecting Islam's emphasis on humans as "khalifah," who are responsible for safeguarding the earth (Rafiq & Raza, 2025). Hence, Islamic green financing is a practical manifestation of Maqasid al-Shariah, channelling financial resources toward environmentally sustainable and socially beneficial economic activities.

In the VBI context, the principle BNM introduced in 2017 operationalises Islamic green financing within the ethical objectives of Maqasid al-Shariah by embedding value creation, responsible conduct, good governance, community empowerment, and environmental responsibility into institutional decision-making. Through VBI, Islamic banks are expected to balance profitability with long-term societal and environmental value creation. VBI serves as the organisational capability that translates the philosophical objectives of Maqasid al-Shariah into measurable financing policies, governance structures, risk management practices, and financing strategies. Through this system, Islamic financial institutions expand their functions as active agents in promoting sustainable development rather than passive providers of shariah-compliant financial products.

Within this framework, Islamic green financing symbolises the behavioural outcome arising from the interaction between Maqasid al-Shariah and VBI. A stronger organisational business orientation towards Maqasid al-Shariah encourages Islamic financial institutions and banks to internalise ethical values such as justice (adl), public interest (maslahah), trust (amanah), moderation (wasatiyyah), and environmental stewardship. Conversely, these ethical values are unlikely to drive financing practices unless institutional instruments support them. Conversely, VBI integrates sustainability into corporate governance, strategic planning, stakeholder engagement, product innovation, and financing decisions. Therefore, Islamic institutions with

stronger VBI implementation are expected to adopt Islamic green financing more readily through sustainable initiatives such as renewable energy financing, green sukuk issuance, sustainable infrastructure investment, environmentally responsible project financing, climate-risk-sensitive financing, and financing for green SMEs.

Drawing from previous studies, this study focuses on Malaysia's challenges in adopting Islamic green financing. This study further argues that adopting Islamic green financing contributes directly to Malaysia's SDGs, the Twelfth Malaysia Plan, and BNM's sustainability aspirations. In this context, Islamic green financing can generate economic value, social well-being, and environmental protection by mobilising funds towards environmentally sustainable sectors while maintaining shariah principles. This reflects the holistic concept of "falah" (comprehensive prosperity), which underpins both Maqasid al-Shariah and VBI. Accordingly, Islamic green financing should be viewed not merely as an alternative financing instrument but as a strategic mechanism for achieving balanced and inclusive national development.

This framework integrates Maqasid al-Shariah and VBI through the lenses of the Stakeholder Theory and Institutional Theory. It explains a holistic view of Islamic green financing adoption in the context of Maqasid al-Shariah, which provides the ethical rationale for sustainability-oriented finance: the Stakeholder Theory, which explains the responsibility of Islamic financial institutions in creating value for various stakeholders, and the Institutional Theory, which explains how regulatory frameworks such as VBI influence organisational behaviour by encouraging banks to conform to evolving societal expectations and sustainability norms. VBI serves as a bridging mechanism, translating ethical imperatives into institutional practices that ultimately shape financing behaviour. Therefore, this framework is expected to advance the literature by treating Maqasid al-Shariah solely as a normative philosophy and demonstrating its operationalisation through VBI. This would enable addressing a significant gap in existing studies by explicitly incorporating Malaysia's VBI framework into the analysis of Islamic green financing. The proposed framework offers a context-specific theoretical model explaining how Islamic financial institutions can align shariah objectives with national sustainability priorities, providing a robust foundation for empirical investigation into the drivers and outcomes of Islamic green financing adoption in Malaysia.

Compellingly, Malaysia has emerged as a world leader in Islamic green financing through innovations in Green Sukuk, Musharakah, Murabahah, Ijarah Waqf, and Takaful that support green initiatives and the financial system. These instruments demonstrate an integrated approach to sustainable development, grounded in shariah principles and aligned with global green finance perspectives (Zain et al., 2024). While Malaysia has made significant progress in adopting Islamic green financing, the country may still grapple with challenges in implementing it effectively (Kamal et al., 2024). Therefore, this paper examines the challenges of implementing Islamic green financing from a Malaysian perspective. This paper aims to highlight a clear gap in the literature regarding the effectiveness and implementation of Islamic green financing in Malaysia. Understanding the key aspects of implementing Islamic green financing can help practitioners and other interested stakeholders improve its practice. This paper offers valuable insights into Islamic green financing and helps improve the structuring of relevant shariah contracts to achieve better outcomes and experiences.

METHODOLOGY

This study reviewed previous literature to evaluate how Islamic green financing aligns with shariah principles and Maqasid al-Shariah, and to assess green financing practice in Malaysia. Using document analysis, the study reviewed literature across academic databases. This study developed

specific keywords to capture research articles at the intersection of green financing, ESG, sustainability, Maqasid al-Shariah, and VBI.

Sample Selection

This review selected Google Scholar and Semantic Scholar as the primary search platforms, rather than Web of Science (WOS) and Scopus. Preliminary searches conducted on WOS and Scopus using an identical keyword strategy (e.g., "Islamic green financing," "Maqasid al-Shariah," "ESG," "sustainability," "Value-Based Intermediation," "Malaysia") yielded results that were either limited in number or insufficiently aligned with the thematic scope of the review. A substantial proportion of records retrieved from these databases addressed conventional green finance or generic Islamic banking performance without engaging the Maqasid–ESG–VBI–sustainability nexus that this study sought to examine. Because Islamic green financing remains an emerging, interdisciplinary area of research, relevant literature remains dispersed across working papers, conference proceedings, and regional Islamic finance journals that are more comprehensively indexed by Google Scholar and Semantic Scholar than by WOS or Scopus. Accordingly, these two platforms were judged to be more appropriate for capturing context-specific literature on the Malaysian Islamic finance landscape.

The selected databases also used categorisations to define the aims, encompassing exploratory and descriptive inductive reasoning, and to gather data from both primary and secondary sources. The results were obtained through applied research that used existing literature to identify challenges and difficulties in related areas, such as Islamic green financing and instruments. Initially, the authors categorised the keywords into two distinct groups, allowing this study to combine subjects and obtain more pertinent information. The selected timeframe spans 2021 to 2026, as the authors consider these years a more suitable timeframe for gathering and analysing empirical and theoretical data.

Thematic analysis was used to identify recurring patterns, themes, and gaps within the literature. Key themes include the alignment of green accounting with Islamic finance principles, the impact of ESG integration, and the challenges faced by Islamic financial institutions in adopting sustainable practices. The study also uses comparative analysis to contrast the implementation of green accounting in Islamic and conventional financial institutions, highlighting unique challenges and opportunities.

Screening and Selection Process

Step 1 – Identification of Islamic green financing

An appropriate title string was identified to capture the findings of articles relevant to Islamic green financing. The identification process was based on abstract readings that covered the issues, challenges, and limitations of Islamic green financing. All related articles were gathered and recorded in an Excel file.

Step 2 – Screening the relevant articles within the study

- a. The screening process was conducted for 49 research articles; 3 articles were identified as duplicates (arising from overlapping indexing between the two databases) and were removed, leaving 46 unique articles for screening.
- b. Titles, abstracts, and, where necessary, full texts of the 46 articles were screened against the inclusion criterion that the study must substantively address Islamic green financing

instruments in relation to at least one of the following constructs: Maqasid al-Shariah, ESG, sustainability, or VBI, within the Malaysian context. Articles that mentioned these themes only tangentially, or that examined conventional (non-Islamic) green finance without a shariah-based lens, were excluded. This step reduced the sample to 13 articles deemed directly relevant to the research objectives.

- c. The screening process was verified by an independent academic (i.e., who is not a group member) to ensure the relevance of the articles.

This two-stage process follows a PRISMA-informed logic (identification → duplicate removal → screening → eligibility) commonly used in systematic and scoping reviews, adapted here for a smaller, thematically focused corpus rather than a full systematic review.

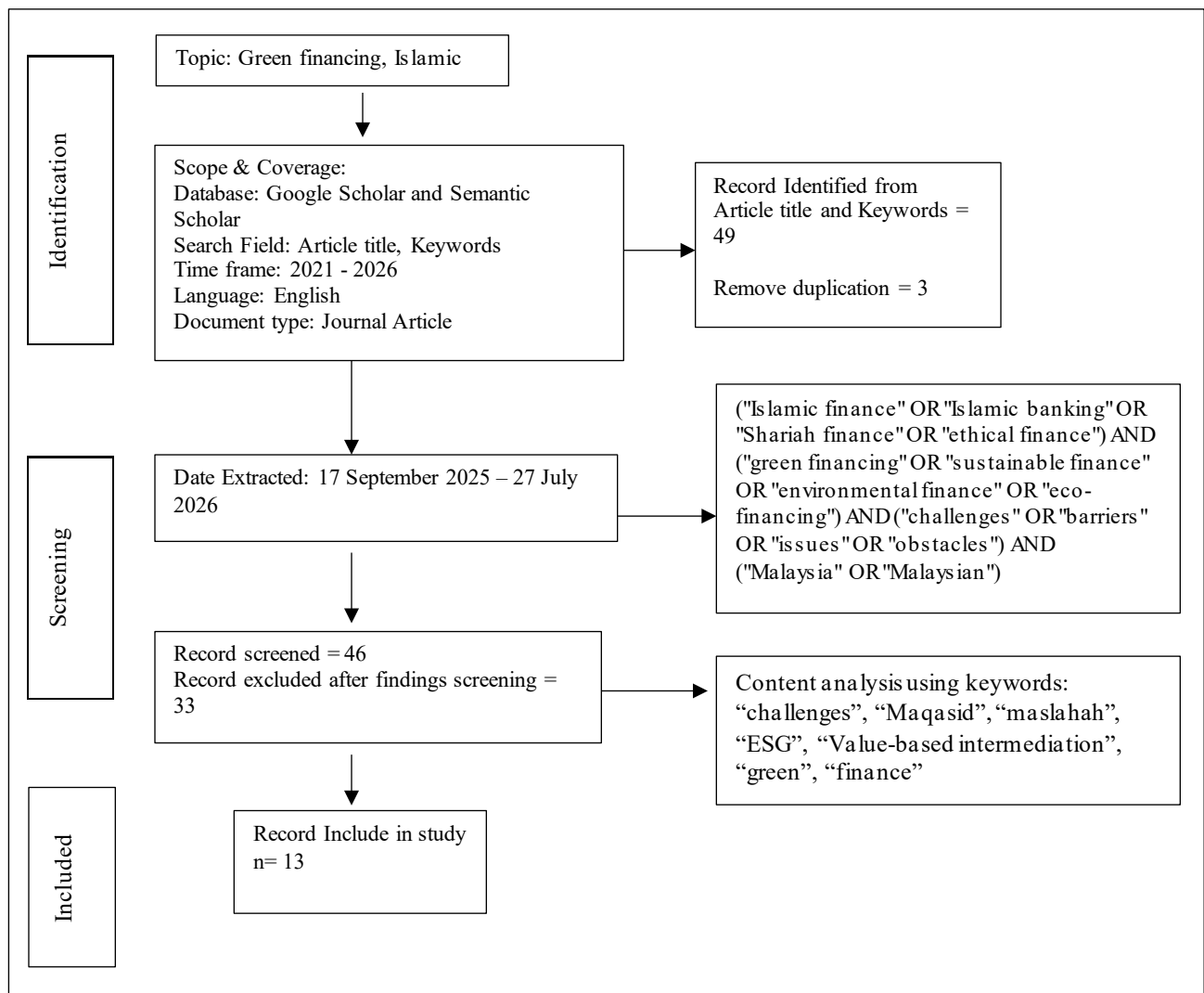


Figure 1: Identification process for finding relevant articles for review

Risk-Biased Evaluation Procedure

To mitigate selection and inclusion bias in the final sample of 13 articles, the following risk-of-bias evaluation procedure was applied:

1. Source credibility: Each article was assessed for publication venue quality (peer-reviewed journal, indexed conference proceeding, or reputable working paper series) to reduce the risk of including low-quality or predatory sources, a particular concern when moving outside WOS/Scopus indexing.
2. Relevance bias: Two independent screening passes were conducted (or a second reviewer/second reading, if applicable) to verify that inclusion decisions were not unduly influenced by confirmation bias toward studies supporting a particular narrative on Islamic green financing.
3. Recency and contextual bias: Articles were reviewed for publication date and geographical/institutional scope to ensure the sample was not skewed toward a single time period or a narrow set of institutions (e.g., over-reliance on studies from a single Islamic bank or research cluster).
4. Methodological transparency: Each of the 13 articles was reviewed for clarity of methodology (data source and analytical approach) to reduce the risk of including studies whose conclusions could not be reasonably verified or replicated.
5. Construct alignment: Each article was cross-checked against the four core constructs (maqasid, ESG, sustainability, and VBI) to confirm that it met the substantive relevance threshold, rather than being included based on superficial keyword matches.

The evaluation process was carried out to compensate for the reduced database coverage (due to not using WOS/Scopus) by strengthening methodological rigour in the manual screening and quality appraisal stages. The following articles were retrieved from the search and are relevant to the discussion. The review process identified 13 articles relevant and appropriate for the discussion.

Table 1: List of articles based on empirical studies carried out in Malaysia

Authors	Year	Country	Methodology	Key findings	VBI Explicitly Used?	Maqasid al-Shariah Explicitly Used?
Liu & Lai	2021	Malaysia	Mixed methods - analysing documents and interviews	Green sukuk development is often driven by state-building objectives rather than environmental outcomes alone; goals remain partially unrealized due to persisting climate issues.	No	No

Keshminder et al.	2021	Malaysia	Qualitative (Multiple Case Study Interviews)	Key challenges include a "shoddy" green taxonomy, difficulties in identifying green assets, high compliance costs, and a lack of compelling financial benefits.	No	No
Mohammad S.A & J.S. Keshminder	2022	Malaysia	Quantitative (Survey / SEM)	Bankers' intentions to issue green sukuk are predicted by environmental awareness and perceived social support, but hindered by institutional readiness gaps.	No	No (ecological responsibility is discussed, but not within the Maqasid framework)
Hapsari et al.	2022	Malaysia	Qualitative (Interviews)	The study highlights the importance of establishing, managing and operating CWM under the aegis of the State Islamic Religious Council in Malaysia and supervised by the Wakaf, Zakat or Hajj Department (JAWHAR). They further point out that donors or crowdfunders, interesting projects, promotion, and regulation are key factors that influence the	No	No (Waqf is embedded within the Masqasid context by nature, but Maqasid is not the analytical framework.

				sustainability of CWM.		
Muhammad U. & Asmak A.R	2023	Malaysia	Qualitative (Interviews)	Numerous public universities have set up <i>waqf</i> funds and developed comprehensive mechanisms for raising funds through traditional and modern methods and technologies. A major chunk of the <i>waqf</i> funds is collected in the form of cash, but the amount falls short of reaching critical mass to enable the <i>waqf</i> to become self-sustaining.	No	No
Talib et al.	2023	Malaysia	Content analysis & Case study	Examines banking practices aimed at legitimising their role in society and addressing stakeholder needs, focusing on the principles of Value-Based Intermediation (VBI), broadly, not green financing specifically	Yes	No
Hanudin A.M et al	2024	Malaysia	Empirical (Survey)	Waqf can be used to improve the well-being of the community affected by COVID-19.	No	Yes
Muhamat, et al.	2024	Malaysia	Empirical Case Study	Public universities in	No	No

				Malaysia face significant operational challenges when issuing green sukuk due to a lack of prior track records in solar projects.		
Najid, N.A. et al.	2024	Malaysia	Qualitative	The findings show that Islamic finance has vast potential to enhance global sustainability through innovative financial instruments, such as Green Sukuk and Islamic microfinance. However, the obstacles, which include the lack of standardisation and the inadequate knowledge beyond the areas with a Muslim majority, continue to exist.	No (uses ESG, not VBI, as the operational vehicle)	Yes
Hanudin Amin et al.	2025	Malaysia	Quantitative	The study aims to investigate a <i>Maqasid</i> -based eligibility index (MABE-i) in identifying users for <i>Qardhul Hassan</i> financing in the Malaysian context	No	No
Muhammad et al.	2025	Malaysia	Qualitative	The use of crowdfunding to assist SME's in	No	Implicit only (waqf's

				Malaysia is risky. It is attractive to young investors, but failure in performance or loss of outcomes is high.		wealth-preservation rationale, not an explicit maqasid framework)
Abd Wahab N. et al.	2025	Malaysia	Case study	This study delves into the strategic and operational dimensions of the initiative, offering valuable insights into the role of Islamic social finance and the importance of fostering a collective commitment to addressing environmental challenges through socially responsible and ethical entrepreneurship .	No	No
Muhammad Z et al.	2026	Malaysia	Empirical	Empirical study finding four emerging themes: climate risk management, compliance with sustainability frameworks, environmental footprint reduction, and green financing activities with Green Banking Sustainability Index.	No	No

To our knowledge, the review findings of previous studies identified in Islamic green financing revealed that research in Malaysia remains scarce. In this study, we integrated relevant Islamic green financing issues and frameworks identified in previous studies from Malaysia's perspective. To develop relevant themes, the authors extracted the findings and noted relevant phrases in Atlas.ti software. We deconstructed the texts from the extracted articles' findings and categorised them in an Excel file for comparison. The purpose of these procedures is to assess the consistency of meanings and understanding between two assigned coders. Although the number of articles reviewed is small, two coders mapped the texts within paragraphs and verified the process with an independent subject matter expert (academic) in this area. This process was repeated twice for consistency and to reduce bias in interpretation. Once the categorisation and themes have been verified, the themes are built.

Interestingly, among the 13 articles examined, few studies in Malaysia explicitly operationalise BNM's VBI framework as an analytical lens for green financing, although VBI has been the official Malaysian policy vehicle for embedding Maqasid al-Shariah in Islamic banking since 2017. Findings from this analysis indicate a notable gap: Islamic green finance literature (Liu & Lai, 2021; Keshminder et al., 2026; Keshminder et al., 2021; Muhamat et al., 2024) is dominated by market orientation, focusing on the driving factors for issuance, issuer challenges, and institutional barriers rather than on the value-based, stakeholder impact within the context of VBI designed to institutionalise.

On the other hand, the use of the Maqasid al-Shariah framework shows slight improvement but remains mostly implicit. Waqf-based and crowdfunding studies (Hapsari et al., 2022; Ishak et al., 2025) deal with waqf and mudharabah instruments that are maqasid-oriented by their classical nature (preservation of wealth and public benefit). Nevertheless, the authors do not use maqasid as an explicit analytical framework; they focus instead on adoption drivers, feasibility, and stakeholder likelihood. The one clear exception is the study by Najid et al. (2024), which explicitly ties ESG integration in Malaysian Islamic finance to Maqasid al-Shariah as a normative foundation, making it substantial research among the 13 for integrating VBI and Maqasid al-Shariah, though it still routes through ESG indicators rather than citing VBI in its context.

The findings and discussion are presented in themes that delve further into the analysis of the challenges in Islamic green financing in Malaysia. The themes are expected to provide a direction for Islamic green financing in Malaysia.

Synthesis of the Literature Review Findings

The challenges encountered in Islamic green financing are not confined to Malaysia but are prevalent globally. Based on the critical literature review, a list of challenges has been recognised and presented as follows. This paper presents the four themes that constitute the challenges of Islamic green financing in Malaysia. These themes will provide significant direction for future studies on Islamic green financing.

Seeing is Believing: Is Green Sukuk a True Environmental Solution?

Green sukuk is a financial product that adheres to Islamic principles and is designed to raise funds for environmental projects. They bring together three important goals: economic growth, environmental protection, and the upholding of Islamic values. As a result, green sukuk can help address some of the problems in conventional green finance (Liu & Lai, 2021). Malaysia is the leader in this area, being the first country in the world to issue a green sukuk in 2017, under the

Sustainable and Responsible Investment (SRI) Sukuk framework. This demonstrates that Malaysia is keen to promote greener initiatives that adhere to Islamic standards (Securities Commission Malaysia, 2017).

Nevertheless, the highlights raise a question: are green sukuk indeed helping to protect the environment, or are they merely using the “green” term without producing the desired green effect? It raises concern about whether green sukuk are genuinely contributing to environmental protection or merely carrying the “green” label without delivering real impact. The actual problem is that some projects in Malaysia, such as the Biodiversity Sukuk, may be using the “green” label to attract investors and secure funding. For example, some trees are planted on land that was never damaged, and there is no public evidence that they are growing and reducing pollution. This enables businesses to continue polluting while appearing eco-friendly by purchasing these credits. Ultimately, the project can be seen as going green on paper, yet it is not environmentally beneficial. This is often referred to as greenwashing, and it is the primary concern when a green label is used to attract investment without any actual environmental action (Liu & Lai, 2021).

From a maqasid perspective, this issue is a serious problem because it violates key shariah principles of *maslahah* (public benefit), *sidq* (truthfulness), *amanah* (trust), the concepts of *hifz al-nafs*, and *hifz al-bi'ah*. At its core, Islamic jurisprudence (*fiqh*) emphasizes the values of *tawhid* (unity of God), *khalifah* (stewardship), and *maslahah* (public interest), which closely align with the modern ideals of ecological preservation, environmental justice, and sustainable resource management (Kamla et al., 2006). Misusing the “green” label without clear, honest evidence of environmental impact harms reputations and weakens trust among consumers and investors. Since Islamic finance is based on principles of honesty, transparency, and ethical responsibility, greenwashing contradicts these values (Pratama, 2024). Greenwashing distorts perception and undermines genuine green projects. The need to report clearly and truthfully has increased as more people become aware of the impact of such products. If this problem is not resolved, investors' confidence in green sukuk may slow the development of Islamic sustainable finance in Malaysia and globally (Khairisma et al., 2026).

SMEs are Ready to go Green, but the Financial Pathways Remain Narrow

SMEs, which form the backbone of the Malaysian economy, account for more than 37% of gross domestic product (GDP) and employ close to 48% of the Malaysian labour force (EY, 2023). In addition to their economic contributions, many small businesses engage deeply with environmentally friendly industries, including sustainable farming, clean manufacturing, renewable energy, and recycling. The same areas not only play a key role in mitigating environmental deterioration but also align with Malaysia's climate aspirations outlined in the Twelfth Malaysia Plan and the Nationally Determined Contributions (NDCs). However, SMEs are relatively underrepresented in Malaysia's green transformation agenda, despite having great potential. Their efforts to promote environmental sustainability and climate resilience are not given high priority in mainstream Islamic green finance initiatives.

Currently, there is a gap in access to Islamic Green Finance for small businesses. Green financing instruments are predominantly biased toward large businesses and government-linked issuers, at the expense of SMEs. For example, Tenaga Nasional Berhad (TNB) and Khazanah Nasional are meant to attract large-scale infrastructure projects, and therefore, require complex legal, shariah, and financial expertise. On the contrary, SMEs that lack financial capacity and institutional support may find it too expensive to issue sukuk, as structuring and certification can

be prohibitively costly. The Securities Commission Malaysia (2022) further stated that the high average issuance cost for green sukuk reduces the likelihood that small players will participate. Moreover, SMEs are disadvantaged by limited access to shariah advisory services and green project verification systems. This organisational constraint persists, even though SMEs are at the core of innovative small-scale environmental solutions throughout Malaysia.

From an Islamic perspective, the limitations on SMEs' access to green financing funds distort the goal of Maqasid-al Shariah. This is because it creates inequality and prevents worthy businesses from participating in the shared welfare environment. By excluding SMEs from Islamic green financing, the industry unintentionally consolidates a largely profit-based, convenient institutional system that deliberately excludes moral responsibilities. Nevertheless, a company, the Ethis Group, a Global Ethical Investment Platform, is licensed by the Financial Services Authority of the Sultanate of Oman and offers shariah-compliant financing, enabling small projects to secure funding from retail investors worldwide. The Ethis Group employs mudharabah or wakalah-based instruments, offering a flexible, inexpensive financing structure that suits smaller green projects. Hence, expanding the range of financing instruments for SMEs can enhance economic growth while preserving the integrity of Islamic financing within the Maqasid al-Sharia. This study also aligns with Isahi and Muwazir (2024) in Nigeria, who argued that Islamic financing facilities should innovate in techniques and strategies to meet the needs of SMEs and microfinancing. However, one could contend in this aspect based on the Maqasid al-Sharia; it is essentially centered on three aspects: intention, method, and result/end goal, and the assessment is grounded in the hierarchy of human interests, inclusiveness, and the degree of certainty (Ibrahim et al., 2019), this could one of the reasons for SMEs have limitations in assessing the green finance. On the contrary, drawing from the VBI aspect, this signifies that the framework has not fully achieved the maqasid objectives in the context of maslahah, as small entrepreneurs' well-being remains low.

Two Paths to Sustainability: ESG and Islamic Principles, the Continued Quest for Convergence.

Integrating ESG principles with Islamic ethical values is essential for strengthening the foundations of green finance and ensuring its alignment with ethical and faith-based values. The interplay between ESG frameworks and Islamic financial principles highlights a critical gap in aligning global sustainability standards with faith-based ethical values. While ESG rules emphasise environmental and governance benchmarks, they often overlook the spiritual and social justice aspects central to Islamic finance. ESG norms have crystallised into a global performance scale for sustainability and an ethical investment framework, guiding organisational debate on climate impacts, corporate behaviour, and stakeholder interests. In the context of the VBI framework, the ESG label used by many of the companies in Malaysia is unlikely to align with Maqasid al-Shariah. This is because Islamic finance principles emphasise ethical values such as fairness, accountability, and stewardship, which ground its ethical model.

Bridging the values of ESG and Islamic principles through the VBI framework is necessary, as integrating these components strengthens efforts to shape a greener, more inclusive financial future. By harmonising the ethical depth of Islamic finance with the structured sustainability focus of ESG standards and ethical values as a foundation, financial institutions can cultivate a unified approach to improve moral integrity and environmental responsibility. Such integration can redefine green finance not only as sustainable but also as spiritually and socially just. This is demonstrated in the Green SRI Sukuk framework developed by the Securities Commission Malaysia. This green financing aims to help finance renewable energy, green buildings, and energy-efficient infrastructure (Wahab & Naim, 2019). Nevertheless, Islamic finance utilises ethical

stewardship in accordance with shariah regulations; accordingly, its adherence to ESG is not automatic. As a consequence, the realisation of truly Islamic green finance necessitates a conscious and deliberate intersection between ESG standards and the Maqasid al-Shariah (Muhammed et al., 2018; Barom, 2019; Mahomed & Mohamad, 2025).

Although ESG criteria are gaining momentum at a remarkable pace, several principles underlying them are not always compatible with an Islamic model of ethical finance. ESG tends to focus on measurable indicators, including reductions in carbon emissions, board diversity, and supply chain transparency. In contrast, shariah values emphasise moral uprightness, social fairness, and spiritual accountability. Mahomed and Mohamad (2025) exemplify such tension by observing that the risk of greenwashing arises when Islamic green sukuk is harmonised with the green bond structure, in which sukuk can be labelled in Islamic law. ESG frameworks rely on quantitative indicators and ratings provided by third-party agencies to measure corporate environmental and social performance; on the other hand, it does not frame it in accordance with shariah compliance dimensions, such as the prohibition of *riba* (interest), *gharar* (excessive uncertainty), and *haram* (unlawful) activities. These loopholes indicate that the use of ESG in designing sukuk would not necessarily comply with shariah and would not maintain the totality of ethical finance intended by Islamic ethically inclined finance. Consequently, a company may score high on ESG ratings while still engaging in activities that contravene Islamic ethical norms (e.g., conventional banking, alcohol, or gambling).

In Islam, the concept of sustainability encompasses possibilities far beyond environmental stewardship. The general rule of Maqasid al-Shariah, with its prescription of acting to safeguard the faith (*din*), human life (*nafs*), intellectual (*aql*), lineage (*nasl*), and wealth (*mal*), does present a more complete basis to measure and direct economic action (Billah et al., 2025). Although the contemporary ESG framework includes some performance indicators related to the environment, these indicators do not guarantee actions such as equitable wealth distribution, the prohibition of interest (*riba*), or the practice of ethical finance. As such, a sukuk deal that meets ESG standards may still fall short of Islamic standards if it fails the social justice test or involves ethically controversial sectors. In addition, green sukuk issuers in Malaysia have raised concerns about the unclear nature of ESG rules and their weak link to shariah objectives (Keshminder et al., 2022). It is crucial that initiatives that appear environmentally responsible but fail to adhere to Islamic ethical requirements do not mislead stakeholders about their compliance with Islamic authenticity. Furthermore, there is an ongoing debate over whether green labels substantively integrate Maqasid al-Shariah or merely serve as symbolic sustainability branding. For example, Liu and Lai (2021) highlighted that organisations may overuse vague marketing terms such as “eco-friendly” to represent environmentally safe products without quantified third-party verification. This “symbolic compliance” can open the door for companies to present themselves as environmentally responsible while continuing to fund carbon-intensive activities. Hence, VBI's role in this area should be considered. Governance and shariah supervision, stakeholder engagement and awareness, and value-based performance are among the mechanisms that can help Malaysian companies integrate both ESG and Maqasid al-Shariah.

Harnessing Islamic Green Finance for Malaysia's Climate Commitments

Malaysia has pledged to achieve net-zero greenhouse gas emissions by 2050 as part of global efforts toward eco-sustainability. However, the existing huge climate finance gaps limit this goal. The 2024 budget has allocated a large amount of climate-related expenditure, and the country needs USD 375 to 415 billion in investment to achieve the climate goals. Nevertheless, this amount exceeds

the current volume of green financial flows. Although positive trends are evident in Islamic green finance, the instruments are not used at a scale sufficient to meet the required funding volume. Moreover, the Climate Finance landscape Malaysia report indicates that policy change, design, and financial innovations remain limited, and that Malaysia is at risk of failing to meet its decarbonisation goals (United Cities and Local Government Asia Pacific, 2024). One of the challenges is institutional dysfunction in aligning Islamic finance with the country's climate agenda. Islamic finance instruments, such as green sukuk, is the most commonly used to finance renewable energy and infrastructure projects, but only on a large scale and issued by government-linked companies. In contrast, high-risk impact sectors such as agriculture, forestry, and waste management are underfinanced because they are considered less profitable and riskier (Mahboob et al., 2025).

While Islamic green finance offers a promising funding pathway, its effectiveness is constrained by limited diversification across both the types of climate projects financed and the range of Islamic instruments utilised. The selective and limited nature of projects limits the utilisation of Islamic green financing products for significant climate change initiatives. This restriction can also diminish interest in participatory contracts such as mudharabah and musharakah, which are more closely aligned with the Islamic concept of risk-sharing and the common good, thereby undermining the spiritual purpose of Islamic finance (Tanny et al., 2025; Nouman et al., 2021). For example, as of 2023, green and sustainability sukuk comprised over 85% of Malaysia's labelled Islamic sustainable finance issuances, with minimal use of other instruments like green musharakah, istisna', or ijarah structures tailored for specific project needs (Securities Commission Malaysia, 2023). Since the Islamic green finance market is dominated by green sukuk, this creates concentration risk and neglects other shariah-compliant instruments. This issue indicates the absence of a combined, integrated Maqasid al-Shariah and Islamic finance mechanism to finance climate technology projects.

Islamic Finance in a High-Velocity Digital Environment in Malaysia

With the growing use of fintech and digital currencies, investors are increasingly reallocating their portfolios toward economic activities that balance economic, environmental, and social objectives. Such efforts aim to enhance human well-being while addressing pressing global challenges, including climate change, biodiversity loss, and social inequality. Fintech and digital currencies are widely regarded as transformative tools that enable innovative investment instruments for green-based projects and help bridge existing financing gaps. Despite notable advances in green finance, fintech and digital currencies remain underused in Islamic green finance. At present, green-based projects largely rely on conventional fundraising mechanisms, which contribute to a persistent disconnect between issuers and investors. Although issuers have increasingly promoted flexibility and financial innovation, many investors have yet to fully leverage fintech and digital currencies to realise their potential in supporting sustainable investment initiatives.

While digital tools promise greater efficiency, inclusion, and transparency objectives aligned with Maqasid al-Shariah, their adoption introduces novel risks to the integrity of Islamic financial contracts (uqud) and governance. One reason digitalisation is limited in Islamic finance is the validity of the parties' contract. Islamic green financing may face these challenges as well, because using a non-physical contract conflicts with Islamic provisions governing contract dissolution (Thaker et al., 2022). A green financing contract must also meet the requirements of the subject matter, which must exist when the contract is concluded. Incompatibility with Islamic contract principles can limit the promotion of Islamic green financing. Nevertheless, companies that adhere

closely to Islamic principles and shariah law may opt for this mechanism as one of the most effective Islamic tools for fulfilling their obligations to God. Despite advances in digital technology for conventional financing instruments, companies believe that shariah-compliant financing instruments can ensure long-term societal welfare, support real economic development, and avoid activities that are harmful to communities. Ultimately, these principles align with shariah principles and the SDGs, but they must have an enabler that drives the objectives.

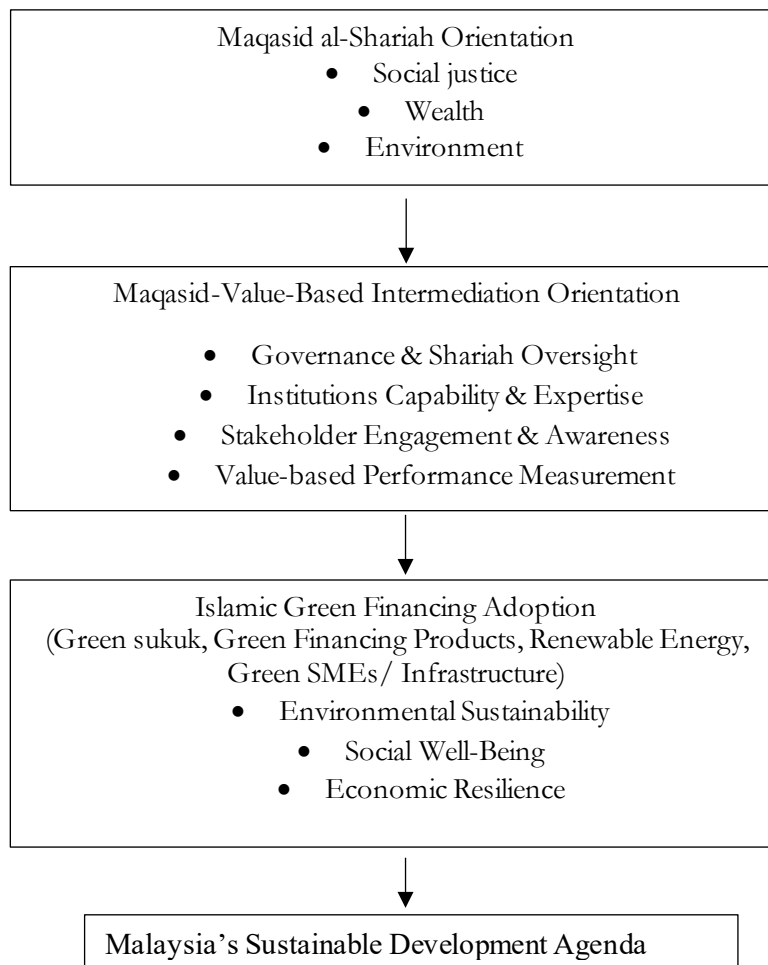
RESULTS AND DISCUSSIONS

The concept of Maqasid al-Shariah plays a vital role in shaping a holistic, ethical value model for Islamic finance, particularly in sustainable development. This study concludes that integrating Maqasid al-Shariah into Islamic green financing remains limited. Although this converging concept offers a strong ethical framework to support the further development and growth of the sustainable Islamic market, its implementation remains an ongoing impediment to Malaysia's market growth.

Based on the study's analysis, despite Malaysia's pioneering role in Islamic finance, Islamic green finance remains relatively immature. Several factors contribute to this gap, including a lack of market diversification, low financial literacy regarding green products and perceptions of high market risk, inconsistency of green taxonomy that leads to data fragmentation, lack of technical expertise to evaluate Islamic green financing products, technology, and risks, and the limited use of shariah financing structures to meet the needs of market players such as SME businesses. The findings reveal that most research focused on green or SRI sukuk, while other shariah mechanisms, such as waqf, zakat, ijarah, and takaful, remain underutilised. Furthermore, the utilisation of digital innovation solutions in this sector remains scarce.

Additionally, the literature analysis found that VBI integration in Malaysia remains scarce. Therefore, this study proposes the Maqasid-Oriented Value-Based Intermediation (MO-VBI) Framework for Islamic Green Financing Adoption. The central argument is that the barriers to Islamic green financing, such as weak green taxonomies, high issuance and transaction costs, limited institutional expertise, greenwashing risks, insufficient investor demand, risk-return concerns, and fragmented regulatory requirements, cannot be addressed solely through shariah compliance. Instead, Islamic financial institutions need an integrated institutional approach in which Maqasid al-Shariah provides the ethical and strategic direction, VBI provides the organisational implementation mechanism, and Islamic green financing becomes the practical channel through which environmental, social, and economic value is created. This proposition aligns with Malaysian VBI research, which identifies Maqasid al-Shariah as the foundation of VBI and highlights governance and performance measurement as critical implementation mechanisms. This study proposes a Maqasid-VBI orientation in Figure 2, based on the literature analysis carried out.

Despite its rich insights, this study also has limitations because it relies on existing literature. This study may be subject to the researcher's bias in selecting and interpreting the literature. The generalisability of the results may be limited to Malaysia, given the specific publication year range of articles available on the database websites. Given these limitations, the study contributes to expanding knowledge of methodological approaches and the practical implications of Islamic green financing in Malaysia for sustainable development, while acknowledging its limitations and opportunities for future research in this area.



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Conflict of interest statement

The author(s) declare that this research was conducted in the absence of any self-benefits, commercial or financial interests that could influence the work reported in this paper.

Ethics statement

The authors declare that this research did not involve human or animal subjects. All experimental procedures were performed in accordance with the institutional Safety, Health, and Environment (HSE) protocols of Universiti Teknologi MARA (UiTM). This research involved minimal risk and waived informed consent.

Declaration of generative AI

During the preparation of this work, the author(s) used the Grammarly tool to improve the grammatical and structural quality of the article content. After using this tool/service, the author(s)

reviewed and edited the content as needed and take(s) full responsibility for the content of the publication.

Data included in the article: All data generated or analysed during this study are included in this published article [and its supplementary information files].

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