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Green Sukuk and Sustainable Finance in the OIC and EU Context

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ABSTRACT

This article examines the emergence of green sukuk as an instrument situated at the intersection of Islamic finance, sustainable finance, and comparative financial regulation, with particular reference to the Organization of Islamic Cooperation (OIC) and the European Union (EU). The study argues that green sukuk may represent a distinctive mechanism for financing sustainable development because they combine Sharia-compliant financial structures with environmental, social, and governance (ESG) objectives, thereby linking ethical finance to climate-transition strategies. After outlining the legal and operational characteristics of sukuk and their evolution within Islamic finance doctrine and AAOIFI standards, the article analyses the increasing role of green sukuk in financing renewable energy, climate adaptation, and sustainable infrastructure projects across OIC jurisdictions...

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RESEARCH ARTICLE

Green Sukuk and Sustainable Finance in the OIC and EU Context

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QUALIFICATIONS / ROLES

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This article examines the emergence of green sukuk as an instrument situated at the intersection of Islamic finance, sustainable finance, and comparative financial regulation, with particular reference to the Organization of Islamic Cooperation (OIC) and the European Union (EU). The study argues that green sukuk may represent a distinctive mechanism for financing sustainable development because they combine Sharia-compliant financial structures with environmental, social, and governance (ESG) objectives, thereby linking ethical finance to climate-transition strategies. After outlining the legal and operational characteristics of sukuk and their evolution within Islamic finance doctrine and AAOIFI standards, the article analyses the increasing role of green sukuk in financing renewable energy, climate adaptation, and sustainable infrastructure projects across OIC jurisdictions, particularly in Malaysia, Indonesia, Saudi Arabia, and the Gulf region. The article then explores the European dimension of sustainable Islamic finance through the lens of the European Green Deal, the EU Taxonomy Regulation, and the “Do No Significant Harm” principle, underscoring convergences and tensions between EU sustainability regulation and Sharia governance. Adopting a comparative-law methodology, the article highlights how green sukuk serves as a privileged vantage point for analyzing the broader transformation of contemporary financial law into a plural and transnational normative space. Finally, the article analyses the central role of the doctrinal formant in shaping Islamic financial law, focusing on AAOIFI Sharia Standard No. 62 and the transition from asset-based to asset-backed sukuk structures. It is argued that the future credibility of green sukuk markets depends upon the development of transnational governance mechanisms capable of preventing both greenwashing and “Sharia-washing” through stronger disclosure, environmental oversight, and interdisciplinary expertise. The article concludes that green sukuk may constitute an important component of global sustainable finance, provided that regulatory harmonization, secondary-market development, and integrated Sharia-environmental governance continue to evolve within an increasingly transnational legal framework.

Keywords: *green sukuk, ESG, OIC, Europe, sustainable finance, Islamic finance law, comparative law***Correspondence:** Laura Maria Franciosi

1 Introduction

The United Nations 2030 Agenda has set seventeen Sustainable Development Goals (i.e., Sustainable Development Goals, “SDGs”): the SDGs recognize that ending poverty is closely interconnected with strategies that reduce inequalities and stimulate economic growth, all while combating climate change and preserving the environment.

In this context, it is believed that Islamic finance, with its fundamental ethical principles, can play a crucial role in promoting sustainable development and financial inclusion¹

The precepts that characterize the salient features of Islamic finance are: (i) the prohibition of *ribà* or “accrual”, commonly understood as the prohibition of interest; (ii) the prohibition of introducing elements of uncertainty (*gharar*); (iii) the prohibition of speculation (*maysir*); (iv) the prohibition of investing in prohibited activities (*haram*)²; (v) the principle of profit and loss sharing (i.e. *profit-loss sharing* or PLS); (iv) the duty to work for the satisfaction of needs, justice, efficiency, growth and freedom³. In addition, investments must be approved by a Sharia Advisory Board, which certifies their compliance with Sharia. This committee can operate either as an internal, yet independent, body

²The *fiqh* grouped human actions into five different categories: obligatory, prohibited, recommended, discouraged, and free acts. Failure to perform an obligatory act or committing a prohibited act exposes the perpetrator of the action or omission to punishment. W.B. HALLAQ, *An Introduction to Islamic Law*, Cambridge, 2009, p. 20. A. PREDIERI, *Sharia e Costituzione*, Roma-Bari, 2006, pp. 121-125.

³Ex multis: M.N. SIDDIQI, *An Islamic Approach to Economics*, Washington DC, 1988.

¹A. JIMOH, B. KOLAWOLE, *Islamic microfinance as a panacea for poverty alleviation*, in *EJIF*, 2024, 11(1), pp. 17-30.

of a bank or financial institution⁴, or as an external body to which a specific question is submitted and that grants an opinion (*fatwa*)⁵.

In this context, it is believed that Islamic finance can contribute to environmental sustainability goals, especially through the rise of green sukuk, or ESG-sukuk⁶. As further detailed below, sukuk are typical financial instruments of Islamic finance. Recent statistics indicate that sukuk assets amount to approximately \$900 billion, representing nearly half of global Islamic financial assets, with growth rates exceeding 10%. sukuk outstanding globally grew 15.5% year-over-year, reaching \$1 trillion at the end of the third quarter of 2025, of which 28% is in US dollars⁷. Among these, green sukuk issuance reached \$11.9 billion in the first nine months of 2024, up 18% from the same period in 2023. They accounted for 1.6% of total ESG bond issuance and 6.4% of total sukuk issuance⁸.

The issued sukuk have been labeled “green” in accordance with the Green Bond Principles (GBP) of the International Capital Market Association (ICMA). In addition to the GBP, several green sukuk qualify under the ASEAN Green Bond Standards of the ASEAN Capital Markets Forum⁹. Moreover, green sukuk issued in Malaysia and Indonesia follow not only the GBP and/or the ASEAN Green Bond Standards, but also the national ones, namely the Sustainable and Responsible Investment (SRI) Sukuk Framework of Malaysia and the Green Bond and Green Sukuk Framework of Indonesia¹⁰. Furthermore, in 2024, ICMA, the Islamic Development Bank, and the London Stock Exchange Group published new guidance on the issuance of green, social, and sustainability sukuk. This collaborative effort, announced at COP28, aims to provide practical information and promote standardized best practices, further developing the sustainable sukuk market¹¹. As of September 2020, \$10 billion in green sukuk has been issued by 11 institutions from four countries (in

descending order): Indonesia, Saudi Arabia, the United Arab Emirates, and Malaysia, as well as by a multilateral development bank¹². Notably, Saudi Arabia, Indonesia, and Malaysia are the undisputed leaders in this segment and are expected to continue growing, given strong demand from Gulf Cooperation Council countries, particularly for financing green and sustainable transition projects¹³. Green sukuk are issued by the four major sukuk issuing countries. As mentioned, more than half of sukuk (65%) and green sukuk (64%) are issued in the Asia-Pacific region (Indonesia and Malaysia). Indonesia is the largest issuer of green sukuk (54% of the market, valued at approximately \$5.5 billion), driven by the Indonesian government’s issuance of these instruments. Although Malaysia is the smallest issuer of green sukuk (\$1 billion), it has the largest number of private issuers supported by subsidies and tax incentives for green bonds¹⁴.

Furthermore, a recent study analyzed the effects of green sukuk – in particular, those issued from 2018 to 2022 – on the negative consequences of climate change, arguing that, both in the short and long term, green sukuk can help reduce these negative effects in the issuing countries¹⁵.

2 Characteristics and evolution of the sukuk regulation

The development of the sukuk market was characterised by an intense doctrinal debate, particularly in the Islamic context: a significant portion of the interpreters believed that the sukuk issued (especially in the initial period) were entirely similar to traditional bonds, raising serious critical issues from the point of view of compliance with the Sharia¹⁶; conversely, another part of the doctrine has emphasized the structural differences between the two instruments, underlining the compliance of sukuk with the principles of Islamic finance and, according to some scholars, their lower levels of risk¹⁷, also thanks to the guidelines developed by a private institution, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)¹⁸. Hence, the AAOIFI’s

¹²D. AZHGALIYEVA, *Green islamic bonds*, Asian Development Bank Institute, 2020: <https://www.adb.org/sites/default/files/institutional-document/691951/ado2021-br-green-islamic-bonds.pdf>.

¹³REPORT REFINITIV, *Islamic Finance Development Report 2022 – Embracing Change*, London Stock Exchange Group, 2022, 6: https://icd-ps.org/uploads/files/ICD%20Refinitiv%20ifdi-report20221669878247_1630.pdf.

¹⁴D. AZHGALIYEVA, *Green islamic bonds*, cit., p. 2.

¹⁵S. SURIANI ET AL., *Do Global Green Sukuk Affect on Climate Change? Evidence in Issuing Countries*, cit., *passim*.

¹⁶For example: M.T. USMANI, *Sukuk and their Contemporary Applications*, AAOIFI Sharia Council Meeting, 2007: [¹⁷S. CAKIR, F. RAEI, *Sukuk vs Eurobonds: Is There a Difference in Value-At-Risk?*, International Monetary Fund - Working Paper WP/07/237, 2007; N. ALAM, ET AL., *Are Islamic Bonds Different from Conventional Bonds? International Evidence from Capital Market*, in *Test. Borsa Istanbul Review*, 2013, 13\(3\), p. 22 ff.](https://d1wqtxts1xzle7.cloudfront.net/19945996/sukuk-and-their-contemporary-applications-libre.pdf?1390866399=&response-content-disposition=inline%3B+filename%3DSukuk_and_their_contemporary_application.pdf&Expires=1764409562&Signature=YFbTUWkMY8GuYrE6MLiaGUrVei8TsHGzjzIX5-S15lm9gf4R7pEpF4w4TmQQRhAA9ion9O1s9gxmHRJG1TSg3ppTe61bPk831AYoad15-1KzVscXBdtiWYtU0OYQAe8dQ3Ux1dJF0-~OTtoXT0GsxLQcnd3BDfOpSuLeXQhmlaDKgdhQYOTDveAUgJgRefot37XRxEwFzDR77JfmJBZiqIE2Jxr4HLVd-rPkvsW916RnNxUpBFXNhaCfQvUyxwvdQ8im36f3cWtGmtm796HBCEAoy2v7-8zPvUtu3mfmxExqWzqmNm7rPn-t1A-h5yalY4NkvjNA__&Key-Pair-Id=APKAJLOHF5GGSLRBV4ZA; N. MILLER ET AL., <i>UK Welcomes the Sukuk</i>, in <i>International Financial Law Review</i>, 2007, 26(5), pp. 24-25; S. RAHIM, S. N. AHMAD, <i>Stock Market Reactions Following Sukuk Announcement: An Analysis of Dow Jones Islamic Market Index (2004-2011)</i>, in <i>IOSR Journal of Economics and Finance</i>, 2014, 5(6), pp. 29-35; R. WILSON, <i>Innovation in Structuring of Sukuk Securities</i>, in <i>Humanomics</i>, 2008, 24(3), pp. 170-181.</p>
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¹⁸AAOIFI is a private institution, founded in 1991 in Bahrain, and is considered “the leading international not-for-profit organisation primarily responsible for development and issuance of standards for the global Islamic finance industry. It has issued a total of 100 standards in the areas of Shari’ah, accounting, auditing, ethics and governance for international Islamic finance. It is supported by a number of institutional members, including central banks and regulatory authorities, financial institutions, accounting and auditing firms, and legal firms, from over 45 countries. Its standards are currently followed by all the leading Islamic financial institutions across the world and have introduced a progressive degree of harmonisation of international Islamic finance practices”: <https://aaoifi.com/our-history/?lang=en>.

⁴For an interesting analysis of the Italian context: P.P. BIANCONI, *Islamic Bank in Italy*, Torino, 2020.

⁵For an in-depth examination of the functions of the *Sharia Boards* see in particular: S. ALVARO, *La finanza islamica nel contesto giuridico ed economico italiano*, in *Quaderni Giuridici CONSOB*, 2014, 6, pp. 15-19. In particular, the main functions of Sharia Boards are believed to be: 1) certifying the Sharia compliance of the company’s products, services, and contracts; 2) monitoring the company’s compliance with religious rules; 3) auditing (again, in terms of Sharia law); 4) providing consultancy to management. *Ibidem*. In this perspective, a very important *fatwa* is the one issued in 1998 by Sharia Board of the Dow Jones Islamic Market™ Index (which began operating in 1999 precisely on the basis and as a result of the guidelines received), which makes use of an independent Sharia supervisory board, composed of four experts from distinct geographical areas, so as to ensure that all interpretative currents are represented. *Ex multis*: K. JOUABER-SNOUSSI, *La finanza islamica - Un modello finanziario alternativo e complementare*, Milano, 2013, p. 43. For further information on the Sharia compliance standards of Islamic market indices: https://www.spglobal.com/spdji/en/documents/methodologies/methodology-dj-islamic-market-indices.pdf?utm_source=pdf_education. [the date of last access to all reported websites is May 14th, 2026].

⁶*Environmental, Social and Governance*: The first category is considered to include investment instruments in the areas of climate change and carbon emissions; natural resources, water management, pollution, and waste; the second category includes those relating to the health and safety of the workforce and its diversity and training; responsibility towards customers and products; community relations and charitable activities; the third category includes those relating to shareholder rights, composition of the board of directors (in terms of independence and diversity of composition); management remuneration policies; and prevention of fraud and corruption. *Ex multis*: AA.VV., *Sustainable and Green Finance: Conventional vs Islamic*, Report submitted at the *International Scientific Conference on Economic and Social Development*, Porto, 12-13 July 2024: https://www.esd-conference.com/upload/book_of_proceedings/Book_of_Proceedings_esdPorto2024_Online.pdf#page=142.

⁷B. AL NATOOR, S. SHAWQI, *The Know: The Rise of Sukuk in Global Finance*, 2025: <https://www.fitchratings.com/research/islamic-finance/global-outstanding-sukuk-to-cro-ss-usd1-trillion-in-2025-overallcredit-profile-stable-08-01-2025>.

⁸London Stock Exchange Group, *Green and Sustainability Sukuk Update 2024*, p. 6: https://www.lseg.com/content/dam/data-analytics/en_us/documents/reports/lseg-green-and-sustainability-sukuk-2024-report.pdf.

⁹WORLD BANK, *Pioneering the green sukuk. Three years on*, Washington DC World Bank, 2020: <https://openknowledge.worldbank.org/server/api/core/bitstreams/8fdcccd7b-d4c4e-57e8-8d80-4e15dfe75c0f/content>.

¹⁰*Ibidem*.

¹¹<https://www.icmagroup.org/assets/documents/Sustainable-finance/ICMA-IsDB-L-SEG-Guidance-on-Green-Social-and-Sustainability-Sukuk-April-2024.pdf>.

specific choice to call sukuk "investment sukuk" to differentiate them from conventional stocks or bonds. In any case, there is no doubt that green sukuk are now universally recognized as suitable instruments for pursuing sustainable development objectives, in a Sharia-compliant context¹⁹.

From this perspective, the evolution that has affected the activity of AAOIFI, as well as other private institutions of reference for Islamic finance, is particularly significant²⁰: over time, and particularly from 2008 to the present, the standards and guidelines for Islamic finance developed by these institutions have been periodically revised to better regulate the structure and functioning of Islamic finance instruments from a Sharia-compliant perspective. The AAOIFI's work of interpretation aimed at standardizing and harmonizing financial practices and reporting in accordance with Sharia precepts has been remarkably successful in the Islamic (and non-Islamic) world, so much so that the AAOIFI Sharia Standards are considered mandatory requirements in Bahrain, the United Arab Emirates, Jordan, Mauritius, Nigeria, Oman, Pakistan, Qatar and the Qatar International Financial Centre (QIFC), the Kyrgyz Republic, Sudan, Syria, and Yemen²¹. These standards have also been adopted by the Islamic Development Bank Group and used as the basis for national Sharia guidelines in Indonesia and Malaysia. In other jurisdictions and/or institutions, such as Afghanistan, the Dubai International Financial Center, Kuwait, and Lebanon, these standards have been voluntarily adopted by leading Islamic financial institutions as internal guidelines²².

The sukuk is commonly referred to as an "Islamic bond" and is often equated with a conventional bond, although the two differ in various respects²³. More properly, it has been observed that sukuk should be defined as "Islamic investment certificates", since they are participation certificates that represent undivided ownership shares in an estate consisting of tangible assets²⁴. Specifically, the differences between conventional bonds and sukuk primarily concern the nature of the underlying asset: in the former, it is typically purely financial, whereas in the latter, it corresponds to one or more tangible assets in which the investor acquires a share of ownership. For this reason, further differences emerge: the coupon payment in conventional bonds is fixed and predetermined, while in sukuk it is tied to the market value of

the underlying assets. The relationship between the issuing company and the investor is also different, as it is not a credit-debt relationship arising from the traditional financing model but rather depends on the type of contract used: the most commonly used contracts are the *ijāra*, *musharāka*, and *mudāraba*²⁵.

The AAOIFI Sharia Standard No. (17) - *Investment Sukuk*, at §2, defines the sukuk as follows:

“Investment Sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct, and services or (in the ownership of) the assets of particular projects or special investment activity. However, this is true after receipt of the value of the Sukuk, the closing of subscription and the employment of funds received for the purpose for which the Sukuk were issued”²⁶.

²⁶<https://aaoifi.com/ss-17-investment-sukuk/?lang=en>.

Since Sharia law prohibits the sale of debt, sukuk do not represent third-party capital, but rather a co-ownership share in the underlying assets, which are therefore jointly owned by the various sukuk holders. For example, the AAOIFI Sharia Standard No. (10) - *Salam and Parallel Salam*, at §7 titled "Salam Sukuk Issues", provides: "It is not permitted to issue tradable Sukuk based on the debt from a Salam contract" and "The basis for the impermissibility of tradable Salam Sukuk is because trading with such Sukuk is a form of sale of debt which is prohibited"²⁶.

It has been highlighted that, in practice, the sukuk is similar to a securitization transaction, due to the creation of a corporate vehicle (special purpose vehicle, SPV) to which the originator of the transaction (i.e. the entity requiring the financing) transfers certain assets, even heterogeneous ones, against which the SPV issues certificates (sukuk notes) that the investors will subscribe²⁷. The funds thus raised will serve as consideration for the assets transferred by the originator, and must be used to finance Sharia-compliant activities. The investors will then become co-owners of the assets transferred to the SPV, and the latter, on their behalf, will enter into an agreement with the originator to regulate the use of the assets²⁸.

As mentioned above, such an agreement could take the form of an *ijāra*, *musharāka*, or *mudāraba*. An *ijāra* is a lease agreement that grants one party the right to use a movable or immovable asset in exchange for periodic consideration, with the option to purchase the asset at the end of the contract. In more advanced forms, which combine elements of a lease and a sales contract and involve three distinct parties (the manufacturer/seller, the financier/lessor, and the user/lessee), this latter contract is considered equivalent to a conventional lease. This arrangement is widely used in sukuk issuances²⁹. A *musharaka* contract is a type of corporate joint venture in which two or more partners share the same rights and obligations and bear both profits and losses. All partners, therefore, have the right to participate in the management of the business, unless they have delegated this to a third party. Any profits will be distributed as dividends. In this case, the practical outcome of this arrangement can be considered equivalent to that of a Western bank earning a profit through an interest rate. In contrast, an Islamic bank or financial institution earns an economic benefit in the form of a dividend, with the difference that it directly assumes the risk of

²⁵*Ibidem*, *passim*.

²⁶*Ibidem*.

²⁷S. ALVARO, *La finanza islamica nel contesto giuridico ed economico italiano*, cit., p.22.

²⁸*Ibidem*.

²⁹H. ELAHI, *The Islamic Leasing System (Ijarah): Principles, Practices, and Modern Applications*, in *IJFMR*, 2025, 7, 2, p. 1 ff.

¹⁹S. SURIANI ET AL., *Do Global Green Sukuk Affect on Climate Change? Evidence in Issuing Countries*, in *International Journal of Energy Economics and Policy*, 2024, 14(1), p. 98 ss.; D. DEY ET AL., *Sustainability-linked Sukuk: A New Opportunity for the Islamic Finance Market*, in *JIBFL*, 2020, 10, p. 680 ff.

Sharia literally means "the right path" and is otherwise translated as "divine law": this expression refers to the set of duties and tasks that every Muslim, man or woman, is required to observe. W.B. HALLAQ, *An Introduction to Islamic Law*, cit., 2009, pp. 163-170. Even more precise is F. Castro, according to whom the term sharia can be understood in three meanings: "in a very broad sense it indicates: the 'way', that is, the 'religious law', including dogmas, rites, moral and legal precepts, revealed to Jews, Christians, and Muslims; [...]. In a broad sense, it is the way revealed to Muslims alone and therefore concerns both the internal and external forum. [...] In a narrow sense, it then indicates the way or 'religious law' revealed to Muslims alone (*shari'a islāmiyya*) to regulate the external forum only. ID., *Diritto musulmano*, in *Digesto disc. priv. Sez. civ.*, Torino, 1990, §4.

Sharia is one of those terms, like *soviet* and *trust*, that circulate globally while maintaining their original terminology and carrying with them the entire conceptual framework that defines them. For these terms, therefore, the option of refraining from translation is valid. The other legal translation options identified by comparative scholarship are: (i) creating a neologism; (ii) rendering the foreign term with a periphrasis or phrase that explains its salient features; (iii) resorting to literal translation only when one is certain of the correspondence between the original term and the term proper to the language of the target legal system. R. SACCO, *Traduzione giuridica*, in *Digesto delle discipline privatistiche - Sez. civ.*, Aggiornamento, I, Torino, 2000, p. 722 ss., in particular §§ 5 and 7.

²⁰For example, the *International Islamic Fiqh Academy* based in Jeddah, Saudi Arabia: <https://iifa-aifi.org/en>.

²¹<http://aaoifi.com/adoption-of-aaoifi-standards/?lang=en>.

²²<http://aaoifi.com/adoption-of-aaoifi-standards/?lang=en>.

²³M. SAFARI, *Are Sukuk Securities the Same as Conventional Bonds?*, Working paper 2011, <http://ssrn.com/abstract=1783551>, describing the differences in economic terms and in the performance of the two instruments.

²⁴F. MIGLIETTA, *Bond islamici alla conquista dei mercati. Opportunità, rischi e sfide dei sukuk*, Milano, 2012.

losses³⁰. The *mudāraba* contract is an agreement whereby an investor (*rab-al-māl*) makes capital available to an entrepreneur (*mudārib*) to enable the development of a business activity, which will be carried out and managed by the entrepreneur thanks to his expertise and know-how, with profits and losses shared between both parties or, more precisely, with profits split between both parties and the financier bearing all of any losses³¹.

Accordingly, the main difference between a conventional bond and a sukuk is that, in the former, the investor holds a credit interest, while in the latter, a real interest. This, however, is theoretical: in practice, there have been several sukuk cases in which investors were granted only leasehold interests (i.e., rights deriving from an "estate for years" or "term of years")³².

3 Green sukuk and experiences of sustainable finance in the oic context

Climate change presents a major global challenge with profound effects on economic growth, especially in highly exposed and poorly prepared regions. The 57-member countries of the Organization of Islamic Cooperation (OIC) are particularly vulnerable due to their high exposure and limited adaptive capacity to climate change³³. The OIC is enhancing efforts to meet climate and development goals, with 54 OIC member countries having ratified the Paris Agreement, and 35 committed to achieving net-zero targets.

Sustainable finance raised grew from US\$17.8 billion in 2017 to US\$82.3 billion in 2024 – a compound annual growth rate of 24.4%. Islamic instruments accounted for 16% (US\$53.9 billion) of total sustainable finance raised between 2017 and 2024. Between 2017 and 2024, 19 OIC countries issued sustainable bonds, and 5 issued sustainable sukuk. Sustainable sukuk have been a major channel of Islamic climate finance, accounting for 35% of total sustainable bond/sukuk issuances. Within the OIC, a substantial share of green sukuk (58%) was directed toward the energy sector³⁴. This suggests growth opportunities, especially given the potential alignment of sukuk structures with infrastructure and climate projects. About one-third of sustainable sukuk were labeled "green," whereas nearly two-thirds of sustainable bonds carry a green label. This implies that sukuk are currently used across a broad range of sustainability objectives, rather than specifically for climate mitigation or adaptation. Hence, targeted initiatives for green sukuk can help channel more capital to climate-specific outcomes³⁵.

As anticipated, Malaysia and Indonesia in Southeast Asia, Saudi Arabia and the United Arab Emirates in the Gulf Cooperation Council (GCC) are making remarkable progress toward issuing green and sustainable sukuk.

In line with Malaysia's transition to a low-carbon economy, the Securities Commission released the SRI-linked Sukuk Framework in June 2022. The SRI-linked Sukuk is an innovative product that allows companies, including those in hard-to-abate sectors, to tap the

capital market to meet their transition finance needs. The Securities Commission also expanded its SRI Sukuk and Bond Grant Scheme, which assists issuers in defraying up to 90% of external review costs, to include SRI-linked Sukuk Framework issuances. In the 2021 Budget, MYR 2 billion was allocated for the issuance of SRI Sukuk and green bonds (until 31 December 2021) under the Green Technology Financing Scheme 3.0³⁶.

The UAE, specifically the Dubai Electricity and Water Authority (DEWA), issued the region's first sovereign-backed Green Sukuk in 2020 to fund a solar power project. This issuance has played a pioneering role in the emergence of the Green Sukuk market in the country. In 2023, further Green Sukuk issuance came from Abu Dhabi Islamic Bank, Aldar Property, Dubai DP World, and Majid Al Futtaim, with issuance amounts of US\$500 million, US\$500 million, US\$1,500 million, and US\$500 million, respectively³⁷. Qatar followed suit by issuing a US\$500 million sustainable Sukuk, the Green Corporate Sukuk, by Qatar International Islamic Bank in 2024³⁸.

The emergence of Islamic finance instruments, such as green and sustainability-linked sukuk, has been instrumental in advancing Islamic climate finance. According to a joint report of the World Bank and the Islamic Development Bank:

“

“to further enhance the efficacy of these endeavors, it remains imperative to continue nurturing the growth of the Islamic financial sector, thereby facilitating access to essential funds for climate and broader sustainability projects. The potential for Islamic finance to support the climate agenda and tackle climate change is noteworthy, and promoting ongoing growth and innovation in this area will be key to achieving the OIC collective sustainability goals”^a.

^aWORLD BANK & ISLAMIC DEVELOPMENT BANK, *Islamic Finance and Climate Agenda: From Green Sukuk Innovation to Greener Halal Value Chains*, cit., p. 16.

For example, in 2024, the Asean Development Bank approved a US\$500 million policy-based loan to Pakistan, supporting climate finance mobilization from public and private sources, including the issuance of a domestic green sukuk³⁹. Moreover, the Securities and Exchange Commission of Pakistan published updated guidelines for the issuance of green bonds in June 2024. These provide detailed criteria for eligible green projects, focusing on renewable energy, water management, and pollution control. The aim is to create a more robust framework for financing environmentally sustainable projects that aligns with international standards. The initiative is part of Pakistan's broader efforts to enhance its sustainable finance landscape and attract green investments⁴⁰.

Pursuant to a recent study, sukuk and Sharia financing have a positive but not significant impact on short-term green economic growth, but they become essential in the long term. Sukuk appears more effective in developed economies, while Islamic bank financing seems

³⁰M.T. USMANI, *An Introduction to Islamic Finance*, The Hague, 2002, pp. 20-21.

³¹K. JOUABER-SNOUSSI, *La finanza islamica, Un modello finanziario alternativo e complementare*, Milano, 2013, p. 30.

³²About this concept, and more in general, the *law of property in common law*, see specifically: A. GAMBARO, *Proprietà in diritto comparato*, in *Digesto, disc. priv., sez. civ.*, IV, Torino, 1997, p. 502.

³³According to the Notre Dame Global Adaptation Initiative (ND-GAIN)3 Index 2022, the OIC, on average, was estimated to have a vulnerability score of 0.46 and readiness of 0.36, while the world's average levels of vulnerability and readiness were 0.43, respectively.

³⁴M. HAZIK, *Sukuk and Sustainability: Exploring Green Financial Instruments and the Transition to Low-Carbon Economies*, in AA.VV. (ed by), *Islamic Finance and Sustainability – A Research Companion*, Milton Park, Abingdon-on-Thames, 2025, p. 465 ff.

³⁵WORLD BANK & ISLAMIC DEVELOPMENT BANK, *Islamic Finance and Climate Agenda: From Green Sukuk Innovation to Greener Halal Value Chains*, 20 November 2025: <https://www.worldbank.org/en/country/malaysia/publication/islamic-finance-and-climate-agenda>.

³⁶*International Platform on Sustainable Finance - Annual Report 2022*: https://finance.ec.europa.eu/document/download/9db9aca1-9044-4112-8fd6-c3d71f3d5a63_en?filename=221109-ipsf-annual-report_en.pdf.

³⁷UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP), *The Potential Growth and Future of Green Sukuk as a Tool for Sustainable Financing*, 2024, p. 53: <https://www.undp.org/publications/potential-growth-and-future-trends-green-sukuk-tool-sustainable-financing>.

³⁸*Ibidem*.

³⁹<https://www.arabnews.pk/node/2579918/pakistan>.

⁴⁰LONDON STOCK EXCHANGE GROUP, *Green and Sustainability Sukuk Update 2024*, cit., p. 22.

to have a negative impact in weak economies⁴¹. Furthermore, the role of institutional quality moderation mitigates the adverse effects of fiscal policy and strengthens natural resource management, although it remains limited to low-income countries; for this purpose, an adequate fiscal policy is required⁴².

4 Green sukuk and experiences of sustainable finance in the eu context

The European Union (EU) has emerged as a global leader in promoting sustainability and green finance, exemplified by its ambitious policy initiatives such as the European Green Deal⁴³. Introduced in December 2019, the European Green Deal outlines a comprehensive framework for achieving climate neutrality by 2050. At its core, this initiative is designed to transform the EU into a more sustainable, resource-efficient, and resilient economy⁴⁴. The European Green Deal encompasses a broad range of policies and measures to mitigate climate change, preserve biodiversity, and foster a green and circular economy. One of the key pillars of the European Green Deal is the commitment to sustainable finance, in which the EU recognizes the primary role that financial markets play in driving sustainable development and has undertaken significant efforts to align capital flows with environmentally sustainable investments. The Sustainable Finance Action Plan⁴⁵, introduced by the European Commission, is a pivotal component of this strategy, which seeks to integrate ESG considerations into financial decision-making and to encourage investments that advance long-term sustainability goals. Within this framework, renewable energy is a priority in the framework activities of the European Union (EU) energy policy strategies. Both in the 2020 strategy and in the 2050 objectives, renewables play a crucial role in achieving the greenhouse gas (GHG) emission reduction of 80-95% below 1990 levels by 2050⁴⁶.

France and Germany are the top issuers and holders of green debt securities in the euro area, accounting for more than half of the market. The Netherlands is the third-largest issuer and Luxembourg the third-largest holder. The remaining euro area countries account for a small share of both green bond issuances and holdings, with some countries having only recently entered the market or yet to enter. Governments, monetary financial institutions, and non-financial corporations lead the issuance of green debt securities in the euro area⁴⁷. With regard to holdings of green debt securities by euro area residents, investment funds are the main market participants, followed by insurance corporations and pension funds, as well as central banks. The remaining sectors play a very residual role, with households entering the green debt market only indirectly, through investment funds⁴⁸.

In Europe, the EU Green Bond Standards closely align with the EU Taxonomy, fostering a consistent regulatory environment for green bond and sukuk markets, strengthening investor confidence, and ensuring that finance is directed toward genuine sustainability projects⁴⁹.

⁴¹AA.VV., *Fiscal policy, natural resources and Islamic finance on green growth in OIC countries: the moderating role of institutional quality*, in *International Journal of Islamic and Middle Eastern Finance and Management*, 2026, pp. 1-21.

⁴²*Ibidem*.

⁴³https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en.

⁴⁴*Ibidem*.

⁴⁵https://finance.ec.europa.eu/publications/renewed-sustainable-finance-strategy-and-implementation-action-plan-financing-sustainable-growth_en.

⁴⁶European Commission, *Renewables Make the Difference*, 2011, Luxembourg: Publications Office of the European Union: <https://op.europa.eu/en/publication-detail/-/publication/72f9f2bd-0a5b-423b-b66c-96ae6f8f014b/language-en/>.

⁴⁷https://www.ecb.europa.eu/stats/all-key-statistics/horizontal-indicators/sustainability-indicators/data/html/ecb.climate_indicators_sustainable_finance.en.html.

⁴⁸*Ibidem*.

⁴⁹UNDP, *The Potential Growth and Future of Green Sukuk as a Tool for Sustainable Financing*, cit., p. 16.

However, while there is growing interest among institutional investors in responsible investment practices, there remains a scarcity of ESG investment opportunities globally, and green and sustainability sukuk can help address this shortfall, particularly for Shariah-compliant investors. It has been observed that the growth of Islamic finance in Europe is influenced by the presence of a substantial Muslim population within the region and the global demand for Sharia-compliant financial products. Europe is home to a diverse and sizable Muslim community, and their financial preferences and values play a significant role in shaping the financial landscape⁵⁰. Financial institutions have responded by developing a range of Sharia-compliant products, including Islamic banking services, investment funds, and insurance products⁵¹. Europe has therefore shown growing interest in sukuk, primarily driven by the UK and Luxembourg⁵². These countries have facilitated sukuk issuances through enabling regulatory frameworks and strategic positioning as gateways for Islamic finance into Europe. The UK was the first Western country to issue a sovereign Sukuk in 2014, with a second issuance planned for 2024. The City of London's financial ecosystem supports numerous sukuk listings and transactions, catering to institutional investors⁵³.

In particular, according to a recent study:

“

“empirical pairwise analyses in this study underscore the pivotal role played by Islamic and green financial instruments. The Time-Varying Parameter Vector Autoregressive (TVP-VAR) results highlight the potential of both Islamic and green financial instruments during market crises. Islamic instruments, in particular, emerge as potential avenues for investors seeking stability amidst turbulent market conditions, acting as recipients of spillovers from the broader European stock market and refuting the notion of decoupling”^a

^aA. HUSAIN ET AL., *Financial fusion: Bridging Islamic and Green investments in the European stock market*, cit., p. 3.

Notably, interest from Western investors in regions like the US and Europe, where ESG principles are increasingly embraced, is set to diversify the investor base for green sukuk⁵⁴. The Luxembourg Stock Exchange (LuxSE) was the first European exchange to list a Sukuk in 2002, setting the benchmark for Islamic finance in Europe⁵⁵. LuxSE developed LGX, the world's first platform exclusively dedicated to sustainable finance. Recognized by the United Nations for its leading role in advancing the sustainable finance agenda, LGX has been at the forefront of facilitating sustainable investment since its launch – including through sustainable Sukuk structures⁵⁶.

The market for green sukuk is part of a broader trend where Islamic finance is increasingly used for green infrastructure projects and sustainability initiatives in line with the European Green Deal⁵⁷.

Based on a select sample of sukuk issued in the first nine months of 2024, green and sustainability sukuk were subscribed at 4.3 times

⁵⁰<https://inclusivemoney.com/values/islamic-bank-in-europe>.

⁵¹A. HUSAIN ET AL., *Financial fusion: Bridging Islamic and Green investments in the European stock market*, *International Review of Financial Analysis*, 2024, vol. 94, 103341, p. 2.

⁵²See also *infra*, in the text.

⁵³Z. MUGHAL, *The Sukuk: Market Potential, Emerging Trends, and Opportunities for Growth*, 2024: <https://financialit.net/blog/islamicfinance-marketrends/sukuk-market-potential-emerging-trends-and-opportunities-growth>.

⁵⁴UNDP, *The Potential Growth and Future of Green Sukuk as a Tool for Sustainable Financing*, cit., p. 19.

⁵⁵<https://www.luxse.com/gateway-to-the-eu/islamic-finance>.

⁵⁶*Ibidem*.

⁵⁷<https://www.clustercollaboration.eu/in-focus/green/european-green-deal>

issuance values on average, compared with 3.1 times for traditional sukuk. This is a direct result of their green and sustainability labels, which were issued by the majority of them, including European investors⁵⁸. Thus, it has been proposed to resort to green sukuk as an alternative financing tool for the wind-energy sector, with the specific aim of avoiding financial dependence on governmental incentive policies⁵⁹.

In addition, the Islamic Development Bank issued a successful Green Sukuk under the enhanced 2025 Sustainable Finance Framework, raising EUR 500 million. The enhanced Framework aligns with the latest editions of the ICMA Principles and Guidelines, including the 2025 Green Bond Principles, the 2025 Social Bond Principles, and the 2021 Sustainability Bond Guidelines. The Framework introduces more stringent eligibility criteria for green project categories and detailed criteria for social project categories. The Bank also added two new eligible categories in the Framework, namely (a) Climate Change Adaptation and (b) Food Security and Sustainable Food Systems, reinforcing their role in its overall operations strategy and reflecting the increasing project approvals in these sectors in recent years⁶⁰. The Joint Lead Managers (JLMs) for this issuance were Barclays, BNP Paribas, Commerzbank, Crédit Agricole CIB, HSBC Bank plc, ING, and Nomura. The transaction is the Bank's first EUR benchmark issuance in 2025. This followed its two other successful public USD benchmark transactions, which raised a total of ~USD 3.5 billion from global capital markets. The latest Green Sukuk issuance, the Bank's second overall, represents an important milestone for the Islamic Development Bank in the EUR markets⁶¹.

Therefore, the resilience and stability of both Islamic and green bonds, when coupled with the European stock market, underscore their significance⁶².

5 The role of the doctrinal formant

It has been observed that the *Islamic Finance Law* constitutes - due to its peculiarities, its transversal nature to the various state systems, the heterogeneity of the sources, the role of tradition, and, at the same time, the standards of authoritative international institutions - a legal system in itself, of particular interest for the comparatist⁶³. As highlighted, the doctrinal formant plays a leading role in the Islamic context⁶⁴.

This aspect is particularly significant in Islamic finance, thanks to the work of organizations such as AAOIFI and the Islamic Fiqh Academy, which set standards and guidelines for the creation and management of Sharia-compliant financial instruments. This activity is

⁵⁸LONDON STOCK EXCHANGE GROUP, *Green and Sustainability Sukuk Update 2024*, cit., p. 6

⁵⁹See in particular D. MOREA, L.A. POGGI, *An Innovative Model for the Sustainability of Investments in the Wind Energy Sector: The Use of Green Sukuk in an Italian Case Study*, in *International Journal of Energy Economics and Policy*, 2017, 7(2), pp. 53-60.

⁶⁰<https://www.isdb.org/news/isdb-issues-another-successful-green-sukuk-under-enhanced-sustainable-finance-framework>.

⁶¹*Ibidem*.

⁶²A. HUSAIN ET AL., *Financial fusion: Bridging Islamic and Green investments in the European stock market*, cit., p. 3.

⁶³See S. FERRERI, L.A. DI MATTEO, *Terminology Matters: Dangers of Superficial Transplantation*, in *B.U. Int'l L.J.*, 2019, 37, p. 35 ss., in particular p. 40; J. ERCANBRACK, *The Standardization of Islamic Financial Law: Lawmaking in Modern Financial Markets*, in *Am. J. Comp. L.*, 2019, 67, p. 825 ss., in particular pp. 826-827: "The reintroduction of sharia-compliant transactions in mostly secular legal systems has resulted in an emergent legal system, which is now commonly referred to as Islamic Financial Law (IFL). IFL is a hybrid legal transplant, which, with modification for municipal regulatory law, can be transplanted across the globe in jurisdictions wishing to facilitate Islamic finance. However, considerable legal and regulatory reform is necessary to do so and legal aspects of Islamic finance differ markedly from conventional finance".

⁶⁴From a general perspective: E. IORIATTI, *Comparative Law Method and the Legal Formants as Catalysts of Normative Realities*, in L. SILIQUINI-CINELLI, D. GIANTI, M. BALESTRIERI, (a cura di), *The Grand Strategy of Comparative Law: Themes, Methods, Developments*, Milton Park, Abingdon-on-Thames, 2024, pp. 250-275.

also particularly helpful in guiding the work of Sharia Boards, which, as mentioned, are required to issue legal opinions (*fatawa*) on the permissibility of investments or financial transactions in accordance with Sharia principles. It is interesting to note that this intellectual effort of interpretation (*ijtihad*)⁶⁵ is constantly evolving and takes into account the dynamics of financial markets.

Recently, during a September 2023 meeting of the AAOIFI Sharia Board, the Board announced its decision to publish the new draft standard on sukuk (Standard No. 62), marking a significant step in the regulation of Islamic finance instruments. Sukuk are defined as follows: "[Certificates of] Sukuk are investment securities of equal value for common share that establish ownership of assets (tangible assets, usufructs, rights, debts, cash, or a mix of [all of] them or some of them) that are already in existence or that will be acquired or created, and it will implicate rights for the certificate holder arising from its interest in ownership of those underlying assets and obligations on [the certificate-holder] to the extent of its share in them"⁶⁶.

In particular, AAOIFI Standard No. 62 highlights that sukuk have characteristics that distinguish them from conventional bonds, the most important of which are: (i) sukuk are not based on interest-bearing loans; (ii) the principal amount and profit amount of sukuk will not be automatically recognized as an obligation owed by the originator once the sukuk certificates have been subscribed for and the principal amount paid; (iii) sukuk are an investment instrument in which their owners share the return (*ghunm*) as well as the liability (*ghurm*) of the assets underlying the sukuk, which are jointly owned by the certificate holder with other holders of sukuk certificates of the same issue. Furthermore, they are usually a financial instrument for the originator; (iv) sukuk are issued pursuant to one or more Islamic contracts in accordance with Sharia rules governing the issuance, trading, and maturity of sukuk; (v) the risks of the sukuk are not limited to the credit risks of the originator; and (vi) the credit rating of the sukuk is not limited to the financial strength of that entity⁶⁷.

The new standard governs the fundamental principles and definition of sukuk, outlining their characteristics, including dynamic aspects such as issuance, securities-related risks, structural types, and trading and cancellation. This is a more sophisticated approach than Sharia Standard No. 17, which considers the rapidly evolving sukuk market and its progress, drawing on past experience in product quality and diversity, especially in structural engineering. One of the main innovations concerns the ownership criteria: there must be an effective transfer of ownership of the assets from the originator to the sukuk holders. In short, the new standard requires sukuk to be asset-backed rather than asset-based⁶⁸.

This new approach has raised several concerns about the impact the new rules could have on newly issued sukuk: pursuant to Fitch Ratings, some of the parameters indicated would not be assessable according to the sukuk valuation criteria currently adopted; for its part, Standard & Poor's has emphasized that these considerations have resulted in an extension of the timeframe for the official adoption of the draft standards in question⁶⁹.

⁶⁵F. CASTRO, *Il modello islamico*, ed. by G.M. PICCINELLI, Turin, 2007, pp. 22-23.

⁶⁶AAOIFI 2023.

⁶⁷*Ibidem*.

⁶⁸For further remarks about the difference between asset-based and asset-backed financial products, see for example R. PAHLAVI ET AL., *Equity-Based, Asset-Based and Asset-Backed Transactional Structures in Shari'a-Compliant Financing: Reflections on the Current Financial Crisis*, in *The Economic Papers - Economic Society of Australia*, 2009, vol. 28, p. 270 ff.

⁶⁹S&P GLOBAL, *Sukuk Brief: More Time To Adopt AAOIFI Standard 62*, 4 February 2025: <https://www.spglobal.com/ratings/en/regulatory/article/250205-sukuk-brief-more-time-to-adopt-aaofi-standard-62-s13405446>.

6 Conclusions

It has been observed that the 2008 global financial crisis solidified the Islamic financial system's credentials as a sustainable financial system, capable of safeguarding the long-term interests of citizens worldwide and generating value for the real economy. According to this view, the Islamic financial system's inherent ethical principles would make it better suited to address the economic consequences of a pandemic like COVID-19, as its core principles are closely tied to financial stability and corporate social responsibility⁷⁰. In this context, sukuk represent the Islamic finance instrument par excellence, especially in pursuit of the Sustainable Development Goals (SDGs).

However, despite the evolution of the rules governing their structure, operation, and Sharia-compliant characteristics, it is widely believed that there are still critical issues, mainly due to: (i) the concurrence of different governing laws, given the almost always transnational nature of the agreements that contribute to constituting a complex investment operation, such as sukuk⁷¹; (ii) the concurrent jurisdiction of judges of Islamic countries and other countries, especially common law countries, which raises problems of recognition and enforcement of their respective decisions; (iii) the lack of uniform regulatory and taxonomic standards among the various countries and institutions⁷²; (iv) the need to increase the transparency of such investment operations, to increase the confidence of a wider audience of investors; (v) the need to develop a secondary sukuk market; (vi) the lack of clear rules to address the risks of defaulted sukuk, in particular their restructuring⁷³. It has been observed that improving these factors would enable the inclusion of green sukuk within the World Bank's Environmental and Social Framework (ESF), which is deemed the most influential safeguard system for multilateral development bank financing⁷⁴. According to the World Bank:

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“To realize this potential, policymakers, regulators, multilateral development banks (MDBs), and other development partners must act decisively across three strategic priorities: (1) mainstreaming Islamic climate finance instruments by preparing bankable projects, designing targeted incentives to facilitate green sukuk and sustainability-linked issuances, and harnessing the technical collaboration with MDBs to support market development; (2) Accelerating capacity building and technical exchanges among OIC member countries by developing practical knowledge tools and improving data systems for better tracking and reporting; (3) Enhancing Islamic climate financial innovation, such as blended finance solutions, by developing innovation platforms and scaling Islamic social finance tools

⁷⁰M. RAZA RABBANI ET AL., *Exploring the Role of Islamic Fintech in Combating the Aftershocks of COVID-19: The Open Social Innovation of the Islamic Financial System*, in *J. Open Innov. Technol. Mark. Complex*, 2021, 7, p. 136; R. MOOSA, *Corporate Social Responsibility from an Islamic Perspective: An Overview*, in *IJRS*, 2023, 12, 7, pp. 303-311.

⁷¹In the regulation of financial markets, this dialectic is even more evident and takes on particular relevance because, alongside state legislation (for example, that of Egypt or Kuwait), institutions and rules specific to other legal systems, especially common law (in particular, English law, Maltese law or that of the State of New York) concur: E. GIUSTINIANI, *Elementi di finanza islamica*, Torino, 2006, p. 45.

⁷²See in particular, A. GUARNERI, *Lineamenti di diritto comparato*, Padova, 2022, pp. 534-547.

⁷³On points (iii) to (vi), see *ex multis*: R.M. RADZI, *Different Structure, Neither Debt Nor Equity*, in *Arab Law Quarterly*, 2021, vol. 35, n. 1-2, *Special Issue: Islamic Finance and Contemporary Challenges*, pp. 190-211; AA.VV., *Dynamics of Growth and Stability in the Islamic Financial Service Industry on ECA, GCC, MENA, SSA and EAP*, in *International Journal of Economics and Financial Issues*, 2025, vol. 15(3), pp. 448-456.

⁷⁴See for example, Z. WAN MOHD, Z. WAN, *Operationalising Green Sukuk within the World Bank environmental and social framework*, 2025, vol. 3, n. 288.

to support community resilience and measurable climate outcomes”^a.

^aWORLD BANK, *Islamic Finance and Climate Agenda*, cit.: <https://www.worldbank.org/en/country/malaysia/publication/islamic-finance-and-climate-agenda>.

A further aspect worthy of consideration is the perceived need not only for an appropriate legal framework but also for jurists and technical operators equipped with the necessary transnational skills, that is, what could be defined as an adequate “technostructure”⁷⁵.

All this gives rise to a persuasive right of non-statal origin, of ‘unbounded’ and aterritorial value, of a standardizing nature and suitable for drawing new boundaries⁷⁶, with respect to which the comparatist and the methods of this science can provide a decisive contribution.

⁷⁵A. GAMBARO, R. SACCO, *Sistemi giuridici comparati*, in *Trattato di diritto comparato* directed by R. SACCO, Torino, 2018, p. 48.

⁷⁶Among the many authoritative contributions on the subject: S. CASSESE (ed. by), *Research Handbook on Global Administrative Law*, Cheltenham, 2017.