CONTRIBUTION OF SOCIAL ISLAMIC FINANCE TO SUSTAINABLE DEVELOPMENT GOALS

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ABSTRACT

The ideas for sustainable development have been growing in popularity over the past few decades and is not new in terms of its purpose, namely to improve the economic health of the vast global populations living below the prescribed developmental goals identified by the United Nations. Now more than ever, the notion of sustainable development has evolved into a global necessity given the fact that rapid population growth brought on by the pace of development, has severely affected the health of the planet. No longer do we have the luxury of choosing to protect the environment; today concern for the environment is such that the inclusion of environmental protection is necessary in national social policies in order to ensure that governments play a more effective role in terms of managing national agendas and enforcing its objectives. However, managing the environment and enacting and enforcing pertinent laws, is not without its prerequisites. The sciences, technology, governance, and financial robustness are some of the requirements needed if environmental concerns are to be properly addressed. The link between education and the environment, the economy, poverty, health, and so on, cannot be overstated. Poorer nations, where access to good education is sometimes overlooked, find themselves institutionally unprepared or financially bereft to protect and manage the environment. By virtue of the fact that the environment, society, and the economy are inseparable, this paper intends to promote Islamic social finance as an integral part of a holistic approach towards sustainable development.

Keywords: Islamic social finance, ethical finance, social development, green development, Islamic capital market, Islamic Sukuk

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In 2015, the United Nations identified 17 development goals to promote sustainable development and improve the economic well-being of millions of people worldwide. Currently, such megatrends as rapid population growth, urbanization, energy consumption, wastes and climate change are directly linked to environmental degradation and. rapid depletion of the Earth resources. In developing countries, in particular, the problem is more acute due to weak capabilities to protect the environment and sustain economic growth. Lack of financing, inadequate knowledge, low expenditure on R&D and ineffective institutions are imposing constraints on the ability of developing countries to create a balance between market demand and supply for resources. Inequalities among and within nations are contributing to unsustainable development by forcing poor people and low income countries to depend more on the natural environment for their survivals.

Environmental management is a complex process that requires scientific, technological, financial and managerial capabilities to monitor and supervise the relationship *between* human activities and the environment. To protect the environment from polluters and black market profiteers, governments need to introduce legal and regulatory rules to strengthen the relationship between market activities and environmental protection. The adaptation of the 17 sustainable development goals by the United Nations in 2015 highlights the need for urgency to deal with these environmental issues.

Linkages between sustainable development and socio-economic variables underscore the importance of the environment for supplying the necessary resources that support the society's basic needs. Poverty, education, energy, health, equity and gender are among the important goals identified by the United Nations that the global community needs to accomplish for sustaining development. Globally, poverty perhaps is among the greatest challenges facing nations in their drive to sustain development. Poor people are lacking to some of the basic resources for survival and therefore, they depend on the environment for daily survival. On their parts, poor countries are not in a position to protect the environment either due to weak institutions or lack of financial resources.

It is not possible to separate the environment from the social and economic dimensions of the society, and therefore, environmental protection should be integrated into the national social policy to ensure that the society national objectives are achieved. In the 2030 Agenda, the environment is represented in all 17 sustainable development goals reflecting the importance of the environment for the sustainability of our planet Earth.

The aim of this paper is to shed light on the contribution of the Islamic social finance

to achieving the 17 sustainable development goals. Being in compliance with the principles of the Shariah, or Islamic Law, Islamic finance contributes to environmental protection through the financing of ethical investment and supporting green projects. Islam encourages environmentally-friendly investment to minimize environmental risks and support the survival of the ecosystem. Environmental damage is regarded as sin in Islam and therefore, Muslims are advised to maintain balance between the natural capital and human basic needs. Islam imposes constraints on consumption by discouraging waste and encouraging investment so that to increase productivity and maintain equilibrium in the ecosystem. Ethical investment is to minimize the risk of resource depletion and improve the quality of the natural capital. The objective of this paper is to examine the role that Islamic finance plays in building sustainable growth. The paper is to discuss the Shariah compliant investment that is friendly to the ecosystem.

I. ISLAMIC SOCIAL FINANCE

The functioning of the Islamic economy is driven by ethical and moral considerations outlined by the teaching of the Islamic Shariah. The main objective of the Islamic economy is to protect the national interest of the Muslim people through fair and just market transactions so that to maximize the society welfare and improve the quality of life. Unlike the capitalist system, the Islamic economic system is inclusive to ensure that equal opportunity is granted to all for sharing resources and enjoying the gift of nature. The principles of Islamic ethics impose regulatory rules on all market transactions aiming at correcting market imperfections and limiting the power of monopolies over market activities. Market performance in Islam is measured by both material and spiritual activities which endorse fair and just mechanisms in the functioning of markets. "The Islamic system of economics can be regarded as a rule-based system with well-defined principles, rules, and institutions. Compliance with this rule-based system leads to material and nonmaterial progress of society as a whole." (*Global Report on Islamic Finance*, 2018, 21).

The principles of the shariah impose constraint on the Islamic financial institutions not to exclude the poor or people without collateral from market activities. Compliance with the teaching of shariah not only prohibits payment of interest rate, but also promotes socially inclusive development. In Muslim countries challenges such as poverty, education, health, inequality, low productivity, weak infrastructure and poor institutions are among the important factors hindering development and impacting the environment. Islamic social finance is to remedy these challenges and increase the economy capabilities to leapfrog surpassing several development stages. In countries with high income inequalities and limited resources, Islamic social finance promotes social inclusion and creates attractive business climate that strengthens economic diversification and enhance market competitiveness.

Islamic finance is a branch of the Islamic economic system that provides financial services to facilitate investment and promote development in the Islamic economy. Investment in the Islamic economy is subject to rules and principles derived from the teaching of the Shariah. In Islam, financial transactions are not allowed to pay or receive interest rate or *riba* since the outcome of all transactions in the Islamic economy must demonstrate a real asset. Unlike conventional finance, money from an Islamic perspective can only be useful if it is invested in real assets to create jobs and support development in the Islamic economy. The creation of value through production of goods and services stimulates economic growth and encourages local enterprisers to participate in market activities. Countries with low economic productivity could benefit from the Islamic financial services through project financing and creation of new employment opportunities.

The term 'ethical finance' is used in reference to investment allocated for environmentally friendly projects as well as to achieve certain social objectives. Conventional banks promote socio-economic development by funding ethical projects aimed at job creation, environmental protection, poverty alleviation, and sustainable development. The demand for such investments is recent and motivated by climate change, globalization of poverty and international inequality. The term Islamic finance, on the other hand, is to promote financial services that are in compliant with the Islamic law or the Shariah. The principles of the Shariah are divine code of conducts encompassing "values such as fairness, equality and morality and the values and ethics rooted in Islamic business makes up its social and moral capital." (Khan and Amiirah, 2017, 111-154).

Islamic finance contributes to socio-economic development by financing business activities that improve the social, economic and environmental objectives of the Islamic community. Islamic social finance enhances development capabilities through financial services linked to human development including poverty reduction, health, education, equal opportunity and other basic needs. "Islamic social finance that includes the provision of microfinance along with safety nets and social goods could be a powerful tool to fight financial inclusion and poverty and enhance shared prosperity." (*Global Report on Islamic Finance*, 2016, 153).

Islamic finance can solve many of the challenges facing Muslims worldwide. Risk sharing principles, financial inclusion and financial stability are important features of the Islamic financial system. Funding social projects strengthen the country's ability to alleviate poverty, redistribute income and wealth, and protect the environment. Working closely with the banking system, governments should develop regulatory framework and effective partnership to increase confidence in Islamic financial products and encourage investment. "Islamic finance, with its rich theoretical promise to fight poverty and enhance prosperity, could play the role of a catalyst." (*Global Report on Islamic Finance*, 5). Thus, financing through Islamic banks can have highest stability and predictability due to its ethical consideration and social orientation. On their parts, governments need to formulate policies to create appropriate business climate for inclusive and green investments.

The Islamic financial system represents one component of the Islamic economy, and therefore, Islamic finance cannot be treated as an independent unit of the national economic strategy for achieving the national objectives. Islamic finance contributes to the development of the economy so that investment resources are efficiently allocated to the betterment of the entire community. Islamic microfinance contributes to the social and economic development through project financing, particularly small and medium enterprises, to support productivity growth and create new employment opportunities for the poor. In the Islamic economy, finance is to promote human development by investing in education, health, poverty reduction and sustainable growth. "Islamic microfinance has the potential to combine the social principle of caring for the less fortunate with microfinance's power to provide financial access to the poor. Unlocking this potential could be the key to providing financial access to millions of Muslim poor who currently reject micro finance products that do not comply with Islamic Law." (See *Global Report on Islamic Finance*, 2016, 153). In Islam, allocation of resources is to achieve self-sufficiency and sustain growth through cooperation, sharing and management of the society natural capital. The inclusive nature of the Islamic economy highlights the collective efforts of individuals, businesses and institutions to achieve the national and strategic objectives of the society.

Recent trends in Islamic finance illustrate rapid growth of Islamic financial products reflecting the sound performance of the Islamic financial institutions and the role they can play in socio-economic development. In promoting just and equitable principles, Islamic finance could provide alternative approach to the conventional financial systems via funding social investments linked to the society's development. Islamic microfinance offers incentives for new enterprises as well as provides new opportunities for lower income groups to participate in the economy. Through risk sharing and asset management features, Islamic banks provide more attractive financial climate for investors to participate in market activities.

Islamic social finance could also encourage research and innovation to increase the economy capabilities developing new technologies and creating new knowledge for green development. Green research requires financial support to monitor climate change and develop indigenous technologies friendly to the environment. Such research can be done in collaboration with universities and other research centers locally, regionally and globally so that information and knowledge are shared and transferred across countries. In Islam, acquiring knowledge is a religious duty and therefore, providing financial support for knowledge creation, skills and training, innovation and research and development is essential for sustaining development.

Capabilities are important for development because of their impact on the country's ability to upgrade and harness the benefits offered by new technologies and knowledge, especially in international markets. Research and development capabilities, for instance, are essential for the development of new products and discovery of new methods for finding solutions to the emerging challenges. Investment in education is critical for improving people capabilities making decisions and implementing policies.

II. INFRASTRUCTURE BASED-DEVELOPMENT

In poor countries, including Muslims, the majority of people live in rural areas depending largely on the natural environment to support their daily survival. To survive, poor people have no alternative except to make use of the natural environment as a source of living to derive their basic needs including water, food, energy, and shelter. Islamic social finance underscores the importance of inclusive growth by supporting such objectives as poverty alleviation, knowledge creation, innovation, financial sector-development and economic stability. Financing projects in support of the poor people will ease the pressure on the environment by creating new opportunities for earning income and improving the well-being of people.

The prohibition of interest rate in financial transactions and because of restrictions on

production of haram products, investment in the Islamic economy is to increase economic productivity not only in terms of production of goods and services, but also to create job opportunities. The Islamic economy discourages monopolies and prohibits investment in speculative businesses to protect the public interest, prevent excessive exploitation of resources, reduce wastes and minimize the impact of human activities on the environment. Requirements for financing by Islamic banks must strengthen market stability and implement the sharia rules in functioning of markets.

In developing countries, building infrastructure speeds up the process of development and provides an appropriate business environment that enables the economy to alleviate poverty, reduce inequality, enhance inclusion and diversify output. Building infrastructure reduces the costs of doing business and increases incentive for both local and foreign firms to invest in the economy. Financing real-asset development by Islamic banks provides new opportunities for people lacking to resources to participate in market activities. Infrastructure, such as roads, transportation, energy and communication, facilitates linkages between rural and urban areas which give rural population excess to national, regional and global markets.

Governments should also invest in ICT technologies to improve access to financial resources through the Internet and mobile phones. New digital technologies can make financial services more accessible not only to reach people with greater barriers to access, but also to facilitate inclusiveness. Mohamed Younis has been successful with his microfinance model by supporting millions of poor people in Bangladesh. Using modern technologies increase people capabilities to acquire knowledge, skills and information necessary for new start up and gain access to local and foreign markets.

Financed by Islamic banks, infrastructure development could become attractive for developing countries to support environmentally-friendly projects. Goal 9 of the SDGs state: "Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation." Countries can identify infrastructure projects that promote social, environmental, and economic sustainability. In this regard, a new model for development is needed to examine the relationship between sustained improvement in economic diversification and growth in productivity. Inclusive development requires the cooperation and collaboration of both public and private sectors to increase investment and support sustainable growth. Public-private partnership enhances development capabilities through better utilization of natural resources and more effective equity system with regard to income distribution among factor inputs. The incentives that governments provide for SMEs could encourage creativity and innovation so that new technologies, new knowledge and new methods are created for development sustainability.

It is estimated that between 2016 and 2030 the global economy needs to invest $90 trillion in infrastructure asses. Most of these investments are to support building capacity for development and increase the country capabilities to diversify output and create appropriate business environment for growth. Projects such as energy, transportation, water and sanitation, and communication systems are vital for linkages creation and entrepreneurship. Building infrastructure also increases the economy ability to attract foreign investments that are essential for skills acquisition, information dissemination and innovation diffusion. Developing countries can make use of the opportunities offered by globalization to gain access to global markets and acquire knowledge needed for local development. In this age of digital technologies, cooperation and collaboration with foreign players not only allow the country to enhance technological learning, but also to acquire managerial, technical, and leadership skills for making decisions and building effective strategy for development.

Infrastructure for development is largely linked to the natural capital that involve exploitation of natural resources, land use, deforestation, transportation, wastes and climate change. As a consequence, environmental protection and resource management become essential to support sustainability and protect the ecosystem. Most developing countries, including Muslims, are still lacking to adequate infrastructure to encourage investments and support programs for poverty alleviation, income distribution and equal opportunity for all. Islamic finance could make valuable contribution to sustainable development by funding ethical projects to maximize the social returns without causing damage to the environment. The principles of the Shariah target man as the ultimate recipients of the bounty of God by sharing resources in a manner to increase the society's social welfare and sustain future survival. In the Islamic economy, exclusion is not permitted to prevent monopoly and profiteers taking advantage of the market conditions and accumulate personal wealth.

With the exception of a few, the majority of Muslim countries are lacking to financial, managerial and technical resources to meet the infrastructure challenge. In Africa alone, there is a need for $93 billion yearly investment in infrastructure to meet its basic requirement for change. There are twenty four countries in Africa members the Islamic Conference (01C) and in support building infrastructure; Islamic finance could become powerful instrument in environmental protection and economic sustainability. Islamic finance has been growing rapidly in recent decades due largely to rising demand from Muslim countries and also to

the stability of the Islamic financial products in view of the recent global financial crisis. The UNCTAD estimates that developing countries are facing annual gap of $2.5 trillion to achieve the sustainable development goals. (See UNCTAD, Technology and Innovation Report, 2018, 2) Most of the money will be allocated for infrastructure development to increase capabilities of developing countries to sustain growth and improve the socio-economic well-being. The green nature of the Islamic projects should encourage the Islamic financial institutions to provide the necessary funding and close the financial gap. He model presented by the Islamic social finance underscores the importance of inclusiveness in achieving the sustainable development goals. In the last two decades, the demand for social protection investments has received global support especially in renewable energy, water and sanitation and waste management.

Asset-based financial system focuses on building capacity for real asset development aimed at making use of natural capital to foster growth and diversify the economy. Real assets development involve extensive use of natural resources some of which are nonrenewable and expected to become depleted as pressure continues on the environment. In particular for labor, such demand could ease poverty and improve the quality of life for the poor, women and indigenous people. In the meantime, funding by Islamic banks imposes constraints on the use of the natural capital to ensure environmental protection and sustain growth. Decisions concerning project financing take into consideration the cost and benefit to society in order to minimize negative externalities and maximize the social welfare. Most infrastructure development is linked to the natural environment making environmental protection a necessary condition for ethical investments in the Islamic economy. Islam recognizes the importance of natural resources for human survival, and therefore, considers management of the natural capital as a form of worship. There are several versus in the Quran in which environmental protection and sustainable consumption can be interpreted as a religious duty.

The social dimension of the Islamic economic system involves fair distribution of resources by providing access to all social groups in the community. Also, equal opportunity should be provided to acquire Knowledge and skills that can be used not only in environmental protection, but also in the development and growth of resources. Poor people and underprivileged groups should be given the opportunity to participate in the economy in order to reduce environmental risk and enhance capabilities for better management of natural resources.

III. SUSTAINABLE DEVELOPMENT

In recent decades, the debate about sustainable development has intensified due to climate change and because of the damage done to the natural environment from excessive exploitation of resources and waste. A recent report by Earth Overshoot Day 2019 states that to satisfy the current consumption rates of natural resources, humanity needs the equivalent of 1.75 planets. "We have only got one Earth- this is the ultimately defining context to human existence. We can't use 1.75 (earths) without destructive consequences", says the report. This implies that currently human consumption of resources is 1.75 times faster than our Earth can supply to meet demand. In the case of nonrenewable resources, consumption can be maintained — the definition of sustainable development — if the rents from nonrenewable resources are invested in production of produced capital instead of consumed. This is also known Hartwick rule (Hartwick, 1977) which views sustainability as a continuous investment of rent of nonrenewable resources to increase manufactured capital. In the case of oil and gas producing countries, investment of rent could be used to increase the stock of human capital, build infrastructure, produce renewable capital and strengthen institutions.

> We are living through the Great Acceleration –a unique event in the 4.5 billion-year history of our planet– with exploding human population and economic growth driving unprecedented planetary change through-the in-creased demand- for –energy,–land and water. This is so great that many scientists believe we are entering a new geological epoch, the Anthropocene. Yet the human benefits of the Great Acceleration have only been possible with nature. Without: healthy natural systems we need to ask whether future human development is even possible. (*Living Planet Report* 2018, 22).

Earth Overshoot Day establishes the date when human consumption of natural resources exceeds what natural capital can provide in one year. According to the report the resources of the Earth would have used up for all of the 2019 by Monday July 29. Rapid population growth, urbanization, transportation and rising income have increased demand for natural resources much more than the Earth capacity to supply which in turns widened the deficit between demand and supply. The cost of such deficit is increasingly evident in climate change, deforestation, soil erosion, and pollution.

By 2050 it is expected that the world population will exceed 10 billion, about 2 billion more people to feed than today. There is a need for more efficient food system to be implemented to reduce waste, improve storage facilities, and increase productivity of agricultural production. Currently, almost one half of the world land area has been used to support people daily use including housing, transportation, urban centers and waste. Not acting now could have a substantial impact on future trends with regard to international peace and security, global poverty, environmental degradations, and human survival. Many developing countries are lacking to some of the basic resources required to correct imbalances and support the natural environment. Climate change is a global problem and cannot be solved by individual countries. Developing countries are not fully equipped with adequate knowledge and information to mitigate environmental risks and provide solutions to the emerging problems.

The Report of the World Commission on Environment and Development: Our Common Future (also known as the Brundtland) defines sustainable development in terms of meeting the needs of the present without comprising the ability of future generations to meet their own needs. The notion of sustainability and sustainable development became increasingly popular after the report of the World Commission on Environment and Development (chaired by Gro Harlem Brundtland), Our Common Future (also known as the Brundtland report) was published in 1987.

According to the United Nations Environment Programme there are five major environmental drivers that are largely responsible for environmental change. These include population growth, urbanization, economic development, new technological forces and climate change. (See United Nations Environment Programme, 2019, 24) Changes in these drivers could influence the country ability to supply the resources needed to satisfy domestic demand. The concept of sustainable development establishes linkages between the socio-economic performance and the environment highlighting the importance of the natural capital to development. For developing countries, finding long term solution to the environmental problems will require investments in scientific, technical, managerial and environmental knowledge to promote innovation and support sustainable development.

> Sustainable development will need to be inclusive and take special care of the needs of the poorest and most vulnerable. Strategies need to be ambitious, action-oriented and collaborative, and to adapt to different levels of development. They will need to systemically change consumption and production patterns, and

> might entail, inter alia, significant price corrections, encourage the preservation of natural endowments; reduce inequality; and strengthen economic governance. (See United Nations, World Economic and Social Survey 2013, v)

Externalities of rapidly growing population, urbanization, new technologies and economic growth could widen imbalances between the society's need and resources. The task of sustaining development is complex and requires well-defined strategy driven by institutional reforms, public-private partnership, conducive business environment and public awareness programs. Digital technologies and the internet can be employed to strengthen the fundamentals for sustaining development by providing access to information, knowledge and skills. The developing countries should take advantage of these technologies to gain access to global knowledge and build cooperative and collaborative partnerships with foreign institutions.

During the Earth Summit in 1992, the United Nations adopted Agenda 21 in which the social and economic goals were integrated into the environment reflecting the importance of the natural capital in achieving the society sustainable development. In addition, the concept of green development was also begun to circulate in support of environmental protection and reduce the impact of market activities on the environment. Green development entails that business activities, including the financial industry, must play greater role in environmental protection by selecting projects less damaging to the ecosystem. A green economy is defined by the United Nations as the one in which:

> the vital linkages among the economy, society and environment are taken into account and in which the transformation of production processes, and consumption patterns, while contributing to a reduced waste, pollution, and the efficient use of resources, materials, and energy, will revitalize and diversify economies, create decent employment opportunities, promote sustainable trade, reduce poverty, and improve equity and income distribution. (United Nations Development Programme, Green Economy in Action, August 2012, 5)

Building capacity for green development requires investment in technological learning, knowledge creation, innovation and human resource management to increase the economy green capabilities and sustain green growth. Integration of the financial sector into the green development strategy is vital for funding projects friendly to the environment and supporting green development. Banks can issue regulatory measures and establish selective criteria that discourage investment in projects harmful to the environment.

In Europe, the green funds market is growing rapidly, driven mainly by countries making efforts to promote 'responsible investment' friendly to the environment. In 2016, the European green funds valued at Euro 22 billion distributed among 165 funds. Switzerland, France and United Kingdom are among the active markets in green funds representing almost 80% of the total responsible investment. The aim of these funds is to combine both environmental and social issues by investing in water management and treatment activities, renewable energy and climate change, waste management, healthcare and food. (For Green Fund Market see, The European Green Fund market, March 2017)

In 2015, The United Nations identified 17 Sustainable Development Goals (SDGs) to be implemented in 2030. These goals comprise universal challenges in particular for developing countries in such areas as poverty, inequality, gender, health, education, energy and the environment. Integration of the environment into sustainable development underscores the importance of linkages between the socioeconomic objectives of the society and the ecosystem. In other words, implementation of the SDGs facilitates the creation of a balance between human needs and the natural environment. Such a balance supports biodiversity and ensures the survival of the present generations without jeopardizing the survival of the future generations.

Financially, achieving the SDGs need the support of the financial institutions to finance green project friendly to the environment. Large percentage of investments in green projects will be allocated to an asset-based development in the form of infrastructures. Islamic finance, including sukuk, promoting an asset-based investment will have vital role to play in financing SDGs. Taking into consideration the Sharia compliant with regard to the environment, Islamic finance can take the lead in financing green projects that foster economic growth and sustain development.

Funding policy of Islamic banks should be integrated into the national development strategy to support funding for social projects with high positive externalities. Integration of finance into the national development could strengthen the fundamentals for achieving the SDGs by integrating the social, economic and environmental objectives of sustainable development. Financial innovation, mobile phone, the internet, fin tic and digital technologies are currently transforming financial services as well as offering new opportunities for countries to participate in the global financial markets.

Along with the Sharjah environmental compliance, Islamic finance integrates all sustainable development goals so that to increase linkages creation and stimulate economic growth. Sharing risks in the Islamic mode of investments could reduce the risk of business failures and increase confidence in the Islamic financial system.

In the Islamic economy, the financial contribution of the voluntary sector strengthens the stability of the Islamic financial system. Institutions such as Waqf and Zakat provide continuous streams of cash flows that support the financing of basic services and prevent people from falling below the poverty line.

However, financing through voluntary payments facilities sustainable development by increasing the society ability to meet its social needs. The stability of the Islamic financial system Risk reduction could also include environmental protection to avoid excessive consumption of natural resources and control waste.

IV. ISLAMIC CAPITAL MARKET

The capital market has always been important for providing long term financing for both corporate and government projects. Using long term financial instruments in project financing increase investors' confidence and reduce the risk of failures. Uncertainty about future market conditions is critical for business performance and debt payments which make the capital market more attractive for both private and public sectors to raise funds and invest in the economy. Corporations need money to finance long term projects and invest in research and development to support sustainable growth and compete in the market place. Conventional bonds are among the most popular financial instruments issued by corporations for financing long term business operations and assessing long term strategies. Holders of these bonds are paid pre-determined fixed coupon payments until the date of maturity. The returns on corporate bonds usually carry higher interest payments due to the risk factor and the uncertainty about macroeconomic performance of the economy.

Governments, on the other hand, are engaged in financing public projects that require long term financing for building and maintaining these projects. Long-term investment usually incurs higher risk that most investors consider as potential for failure due to uncertainty about market conditions and changes in macroeconomic variables overtime. Under such circumstances, investors seek compensation for long term investment which makes the cost

of borrowing in the longer term more expensive. The risk also varies between government and corporate securities which require corporate bonds to pay higher returns compared to those issued by government. Corporate bonds usually carry higher risks compared to that of government bonds which motivate investors to demand higher interest payments.

The Islamic capital market could offer substantial financial incentives for promoting development and achieving the SDGs. Investment in real asset according to the risk sharing principles of the Islamic modes of finance enhance market stability and strengthen investor confidence. "What makes the Islamic capital market different from the conventional capital market is the ethical dimension, which focuses on the long-term sustainability of society, and its principles of risk sharing and avoidance of excessive leverage and speculation." (Islamic Finance Global Report World Bank Group, 2018, 76). Such confidence in real finance encourages investors to allocate more resources for investment in infrastructure. In the Islamic economy, the monetary gain of investment represents only one dimension in decision makings. Islam incorporates both material and non-material objectives to serve the society social and economic needs. The voluntary sector in the Islamic economy involves various types of expenditures the aim of which is to satisfy the spiritual dimension of the Islamic faith. Such voluntary payments strengthen the stability of the Islamic financial system by increasing the circulation of money in the economy as well as deposits in the banking system.

An important financial product used by Islamic finance as an instrument of investment is *sukuk*, also known Islamic bands to distinguish them from conventional bonds. *Sukuk* are asset- based instruments the return for holders is paid in the form of dividends from profit instead of a pre-determined fixed amount as in the case of conventional bonds. Being an investment certificate, *sukuk* is also distinguished from conventional stocks for not representing ownership. The owner of these investment instruments receives share of the profit generated by the underlying asset. In other words, *sukuk* do not represent equity in the project, but a claim on the profit earned by the underlying asset.

Financing development projects diversify output and stimulate economic growth through linkages creation and entrepreneurship. Project selection in compliant with Sukuk strengthens sustainable development capabilities and increases the productive capacity of the economy to produce goods and services for both local and foreign markets. Both governments and corporations can issue *sukuk* to finance public expenditures and private businesses. Governments, especially in developing countries, need the money to finance public projects aimed at providing the basic needs and increasing productivity of the economy.

The issuance of Islamic *sukuk* could provide greater protection to the environment since most investment is linked to building infrastructure involving the natural capital. Asset-based development increases linkages that stimulate economic diversification and improve productivity. The Sharjah guidelines impose constraint on Islamic banks to fund projects that serve the public interest and sustain growth. Project financing by Islamic banks is to create jobs and diversify output which support long term sustainability and stability of the Islamic economy. The objective of Islamic finance is not necessarily to maximize profits, but to strengthen the Islamic fundamentals such as justice, equity and freedom. These fundamentals increase the society capabilities to produce goods and services that meet people basic needs and preserve individual dignity. Inclusion of development in Islam requires the financial system to contribute to the development of the whole community by funding projects with high social returns.

Harnessing Islamic *sukuk* for sustainable development could also reduce the cost of climate change and environmental pollution to society by reducing their impacts on the ecosystem. It is estimated that in developing countries, a yearly funding for the 17 sustainable development goals will require $5 trillion to $7 trillion in annual investment until 2030. Islamic *sukuk* has the opportunity to benefit from the growth in green investment and provide alternative for conventional financing.

Given the size of investment required for achieving sustainable development goals, the Islamic social financial system should take advantage of the new offer by the global society and provide alternative financial services for sustaining development. Inclusiveness of the Islamic social system exhibits ethical transactions that maximize the social welfare. UNCTAD estimates that for world nations to achieve the sustainable development goals annual investment of $5 trillion to $7 trillion will be required until 2030. Most investments are to support infrastructure development by financing long-term projects to strengthen the country development capabilities. The Islamic capital market must be activated to actively contribute to infrastructure development in both Muslim and non-Muslim countries. Issuance of sukuk could provide an opportunity for market stability and support for long-term growth. Islamic investment promotes inclusive objectives the benefit of which involves the social, economic and environmental dimensions of the society. The scope of conventional finance is limited to market need and the profitability of the project with little or no attention is paid to the interest of the public. It is the profit motive that encourages private investment which makes infrastructure projects such as education, poverty alleviation, and other social services not attractive for private enterprises. However,

governments could provide incentives for joint venture and partnership with the private sector to participate in infrastructure development. Shariah's compliant funds by Islamic banks could contribute to the green fund markets by endorsing ethical investments friendly to the environment. The developing countries should encourage markets for green investments to mitigate environmental risks and increase efficiency of resources. Green bonds were first issued by the World Bank in 2008 as investment securities that support climate-friendly solutions. Since then, these bonds have become popular among investors as a solution to environmental degradation and sustainable development. The World Bank has issued $11 billion worth of these bonds in 20 different currencies to fund projects friendly to the environment. In 2018, the value of green bonds sold in more than 50 countries worldwide accounted for $580 billion. In 2019, the sale of green bonds is expected to reach $190 billion.

(See https://www.bloomberg.com/news/articles/2019-03-24/what-are-green¬bonds-and-how-green-is-green-quicktake Bloomberg Businessweek).

The Islamic capital market is still in its early development lacking to diversified Islamic financial products. In most Muslim countries, the stock markets. The capital market is critical for mobilization of financial resources not only for financing long term projects, but also for providing incentives for investors to participate in development. The Islamic modes of investments promote risk sharing that make it more attractive for investors to invest in the domestic economy. Unlike conventional finance in which investors seek to maximize short term earnings, Islamic finance supports investment in real asset which requires longer time to be implemented. Shariah compliant investment endorses long term risk sharing as well as *sukuk*, also known as Islamic bonds, are asset-backed securities the return on which is paid from the profit earned of the underlying asset. Unlike conventional bonds which pay a pre-determined fixed amount above the principles, the return on sukuk is a fixed rate of the profit earned from the underlying asset. The return to investors usually varies in relation to the market performance of the underlying asset.

Currently, it is estimated that the shariah-compliant assets account for US$2 trillion which highlight the fast growth experienced by the Islamic financial institutions during the last three decades. The shariah-driven functions of the Islamic financial system make investments socially applicable by taking into consideration the collective benefits of the entire society. Such considerations pursue socially balanced and inclusive development aimed at mobilization of the society resources to establish equity and support sustainability of the ecosystem.

Infrastructure projects are linked to the environment by making use of natural resources to support green development. Asset-based *sukuk* could achieve both the environmental and socio-economic goals of sustainable development. The Islamic financial system provides linkages between green development, reasonable investments, equity and sustainable development goals. Islamic finance is an integrated element in the Islamic socio-economic system so that funding by Islamic banks must contribute to social and economic well-being of the whole society.

In developing countries, building partnership between private and public sectors not only reduce the risk and increase market confidence, but also promote sustainable development. Investments in the Islamic economy aim to serve the public interest through the mobilization of the society resources so that to achieve both material and non-material objectives.

CONCLUSION

This paper sheds some light on the role that Islamic social finance plays in environmental management and sustainable development. Recent literature on development studies highlights the need for environmental protection to sustain economic growth and support the ecosystem. The concept of sustainable development links the society social and economic dimensions to the environment reflecting the importance of the linkages between human survival and the natural capital. Providing such basic resources as water, food and energy, makes the natural environment the most valuable supplier of resources needed for supporting life on the planet earth. Some of the Earth resources are non-renewable which requires an effective management system that monitors market demand and supply of resources.

Islamic social finance contributes to sustainable development through financing ethical investments which maximize the social returns and protect the environment. The Islamic financial system is driven by rules and guidelines endorsed by the Islamic legal system to promote justice and equity among Muslims. In Islam, the objective of the financial institutions is to serve the national interest of the community by financing real assets to diversify output and create job opportunities for people. Such financing stimulates market activities and support the economy to increase productivity, alleviate poverty, promote equity and preserve human dignity.

Infrastructure development is important for strengthening confidence in the economy

and encouraging both local and foreign enterprises to invest in the domestic market. In addition, Islamic finance could create attractive business environment for investment through risk sharing and cost reduction. Financing environmentally friendly real asset contributes to environmental protection by reducing the impact of business activities on the ecosystem.

Discussion in the paper highlights the contribution of the Islamic financial system to achieving the sustainable development goals. Asset-based financing could help both Muslim and non-Muslim countries to adapt the Islamic modes of investment as an alternative to the conventional methods of financing. The inclusiveness of the Islamic economic system underscores the comprehensive contribution that Islamic social finance makes to sustainable development and survival of humanity. It is, therefore, recommended that more research is needed to explore the potential contribution of Islamic social finance to development.

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