

Islamic Finance and Climate Agenda: From Green Sukuk Innovation to Greener Halal Value Chains

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Introduction

Islamic Finance and Climate Agenda was written by the World Bank Group Inclusive Growth and Sustainable Finance Hub in Malaysia in cooperation with the Islamic Development Bank (IsDB) Center of Excellence in Kuala Lumpur and was released in November 2025; it was presented publicly at Sasana Kijang in January 2026. Its regulatory access is unique, and its data set — built from Climate Bonds Initiative, Refinitiv and Pitchbook sources for 2017–2024 — is the first attempt to quantify this market systematically. It is also an institution reporting on its own activity: the World Bank provided the technical assistance behind the first green sukuk in 2017 and co-runs the 2025 Greening Halal Businesses pilot. The Foreword says it is “both a roadmap and a call to action,” which is accurate about genre. This review argues that the data assembled to construct the roadmap lead to a different and arguably more useful conclusion than the one reached: that asset-backing and risk-sharing — the very attributes that the report identifies as evidence that Islamic finance is aligned with the climate — are the constraining factors limiting climate finance. Read as costs rather than virtues, they explain the puzzles in the report’s own data — and turn an advocacy document into a research agenda.

Chapter 1: Scope and the Framing Decision

The governing decision is in Chapter 1. The report’s Figure 1.7 — all chapter-numbered figures

and tables cited below are the report’s, not this review’s — divides financing for sustainability into managing physical and transition risks and mobilising capital for sustainable investment; the report addresses only the second. This is not a minor omission. The alignment argument is about both parts; if Islamic screening is really in line with climate, we should see it in low exposure to high-emission assets, not merely in participation in labelled issuance. By leaving out the first part, the report leaves no room to disprove the alignment argument. It is also a retreat. ADB and IsDB’s Unlocking Islamic Climate Finance (2022) — the source of this report’s own Figures 2.12 and 2.13 — actually dealt with the transition risk part, and found that because Islamic contracts are linked to physical assets, Islamic institutions carry structurally higher exposure to commodities and real estate than conventional peers. Three years and a much richer data set later, the successor narrowed the frame.

Executive Summary: Growth, Adequacy and the Size of the Gap

The report presents the OIC’s 24.4 per cent annual growth rate as a positive sign against a global 22.9 per cent. Applied to a 0.1 per cent base, a 1.5 percentage point gap implies around 190 years to reach a 1 per cent share. The bottleneck at these rates cannot be the growth rate; it has to be the base. The strategic implication, un-stated, is that what this market needs is a discrete increase in the eligible universe, via sovereign benchmark curves, taxonomy

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interoperability, or allocation targets, rather than incremental market building. All nine actions in Chapter 4 are incremental market building.

Adequacy points the same way. The report says over US\$1 trillion is required by 2050 for OIC climate action, and separately that Islamic sustainable issuance totalled US\$53.9 billion over eight years. Figure 1 sets the two against each other. Actual issuance runs at approximately US\$6.7 billion per year against the US\$38.5 billion the target implies, and that counts every issuance as climate finance, which the re-port's own one-third green-label finding forbids; on green-labelled sukuk alone the rate is 3.5 per cent of requirement. Both figures are in the Executive Summary and are never divided. Nor is the trillion itself robust: the report's Table 2.1 adds up to US\$1,240 billion for nine countries, already larger than the total attributed to 57, and mixes 2030, 2040 and 2050 horizons with present-value and nominal terms.

Chapter 2: The Natural-Fit Claim and Its Denominator

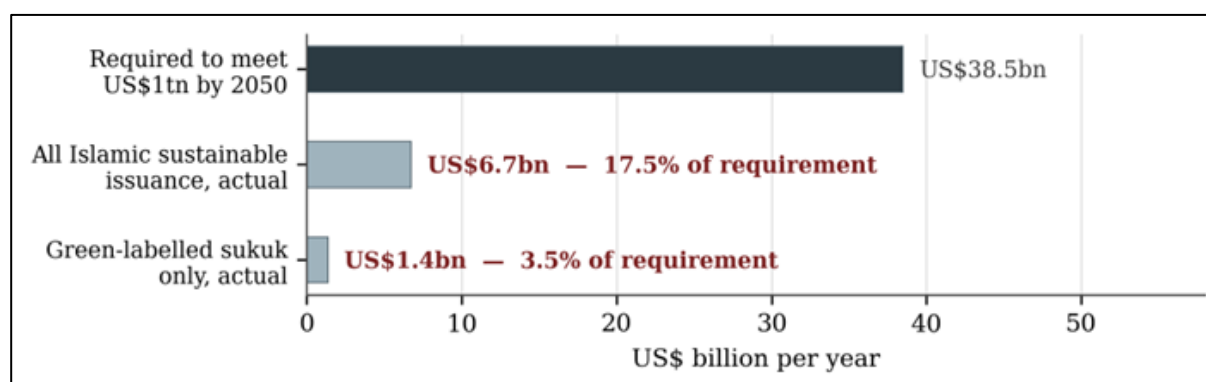
The report infers from the fact that Islamic issuances account for 4.6 per cent of all Islamic financing, “a higher share compared to the

conventional markets,” that this “reinforces the narrative of Islamic finance as a natural fit for climate finance.” The conventional market benchmark is not provided, and footnote 13 admits the analysis does not investigate determinants. But the deeper issue is the choice of normalisation. Two are possible: Islamic sustainable issuance as a share of Islamic financing (the report's choice), or Islamic sustainable issuance as a share of all OIC sustainable issuance (which is 16 per cent). The latter is no less natural, and it invites the obvious comparison the report leaves out — Islamic finance's share of the financial system in the OIC countries where it is actually issued, which is well above 16 per cent in Malaysia, Saudi Arabia and Brunei. Under this normalisation, Islamic finance is under-represented in sustainable issuance relative to its footprint. The choice of denominator is never justified.

Its own glossary quietly undermines the conclusion. “Islamic sustainable fi-nance” is defined as “Shariah-compliant sustainable finance,” and “Islamic climate finance” is “Shariah-compliant climate fi-nance” — purely conjunctive definitions of two properties that just happen to co-exist. If the convergence were substantive, the conjunction would be near-redundant.

Figure 1

Islamic sustainable issuance against the rate implied by the report's own US\$1 trillion estimate



Source: Constructed by the author from World Bank & IsDB (2025); annual rates derived by the author.

Chapter 2: Green Labelling and the Cost of Asset-Backing

The most notable finding of the report is that while one-third of sustainable sukuk have a green label, nearly two-thirds of sustainable bonds do — US\$10.9 billion from 17 issuers versus US\$37.3 billion from 57, within the same jurisdictions, regulators and investor base. Its explanation is that Islamic instruments are used for “a broader range of sustainability goals,” which repeats the observation rather than explaining it. Figure 2 shows why that explanation fails. If sukuk were simply serving broader objectives they would be over-represented under social and sustainability labels. They are not: there they reach near-parity with bonds, while under the green label they reach less than a third. Islamic instruments are not diverted to other objectives; they are impeded at one particular label.

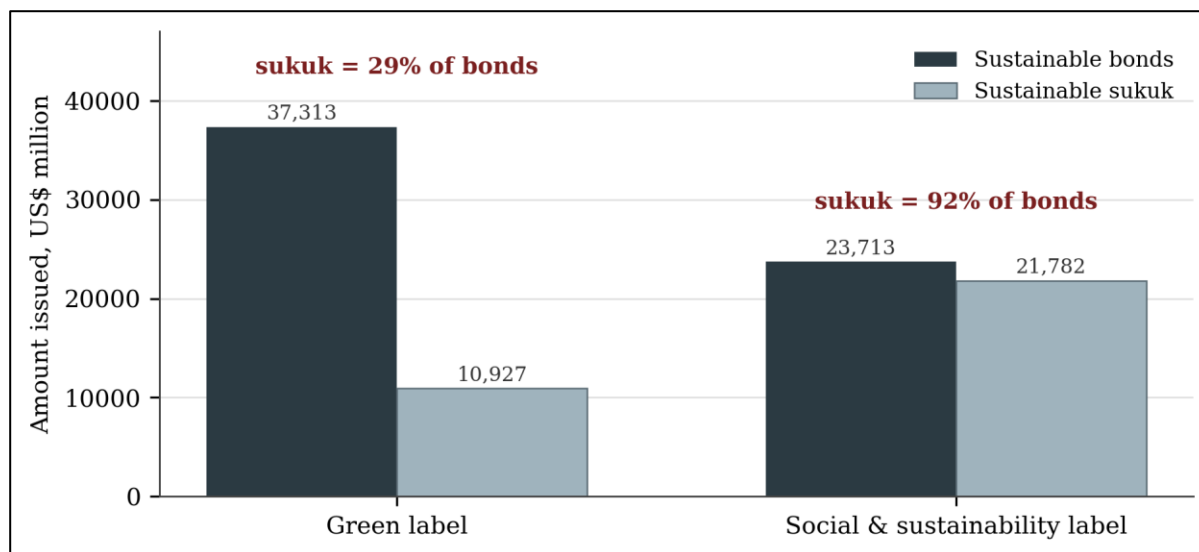
A more compelling explanation can be found in the glossary of the report itself. Under current conventions, a product can only receive green labelling if the use of proceeds can be traced back to green as-sets. However, a sukuk cannot exist in the

first place without an underlying tangible asset, usufruct or service, which has been chosen to fulfil Shariah criteria and not environmental ones. The issuer there-fore faces two asset requirements where a conventional issuer faces one, and the eligible universe is correspondingly smaller. Hence asset-backing — the feature the re-port advances as evidence of alignment — is a principal reason green labelling is harder to achieve in sukuk than in bonds.

The hypothesis makes predictions the report’s data confirm. Green sukuk should be predominantly issued where there is an intersection between Shariah-compliant tangible assets and climate change eligibility — large-scale generation, transmission, certified buildings, rail. The report finds 58 per cent of OIC green sukuk are issued for energy. Adaptation should be systematically under-served, because adaptation assets often consist of public goods that do not generate revenue (seawalls, drainage, early warning systems, etc.) and there-fore resist structuring through *ijarah* or *musharaka* contracts. The report concedes adaptation lags mitigation and attributes it to a lack of expertise; the constraint may be contractual rather than cognitive.

Figure 2

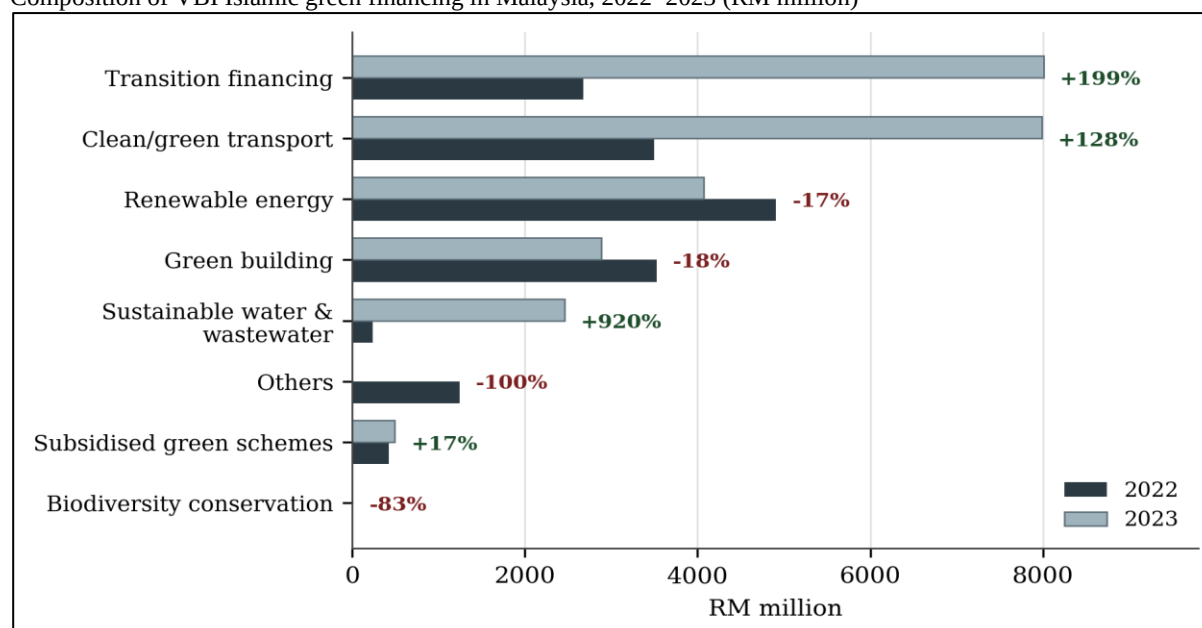
Sustainable sukuk reach near-parity with bonds under social and sustainability labels, but not under the green label, OIC 2017–2024



Source: Constructed by the author from World Bank & IsDB (2025), Figure 2.5.

Figure 3

Composition of VBI Islamic green financing in Malaysia, 2022–2023 (RM million)



Source: Constructed by the author from World Bank & IsDB (2025), Figure B2.2.

The same argument reveals a contradiction the report leaves untouched. ADB and IsDB (2022) note how sukuk that are structured through commodity *murabaha* or *wakalah* face challenges in identifying non-carbon-intensive commodities that could serve as collateral assets. However, in this report, 40 per cent of Malaysia's sustainable sukuk are structured through *Murabaha*. Taken together, a significant proportion of one of the world's largest sustainable sukuk markets may rest on collateral drawn from the very commodity classes the instrument is raised to displace. Neither report makes the connection; each supplies half of it.

Chapter 2: Risk-Sharing, *Musharaka* and *Takaful*

The Foreword is premised on risk-sharing. The report's data indicate it is almost entirely illusory. Indonesia issues 72 per cent of its sustainable sukuk through *Musharaka*, a partnership structure — yet 96.7 per cent are government-issued, so the investor in this 'equity' structure faces sovereign rather than commercial risk. In Malaysia, where non-financial corporations issue nearly half of all sustainable sukuk, 40 per cent are structured through *Murabaha*,

which is effectively a debt instrument. *Mudaraba*, the most direct form of profit-and-loss sharing, makes up just one per cent of the overall OIC figure. Profit-and-loss sharing only emerges when a sovereign balance sheet is prepared to take the loss, and defaults to debt whenever real credit risk is involved. Chapter 4 nonetheless recommends lever-aging the industry's "inherent risk-sharing principles" to develop Shariah-compliant private equity and venture capital in a market in which the OIC accounts for only 0.46 per cent of the global PE and VC market for clean technologies. Eight years of data record a revealed preference the report proposes to reverse without first explaining it.

Takaful demonstrates the point structurally. The report states that, in the DRIVE project, *takaful/retakaful* loss-absorbing capacity is minimal compared with reinsurance; that temporary Shariah dispensation has been granted to use conventional reinsurance; and that Somali *takaful* funds are not being used to cover losses, which are paid instead through ZEP-Re's *retakaful* window under exemption. The report treats this as a maturity problem. More plausibly, *takaful* can-not accumulate

loss-bearing capacity, a problem inherent in the instrument. Loss absorption depends on capital, and takaful capital comes not from shareholders but from participant contributions; a mutual-donation structure cannot build a buffer large enough for catastrophe risk, which is precisely the risk the climate agenda asks it to carry. This explains why the flagship case needs a conventional backstop, and why takaful remains 1.4 per cent of Islamic financial assets. Chapter 4 lists takaful for mainstreaming without addressing capital at all.

Chapter 2: Claims That Outrun the Evidence

Several claims carry more weight than their evidence supports. Green sukuk, the report notes, have generally been over-subscribed, which it reads as evidence of strong private sector demand for thematically aligned issuances. Oversubscription is endemic to sukuk markets, where Shariah-compliant liquidity chronically exceeds available paper. Isolating demand would require a within-issuer green-versus-vanilla comparison, or a pricing differential. Greenium is not discussed anywhere in the report.

The report reads the halal survey's 94 per cent enthusiasm for green practices as demand. Figure 4 shows why it is not. Enthusiasm and stated priority cost nothing and clear 88 per cent; every item carrying a price — certification, disclosure, financing — falls to between 9 and 21 per cent. This is indicative of the gap between stated and revealed preference, the single most useful insight of the report, which goes un-remarked upon. It follows that retail and SME green products in these markets will require a price concession rather than an awareness campaign — a point that appears nowhere.

The professional survey drew 68 responses, roughly 70 per cent from South-east Asia, and is used to characterise 57 countries. Within it, every respondent from the Islamic banking and takaful sectors is reported to have adopted either a sustainability strategy or a net-zero action plan. A 100 per cent result in a voluntary survey is a self-selection artefact. It also clashes with the report's Figure 2.17, where 9 per cent of survey respondents select the answer "my institution does not currently have any sustainability/climate strategies".

Chapter 3: The Case Studies

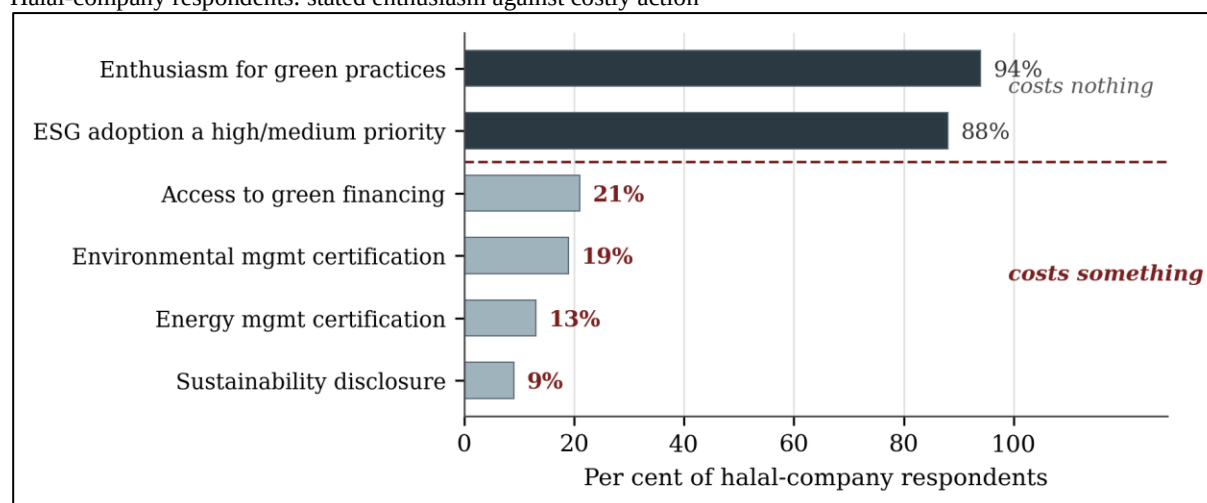
Chapter 3 has no stated case-selection criteria, and its cases track the authors' own projects. Of the five sukuk cases, two are conventional and two are hypothetical structures drawn by the authors; the Amazon Reforestation-Linked Outcome Bond, a World Bank instrument in a non-OIC country with conventional counterparties, is awarded four paragraphs and a transaction diagram to substantiate two speculative sentences. No case documents a failure. A report authored out of Kuala Lumpur, which describes a market in which Malaysia accounts for 47 issuances worth US\$13.4 billion, does not include a single Malaysian sukuk case.

Chapter 4: The Nine Actions

The nine actions of Chapter 4 have no lead institution, date, order or cost; each is mapped to three to five stakeholder categories; where everyone is responsible, no one is. They largely recapitulate ADB and IsDB (2022) recommendations on capacity building, taxonomy work, pipeline development and blended finance. The report neither asks why those recommendations did not take, nor revises them.

Figure 4

Halal-company respondents: stated enthusiasm against costly action



Source: constructed by the author from World Bank & IsDB (2025), Figures 2.24–2.26.

Box 2.2: Malaysia and the VBI Data

Malaysia's 80.4 per cent sustainable-sukuk share of its sustainable debt issuance is portrayed as indicative of leadership. It is at least as plausibly fiscal: Malaysia paired its SRI Sukuk Framework with cost relief and grant support for sustainable sukuk; Türkiye, with no similar incentive, records a zero per cent sustainable sukuk share. Both the doctrinal thesis and the tax argument would predict the same sustainable-sukuk share; the share therefore cannot discriminate between them, and the two diverge sharply on durability were the incentive to lapse.

Composition matters more than the total. VBI Islamic green financing rose 57 per cent between 2022 and 2023, but Figure 3 shows the growth was not where the label implies: the two least contestable green categories both contracted, while transition financing nearly tripled to take roughly 31 per cent of the total, and bio-diversity conservation received RM1 million in a megadiverse country. Whether transition financing is achievement or euphemism depends on counterfactual base-lines and the credibility of borrowers' transition plans. That is the question a climate finance report exists to ask.

Finally, demand. A Waqf ETF holds 1.5 million units against an authorised billion, 0.15 per cent; 18 tokens are listed on Labuan's RAMZ; 650 SMEs have been reached by the Greening Value Chain Programme. Products exist, and remain un-purchased, in the world's two most developed Islamic finance markets. Yet eight of nine actions are supply-side, and the stakeholder table never names investors, households, distribution channels or financial advisers. Indonesia offers retail green sukuk through its Sukuk Tabungan series; Malaysia has no comparable programme. Every touchpoint at which retail money might be channelled — portfolio construction, EPF Shariah and ASNB retirement accounts, takaful protection planning, estate and waqf planning — sits with licensed financial planners. The profession is not the intended audience of this report; on the re-port's own evidence about where the constraint lies, it is the missing fourth pillar.

Appendix 1: Internal Consistency and Data Regimes

Errors of internal consistency compound the difficulty. Islamic banking assets are US\$2.78 trillion on page 28 and US\$2.2 trillion on page 33, a 26 per cent discrepancy in the denominator of the key assertion. Islamic fintech is US\$138 billion out of a

global US\$12.27 trillion, yet re-reported as 0.01 per cent when the math works out to 1.12 per cent. And since the bond and sukuk data is from CBI and syndicated financing data from Refinitiv — diverging by US\$17.8 billion and 158 issuers for sukuk alone, per Appendix 1 — the headline ratios rest on inconsistent regimes, and the one-third figure, which depends wholly on CBI's taxonomy, is never sensitivity-tested.

inadvertent: it has assembled, for the first time, the evidence with which the natural-fit proposition can be tested — and in declining to test it, it has left the most interesting question in the field open and now answerable.

Conclusion

Why would two independent multilateral teams assert the same claim three years apart without testing it? The most generous reading is also the most structural: the proposition is load-bearing for the institutional programme it accompanies. Shariah-compliant climate windows, blended facilities and technical assistance to OIC members all presuppose that Islamic finance is a natural vehicle for climate capital. A premise that underwrites a mandate is asserted, not interrogated — and the limb of the analysis capable of falsifying it is placed outside scope. That is a fair account of an advocacy document, and no criticism of the individuals who wrote it. It is, however, a strong reason for academic readers to supply the test the institutions have not.

In fairness, this is a market development report rather than a research paper, and its descriptive scope is a defensible choice for the genre. Its reliance on CBI is a disclosed trade-off and small samples are normal in a market this size. The mapping of the five *Maqasid al-Shariah* to climate action goals in Box 2.1 is the most thorough analysis published so far, and the database is undoubtedly a valuable public resource. The difficulty is that the report reads its structural features as credentials when its own data read them as costs.

Islamic Finance and Climate Agenda is the most comprehensive dataset currently available, and it is free. It is strongest where it describes and weakest where it declares. Its lasting contribution may be