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Bridging Sukuk and Foreign Direct Investment for Renewable Energy: Toward a Justice-Oriented Legal Framework in Developing Islamic Economies

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Abstract. *This study investigates how sukuk and foreign direct investment (FDI) can be integrated as complementary legal-financial tools to finance renewable energy in Indonesia, Malaysia, and Pakistan. Using a comparative qualitative legal method, it applies Maqāṣid al-Sharī'ah, institutional economics, and legal pluralism to evaluate alignment between current regulations and Islamic ethical values such as environmental protection (ḥifẓ al-bi'ah), wealth preservation (ḥifẓ al-mal), and justice ('adl). Findings indicate that fragmented regulations and weak Shariah governance constrain Islamic green finance. Malaysia shows stronger regulatory integration, while Indonesia and Pakistan face gaps between Islamic law and environmental policy. The study proposes an Islamic Green Governance Model that fuses ESG and Shariah standards to promote legal certainty, ethical investment, and justice-based decarbonization. Islamic finance is reframed not just as a funding mechanism, but as a vehicle for ethical sustainability aligned with Shariah objectives.*

Keywords: *sukuk; FDI; renewable energy; maqāṣid al-sharī'ah; sharia governance; environmental justice*

Abstrak. *Studi ini mengkaji integrasi sukuk dan investasi asing langsung (FDI) sebagai instrumen hukum-keuangan untuk membiayai energi terbarukan di Indonesia, Malaysia, dan Pakistan. Dengan metode hukum kualitatif-komparatif, pendekatan ini menggunakan Maqāṣid al-Sharī'ah, ekonomi kelembagaan, dan pluralisme hukum untuk menilai kesesuaian regulasi dengan nilai etika Islam seperti perlindungan lingkungan (ḥifẓ al-bi'ah), harta (ḥifẓ al-mal), dan keadilan ('adl). Hasilnya menunjukkan bahwa fragmentasi hukum dan lemahnya tata kelola syariah menghambat pembiayaan hijau Islam. Malaysia memiliki integrasi regulasi yang lebih baik dibandingkan Indonesia dan Pakistan. Studi ini mengusulkan Model Tata Kelola Hijau Islam yang menggabungkan standar ESG dan syariah guna memperkuat kepastian hukum, investasi etis, dan dekarbonisasi yang adil. Keuangan Islam diposisikan bukan sekadar alat pendanaan, tetapi sebagai penggerak transformasi etis dan berkelanjutan sesuai tujuan syariah.*

Kata kunci: *sukuk; FDI; energi terbarukan; maqāṣid al-sharī'ah; tata kelola syariah; keadilan lingkungan*

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Introduction

The use of renewable energy is an important global concern because of its importance in realizing the Sustainable Development Goals (SDGs), especially SDG 7, which prioritizes the provision of modern, sustainable, affordable, and reliable power for all. However, renewable energy adoption in developing countries faces several obstacles, including financial constraints, inadequate infrastructure, and an over-reliance on fossil fuels. However, it continues to grow at a rapid pace. Of course, barriers in renewable energy capabilities can pose significant challenges for developing countries, especially landlocked countries and small island countries (IEA, 2022).

Emerging Islamic countries, such as Indonesia, Malaysia, and Pakistan, have begun to adopt various renewable energy technologies to reduce greenhouse gas emissions and meet their national electricity needs. In Indonesia, it has harnessed wind, solar, geothermal, and marine energy through initiatives such as floating solar photovoltaic systems and exploration of marine energy potential in the Lombok Strait and the Maluku Sea (Erwin Susanto, 2024; Esparza et al., 2024; Septi & Santoso, 2023). Meanwhile, bioenergy accounts for 66% of the total supply of renewable energy, and wind energy 29% (International Renewable Energy Agency (IRENA), 2022a). Furthermore, in Malaysia to drive significant progress in the sustainable energy sector, it has started emphasizing solar energy to reach 31% renewable energy by 2025. Through the 10 MW floating solar photovoltaic project in UMP Lake, it is expected to reduce carbon emissions by more than 11,000 tons per year (Islam et al., 2023; So et al., 2024). The use of renewable energy in Malaysia consists of hydro/marine sources, which are 57% of the total supply, while bioenergy is 42% of the total supply (International Renewable Energy Agency (IRENA), 2022b). Meanwhile, in Pakistan, the establishment of wind farms in the Sindh region and the application of biomass energy through gasification technology are strategic initiatives that play an important role in supporting the adoption of renewable energy (Ali et al., 2023; Naqash, 2024). With the contribution in Pakistan shown by bioenergy accounting for 82%, followed by hydro/marine energy at 15%, and solar at 2% (International Renewable Energy Agency (IRENA), 2022c).

Based on the trend of renewable energy consumption. Indonesia's renewable energy consumption declined during the period from 2014 to 2019. Then, in Malaysia, renewable energy consumption increased gradually from 2014 to 2023. Although there has been a consistent increase, the number remains much smaller compared to other countries. In Pakistan, renewable energy consumption remains

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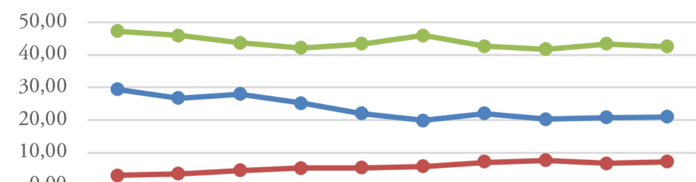
dominant compared to the other two countries. Despite fluctuations, the trend remains relatively stable. This trend in renewable energy consumption exhibits a diverse but generally declining pattern in recent years, indicating that obstacles exist in the country's procurement of renewable energy. Meanwhile, Indonesia, Malaysia, and Pakistan were among the countries with the highest sukuk issuance value in 2021. These countries are demonstrating significant potential for sukuk issuance to meet their long-term financing needs, especially given the increasing demand for Sharia-compliant financial products. This is in line with the prediction of the growth of sukuk issuance worldwide in 2027, which is expected to reach USD 257 billion (IFDI, 2022). Based on this, sukuk and FDI can be a way to finance renewable energy technology development projects.

Figure 1. Renewable Energy Consumption



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Indonesia	29,30	26,60	27,80	25,20	22,00	19,80	21,90	20,20	20,63	20,91
Malaysia	3,00	3,40	4,40	5,20	5,30	5,70	7,00	7,50	6,73	7,08
Pakistan	47,20	45,90	43,70	42,10	43,40	45,90	42,70	41,60	43,40	42,57

Source: Processed data by the author, World Bank.

It is crucial to examine the country in the context of FDI and sukuk integration, as it develops a renewable energy sector that requires massive funding. As an Islamic financing instrument, Sukuk can attract foreign investors to fund these projects. Meanwhile, FDI can help attract foreign capital while maintaining domestic financial stability, making sustainable and attractive investments in the national renewable energy industry (Mat Rahim & Mohamad, 2018; Suriani et al., 2024). However, despite this potential, empirical study indicates that FDI does not consistently lead to increased consumption of renewable energy, particularly in the long term (Dey, 2020; Telatar & Adimli, 2024). In developing countries, FDI is often concentrated in companies that do not prioritize environmental sustainability, especially those that rely on fossil fuels (Fang et al., 2024; Udemba & Philip, 2022). Meanwhile, the impact of Sukuk is demonstrated by other studies, which show the success of implementing Green Sukuk in financing solar projects, hydropower

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plants, and water treatment (Mat Rahim & Mohamad, 2018). Although Green Sukuk has been praised for its capacity to direct investment to sustainable projects such as renewable energy, other empirical study has revealed that an undirected Sukuk market can inadvertently finance traditional carbon-emitting sectors, undermining renewable energy efforts (Suriani et al., 2024).

Empirical findings suggest that institutional and legal inadequacies can pose barriers to renewable energy development, while limitations inherent in financial instruments themselves may present a major obstacle. However, the integration between Sukuk and FDI in financing the renewable energy remains largely unexplored, particularly in countries such as Indonesia, Malaysia, and Pakistan. This study highlights the importance of a paradigm shift in scientific study, from focusing on measuring econometric results to analyzing the legal and institutional mechanisms behind the formation of these results. This study aims to examine the current legal framework and institutional structure governing sukuk and FDI in renewable energy in three Islamic developing countries: Indonesia, Malaysia, and Pakistan, by using comparative legal methodologies and Islamic jurisprudence analysis. Then, evaluate their alignment with Islamic economic law, particularly *Maqāṣid al-Sharī'ah*, and identify structural contradictions or regulatory frictions, such as double compliance burdens, ESG ambiguities, or limitations in Sharia oversight, that may hinder the effectiveness of Islamic green finance. By integrating the relationship between sukuk and FDI through the perspective of Islamic economic law and institutional analysis, this study contributes to the growing literature on the role of Islamic finance in promoting sustainable development. It confirms that the achievement of Sustainable Development Goal (SDG) 7 and the broader decarbonization agenda in Muslim-majority countries depends not solely on the availability of financial instruments but also on the regulatory coherence, normative clarity, and principles of legal justice inherent in the Islamic economic governance system

In this context, The *Maqasid al-Sharia* (Islamic legal purposes) serves as a normative framework for assessing the legitimacy and effectiveness of Islamic financial instruments such as sukuk and this principle-based approach ensures that financial practices are not only formally Sharia-compliant but also substantially aligned with the higher goals of justice, equality, and sustainable development (Araminta et al., 2022; Fitrah & Soemitra, 2022). This study applies explicitly the following dimensions of *Maqasid* to evaluate the legal structure and alignment of the sukuk and FDI frameworks, namely *Ḥifẓ al-din* (protection of faith) ensuring the structure of sukuk and FDI projects avoids *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation). *Ḥifẓ al-nafs* (protection of life) supporting the development of renewable energy as a means of maintaining public health and climate security. *Ḥifẓ al-mal* (wealth protection) promoting responsible and risk-managed investments that promote collective well-being. And *Ḥifẓ al-bi'ah* (emergent dimension, environmental protection) upholding environmental management (*khilafah*) as a legitimate extension of Islamic legal reasoning. These dimensions provide a framework for critiquing the existing legal framework and questioning whether the current sukuk-FDI instruments serve the ethical imperatives and broader development of Islamic finance or whether they reinforce extractive or carbon-dense interests with compliance requirements.

Moreover, within the framework of institutional economics, this study employs the theory of path dependence, as proposed by Douglas North (1990), to investigate the reasons why pro-fossil fuel behavior and rent-seeking tendencies persist in the financial systems of Islamic developing countries. Path dependency theory argues that institutions evolve along a particular trajectory influenced by past decisions, which can lead to persistent inefficiency and rigidity (Daunton, 2010). The concept of path dependency emphasizes how initial conditions and historical events can constrain institutions to a particular path, making it challenging to alter without significant external shocks. North's theory blends cultural and state influences, suggesting that cultural shifts and state interventions can change this trajectory by influencing ideology, beliefs, and transaction costs (Przesławska, 2019). Formal institutions, such as laws and regulatory bodies, along with informal institutions, including Sharia councils and religious norms, collectively create a set of incentives, limits, and patterns of power distribution that ultimately determine the allocation of sukuk and FDI.

Furthermore, Griffith's concept of legal pluralism, the theory of legal pluralism, opposes traditional legal centralism, which considers law as a single system that originates from the state, and instead views law as a complex and layered phenomenon that includes state law, customary law, religious law, and other norms (Turner & Possamai, 2015). This theory is applied in study to illustrate the overlap between various legal frameworks, including Islamic law, national civil law, environmental law, and ESG standards. The coexistence of this regime often gives rise to synergistic and contradictory regulatory dynamics, especially when financial instruments must meet Sharia requirements as well as sustainability principles. Such plurality has the potential to stimulate normative innovations such as the development of green sukuk. Still, it can also lead to ambiguity about the criteria for assets that are truly worthy of being called 'green' or 'ethical'.

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Finally, the subdomain of Sharia governance is studied to understand the role of religious institutions in determining the design, approval process, and oversight mechanism of sukuk. Bodies such as the DSN-MUI in Indonesia, the Malaysian Securities Commission, and the Pakistani SECP have varying degrees of autonomy and interpretive authority. Hence, the contributions of each of these institutions to the effectiveness and legitimacy of Islamic green finance differ. This study highlights the significance of green governance grounded in Islamic principles, as exemplified by the development of the Islamic Green Governance Model. The Islamic green governance model is a framework that aligns Sharia principles with environmental sustainability principles to form an ethically and ecologically responsible financial and economic system. Through this model, the use of resources is regulated sustainably, social justice is upheld, and environmental preservation is prioritized according to the principles of green finance and sustainable development (Habib, 2023).

The framework consists of three evaluation dimensions. The first dimension evaluates sharia capital flows by examining the legality of financing instruments and their goals in accelerating decarbonization and supporting SDG 7. The second dimension examines the compatibility of regulations, including the implementation of *Maqāṣid al-Sharī'ah*, ESG norms, and FDI incentive schemes to create legal certainty and administrative efficiency. The third dimension focuses on sustainability outcomes, i.e., the extent to which national and international financing systems ensure equitable distribution of renewable energy and uphold the principles of *'adl* (justice) and iḥsan (virtue). This theoretical framework allows for a critical assessment of the legal and policy design of green sukuk and FDI in various Muslim-majority countries.

Methods

This study employs a doctrinal-qualitative legal methodology, complemented by a comparative institutional approach, to examine the legal and regulatory frameworks governing sukuk and FDI in the renewable energy sector in selected Islamic developing countries, namely Indonesia, Malaysia, and Pakistan. This study falls within the domain of Islamic economic law, with a special emphasis on the normative principles of *Maqāṣid al-Sharī'ah* and the institutional dynamics of legal pluralism.

Doctrinal analysis in the study involves an in-depth textual analysis of relevant primary legal sources, including national laws and regulations governing

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sukuk issuance, Sharia compliance, and renewable energy investments (e.g., OJK Regulation No. 3/POJK.04/2018 in Indonesia**,** SRI Sukuk Framework in Malaysia**,** SECP Sukuk Guidelines in Pakistan), Then, Sharia standards and fatwas issued by authoritative bodies (e.g., DSN-MUI, Sharia Advisory Board of the Securities Commission Malaysia, and Sharia Council of the SECP), international frameworks and sustainability principles (e.g., the Green Bond Principles, the Sustainable Development Goals in particular SDG 7).

These legal texts were interpreted in accordance with the principles of Islamic jurisprudence (*uṣūl al-Fiqh*) and assessed against the higher objectives of Islamic law (*Maqāṣid al-Sharī'ah*), particularly *ḥifẓ al-mal* (protection of wealth), *ḥifẓ al-bi'ah* (environmental preservation), and *ḥifẓ al-nafs* (protection of life). In this way, the analysis moves beyond formalistic Sharia compliance to evaluate the substantive alignment of sukuk and FDI practices with ethical and Islamic development goals.

The second method in this study involves a comparative analysis of legal and institutional frameworks in Indonesia, Malaysia, and Pakistan. These countries were chosen due to their high levels of sukuk issuance and FDI inflows in the energy sector, as well as the diversity of their regulatory structures and Sharia governance mechanisms. The comparison focuses on the functional role of laws and institutions in promoting or inhibiting renewable energy financing, which includes: 1) The integration (or lack thereof) of green finance standards with Islamic law, 2) The role of state and religious authorities in project certification, investor protection, and compliance enforcement, and 3) Legal friction arising from dual compliance obligations based on ESG and Sharia standards.

Furthermore, special attention is paid to regulatory coherence, legal certainty, and institutional effectiveness. This comparative analysis identifies best practices, structural gaps, and areas for cross-jurisdictional harmonization to support the development of an Islamic green governance framework.

This legal analysis is based on a review of secondary literature, including peer-reviewed journal articles on Islamic finance, green sukuk, and environmental law, policy reports from international bodies (e.g., IFDI, IRENA, World Bank, IMF), case studies, legal commentaries, and government white papers relevant to energy and finance law in the selected jurisdiction. Qualitative content analysis methods are used to extract legal principles, institutional patterns, and governance dynamics from these documents. The extracted themes are then categorized based on their alignment with: 1) The values of Islamic law (*maqasid, fiqh mu'amalah)*, 2) Green finance and ESG principles, and 3) Results of functional regulation in the energy transition.

This integrative method enables the development of a legally grounded and ethically informed framework that assesses the alignment of national laws in Muslim-majority countries with sukuk and FDI mechanisms, as well as the imperatives of sustainable development.

Results and Discussion

Comparative Case Study Analysis: Legal and Institutional Frameworks for Sukuk and FDI in Renewable Energy

Indonesia: Legal Reform amid Regulatory Dualities

The issuance of sukuk and FDI for renewable energy in Indonesia is governed by a regulatory framework related to sustainable development, which is set out in several key regulations and guidelines. For example, OJK Regulation No. 3/POJK.04/2018, as basic framework is in place for structuring and issuing green sukuk in Indonesia. Then, OJK Regulation No. 60/POJK.04/2017 was issued to ensure that projects financed by green sukuk are in line with environmental sustainability goals (Ramadhan & Wirdyanigsih, 2020; Supriyadi et al., 2023). Additionally, UU No. 16/2016 provides a legal basis for the development of green financing instruments to support environmentally friendly projects. The regulation supports *ḥifẓ al-biʿah* by directing capital to environmentally responsible projects, while preserving *ḥifẓ al-mal* by protecting investors' interests through disclosure and verification obligations.

In addition, FDI in the renewable energy sector to Support Renewable Energy Investment and Development has been drafted, laws such as the UU Cipta Kerja (UU No. 11 of 2020), the RUU Energi Terbarukan (RUU EBT), the UU Energi (UU No. 30 Tahun 2007), and the Undang-Undang Panas Bumi (UU No. 21 Tahun 2014) (Latief & Hendrika, 2023; Pasaribu & Purnomo, 2023; Rahmawanti & Meliala, 2024). Meanwhile, in terms of technical/implementation, the Ministry of Energy and Mineral Resources has issued several regulations to support the development of renewable energy. These include regulations on feed-in tariffs (FIT), tax incentives, and grid access for renewable energy projects. For example, Energy and Mineral Resources Regulation No. 12/2017 concerning the Utilization of Renewable Energy Sources for Electricity Supply provides guidelines for the development of solar, wind, geothermal, and hydroelectric power projects (Judijanto et al., 2024). Although these laws aim to encourage investment, bureaucratic delays, policy reversals, and overlapping jurisdictions between central and local authorities undermine the effectiveness of regulation (Judijanto et al.,

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2024; Pasaribu & Purnomo, 2023). The lack of Sharia integration in FDI law further demonstrates the gap between investment liberalization policies and Islamic normative ideals, especially in terms of distributive justice (*'adl)* and environmental management (*khilafah*).

Malaysia: Structured Integration of Sharia and Sustainability Standards

Malaysia is showing a more mature regulatory environment for green Islamic finance, with a clear path for sukuk issuance and foreign investment in renewable energy. The Securities Commission of Malaysia (SC) has established the SRI Sukuk Framework (2014) and the SRI Green Sukuk Guidelines, which provide a detailed roadmap for issuers, including environmental impact criteria and Sharia structuring requirements. The presence of a centralized Sharia Advisory Board (SAC) ensures doctrinal consistency across markets (Liu & Lai, 2021; Rastam Shahrom & Sherin Kunhibava, 2023). The framework of the exchange in Malaysia functionally supports *Maqāṣid al-Sharī'ah*, especially in maintaining wealth (*ḥifẓ al-mal*) through structured risk-sharing sukuk contracts (e.g., *Ijarah, Murabaḥah*), and environment (*ḥifẓ al-bi'ah*) through project screening and ESG integration. However, the system still faces practical obstacles, including high transaction fees, a lack of standardized ESG benchmarks, and limited market literacy among retail investors (Keshminder et al., 2022).

In the field of FDI, the Malaysian Renewable Energy Act 2011, the Environmental Quality Act 1974, and the National Renewable Energy Policy (NREPAP) provide coherent legal support for foreign investment. The institutional role of SEDA, the Energy Commission, and the state government in regulating feed-in tariffs, environmental approvals, and land use demonstrates a well-integrated policy framework (Chua et al., 2011; Ilham et al., 2022). Nonetheless, there is friction between federal and state jurisdictions, particularly in land and water rights for solar and hydroelectric projects, which underscores the need for vertical policy coherence. Malaysia's experience illustrates how legal pluralism, when harmonized, can create synergies among Sharia law, ESG, and investment, thereby enabling a structured environment for Islamic green finance. However, the efficacy of the system relies heavily on the strength of institutional governance and regulatory coordination.

Pakistan: Emerging Legal Capacities and Institutional Gaps

Pakistan's legal and institutional capacity for green Islamic finance is growing but unevenly. The issuance of sukuk is overseen by the Securities and Exchange

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Commission of Pakistan (SECP) and is guided by the Shariah Advisory Council, which ensures compliance with Islamic commercial law. Green sukuk initiatives are supported through tax incentives and disclosure mandates, but comprehensive green sukuk regulation is still nascent (Sarfaraz Nehal, 2023). The Islamic financial ecosystem in Pakistan aligns with the main principles of *maqasid*, particularly *ḥifẓ al-mal* and *ḥifẓ al-din*. Still, it lacks a consistent application of *ḥifẓ al-bi'ah* due to the limited framework for environmental assessment. The state's Environmental Protection Act of 1997 mandates environmental impact assessments, but enforcement mechanisms are weak and often under-resourced (Fermeglia, 2024).

On the FDI side, the Alternative and Renewable Energy Policy (2019) and the Private Investment Promotion and Protection Act for Foreigners (1976) provide a formal basis for attracting sustainable investment. The Alternative Energy Development Council (AEDB) and NEPRA play a key role in permitting, tariffing and project approvals (Khan et al., 2024). However, fragmented regulatory oversight, lack of investor protection guarantees, and slow dispute resolution mechanisms undermine the project's institutional credibility and bankability. Nevertheless, Pakistan is showing promise in integrating Islamic finance with renewable energy, especially in the wind and biomass sectors. The continued development of the green sukuk framework, supported by enforceable legal norms and the harmonization of Sharia fatwas, could significantly improve Pakistan's compliance with Islamic economic law and environmental justice.

Synthesis of Comparative Findings

Table 1. Comparative Analysis

Group	Indonesia	Malaysia	Pakistan
Green Sukuk Regulation	Developed, but fragmented	Comprehensive and centralized	Newborn and developing
FDI Law in Renewable Energy	Enabling but inconsistent	Coherent and incentive-based	Supportive but institutionally weak
Sharia Governance Structure	Decentralized (DSN-MUI)	Centralized (SAC SC Malaysia)	Mix (SECP and ad hoc boards)
Handling Legal Pluralism	Legal friction applies	Managed through harmonization	Fragmented ad hoc harmonization
Coordination of the *Maqasid*	Partial	Strong	Moderate

Source: Analysis by the author

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The comparative analysis reveals that although each jurisdiction has made significant strides in promoting green finance, structural barriers and regulatory incoherence continue to hinder the realisation of its full potential. It highlights the need for regulatory harmonization, the development of a clear Islamic-environmental taxonomy, and improved institutional governance to promote an effective and equitable Islamic green finance ecosystem.

Legal Pluralism and the Challenge of Dual Compliance

A recurring theme in all three case studies is the tension created by legal pluralism regarding the coexistence of Islamic law, civil law regimes, and international environmental governance standards (e.g., ESG, SDGs). This plurality has resulted in a double compliance burden, where sukuk and FDI instruments must simultaneously comply with Sharia principles (e.g., avoiding *riba*, *gharar*, and *maysir*) and green standards (e.g., carbon disclosure, environmental impact assessment). Although these regimes are not inherently compatible, institutional inconsistencies such as those in Indonesia and Pakistan can create uncertainty for issuers and investors and increase transaction costs (Ramadhan & Wirdyanigsih, 2020; Sarfaraz Nehal, 2023).

Malaysia's centralized Sharia governance under the Securities Commission has shown that regulatory harmonization is possible if supported by coherent institutional authority and interpretive clarity (Liu & Lai, 2021). In contrast, Indonesia's decentralized fatwa system and Pakistan's evolving green finance framework illustrate how regulatory fragmentation can undermine the ethical and financial integrity of Islamic green instruments.

Institutional Path Dependency and Fossil-Fuel Lock-In

Based on the theory of institutional dependence, the study found that the legal and financial systems in the three countries remain partially locked in the trajectory of fossil fuel investments. This is evident in the flow of sukuk and FDI although formally Sharia-compliant, are often directed towards conventional infrastructure or high-emission sectors. The negative long-term empirical relationship between sukuk/FDI and renewable energy consumption has been reported in previous studies, thus being better understood not as a market failure, but as a regulatory-institutional failure to prioritize environmental outcomes in legal design (Mahmud, 2023; Telatar & Adimli, 2024).

This structural inertia reflects a broader inconsistency between *Fiqh mu'amalah* (Islamic commercial law) as operationalized in modern finance and the holistic, justice-oriented goals of *Maqāṣid al-Sharī'ah*. For example, while a contract may be free from prohibited elements such as usury, it may still fail to advance *ḥifẓ al-bi'ah* (environmental protection) or *iḥsan* (virtue) if it is used to finance projects that harm the environment.

Aligning Sukuk and FDI Frameworks with *Maqāṣid al-Sharī'ah*

The normative analysis conducted in this study confirms that Islamic green finance must go beyond formal Sharia compliance to embrace substantive *Maqasid*-based governance, and this includes embedding the following principles in the legal and regulatory framework of sukuk and FDI, namely ethical capital mobilization (*ḥifẓ al-din and al-mal*) by ensuring that sukuk and FDI serve legitimate, productive, and socially beneficial purposes, environmental management (*ḥifẓ al-bi'ah*) by codifying ecological protection into sukuk structuring standards and investment approval processes, and equity and distributive justice (*'adl and iḥsan*) by developing mechanisms that promote inclusive access to renewable energy and prevent the capture of the elite of green financial instruments. And for example, Pakistan recent efforts to incorporate environmental disclosures and tax incentives into sukuk regulation signal a rise in awareness of *ḥifẓ al-bi'ah* although enforcement mechanisms remain weak (Karatepe Kaya, 2024). while Indonesia regulatory framework identifies environmental objectives but lacks the interpretive tools to balance Sharia compliance with ecological justice, and Malaysia is closest to the operationalization of *Maqasid*-oriented governance but still faces practical obstacles in project evaluation, investor education, and federal-state coordination (Keshminder et al., 2022).

Towards an Islamic Green Governance Model

These findings support the need for an integrated Islamic Green Governance Model, which comprises components such as the implementation of an Integrated Sharia-Green Taxonomy a harmonious framework that defines what constitutes a Sharia-compliant and environmentally sustainable project jointly developed by Islamic finance scholars, ESG experts, and legal regulators. Then, the harmonization of Fatwa and Sharia governance reform was achieved through the establishment of regional fatwa councils and cross-border Sharia advisory forums, promoting consistency in sukuk approvals and interpretations of *ḥifẓ al-bi'ah*. Furthermore, the Legally Embedded *Maqasid* principal mandates laws and regulations that institutionalize *Maqāṣid al-Sharī'ah* in the sukuk guidelines and FDI laws,

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ensuring that the instruments not only comply but also contribute positively to environmental and social objectives. Finally, the implementation of accountability mechanisms and transparency reporting, involving fairness through third-party verification and public participation requirements in the sukuk and FDI processes, is crucial to ensure ethical outcomes and public trust. This model offers a principled yet practical framework for Muslim-majority countries seeking to harness Islamic finance in support of the global energy transition. Instead of treating sukuk and FDI as neutral financial instruments, he views them as vehicles for moral and ecological transformation, based on the enduring values of Islamic economic law.

Conclusions

This study has examined the legal and institutional integration of sukuk and FDI in the context of renewable energy development in Indonesia, Malaysia, and Pakistan, utilizing a qualitative framework grounded in Islamic economic law, institutional economics, and legal pluralism. These findings suggest that while these instruments have significant potential to finance the transition to sustainable energy, their effectiveness is limited by regulatory fragmentation, dependence on institutional pathways, and the absence of a coherent Islamic-environmental governance framework.

Although the regulatory frameworks in all three countries exhibit elements of *Maqāṣid al-Sharī'ah*, particularly in enforcing wealth protection (*ḥifẓ al-mal*) and Sharia compliance (*ḥifẓ al-din*). However, it was found to be a glaring lack of representation of environmental justice (*ḥifẓ al-bi'ah*) and equality (*'adl*). The sukuk and FDI frameworks are often implemented in ways that serve formal compliance but fail to deliver ethical, developmental, and ecological outcomes. Legal pluralism, if not harmonized, can further exacerbate uncertainty and hinder the long-term mobilization of capital for renewable projects.

Among the three countries, Malaysia's unified regulatory model shows the highest level of alignment with Islamic principles and environmental goals, although it still faces challenges related to cost, standardization, and decentralized implementation. Indonesia and Pakistan, while actively reforming their legal and investment ecosystems, require deeper institutional coordination and normative clarity to effectively translate Islamic finance principles into sustainable, green outcomes. Therefore, in order to transform sukuk and FDI into effective Islamic green financial instruments, there is an urgent need to develop a law-oriented *Maqāṣid* governance framework that balances compliance, coherence, and justice.

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This study highlights the importance of developing a comprehensive Islamic Green Taxonomy through close collaboration between policymakers and Sharia scholars. By defining the criteria for Shariah-compliant and environmentally friendly projects in an integrated manner, this taxonomy will reduce ambiguity in interpretation and increase investor confidence in green sukuk, as well as FDI. Furthermore, the regulation of sukuk and FDI should explicitly adopt the principles of *Maqāṣid al-Sharī'ah*, for example, by requiring impact evaluations based on financial ethics, environmental protection (*ḥifẓ al-bi'ah*), and inclusive development (*iḥsan*). At the institutional level, harmonizing cross-border fatwas is crucial; bodies such as the OIC or IFSB should facilitate an agreement on Shariah green finance standards and enhance the professionalism of Shariah councils through training in environmental law and sustainability. Regulatory coherence among the financial, environmental, and religious sectors should be improved through inter-ministerial coordination mechanisms, simplification of licensing procedures, and the implementation of joint ESG-Sharia standards, particularly in countries with a federal system.

To make incentives for ethical and green investments more effective, Islamic fiscal instruments such as tax relief, zakat-sourced subsidies, or funding of renewable energy projects through waqf should be designed to encourage long-term investor participation. Finally, transparency and accountability of projects should be the pillars of regulation, including independent verification, open impact reporting, and community engagement mechanisms, in line with the values of *'adl*, trust, and *shūra.* Thus, legal and institutional reforms will strengthen an Islamic green finance paradigm that not only meets environmental goals but also holistically enforces moral and ecological mandates.

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