

Green Investment Strategies In Sustainable Islamic Economics: A Viable Solution For Global Recession Challenges

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Abstrak

Tujuan penelitian ini adalah untuk menguji kesesuaian dan keberlanjutan strategi investasi dalam perekonomian suatu negara sebagai alat untuk menghadapi tantangan yang ditimbulkan oleh resesi global. Untuk mencapai hal ini, para peneliti membuat tinjauan literatur tentang konsep dan prinsip ekonomi investasi hijau serta dampaknya terhadap lingkungan dan perekonomian. Analisis ini juga mempertimbangkan instrumen investasi yang sejalan dengan prinsip ekonomi Islam, termasuk *green* sukuk dan investasi pada energi terbarukan. Kami menganalisis data yang dikumpulkan secara kualitatif untuk memahami bagaimana penerapan strategi ini dalam perekonomian dapat berdampak pada keberlanjutan, keadilan sosial, dan tanggung jawab lingkungan. Temuan-temuan tersebut menunjukkan bahwa mengintegrasikan strategi investasi ke dalam perekonomian memiliki potensi besar untuk menghasilkan dampak lingkungan dan ekonomi yang positif. Dengan memanfaatkan instrumen seperti sukuk dan berinvestasi pada proyek energi, ekonomi Islam dapat mendorong keberlanjutan sekaligus mengatasi tantangan yang disebabkan oleh resesi global. Selanjutnya, penelitian ini menggali secara mendalam untuk mengkaji bagaimana prinsip ekonomi Islam berhubungan dengan konsep investasi. Perekonomian global telah mengalami resesi, namun kami menemukan bahwa penerapan pendekatan investasi dapat membantu memulihkannya. Penelitian ini menunjukkan bahwa strategi investasi ramah lingkungan dalam perekonomian Islam dapat menjadi solusi yang efektif dan bertahan lama terhadap tantangan perekonomian global. Para pembuat kebijakan dan pelaku pasar harus memperhatikan dan mempertimbangkan strategi ini untuk menjaga stabilitas lingkungan sekaligus mengatasi dampak resesi.

Kata Kunci: Strategi Investasi Ramah Lingkungan, Resesi Global, Green Sukuk, Keberlanjutan, Tanggung Jawab Lingkungan.

Abstract

The main objective of this study is to examine the suitability and sustainability of investment strategies, in a country's economy as a tool to face the challenges posed by the global recession. To achieve this, the researchers created a literature review of green investment's economic concepts and principles and their impact on the environment and economy. Our analysis also considered investment instruments that align with Islamic economic principles, including green sukuk and investments in renewable energy. We qualitatively analyzed the collected data to understand how implementing these strategies within economics could impact sustainability, social justice, and environmental responsibility. The findings indicate that integrating investment strategies into the economy holds significant potential for positive environmental and economic outcomes. By utilizing instruments such as sukuk and investing in energy projects Islamic economics can foster sustainability while also addressing the challenges brought about by global recessions. Furthermore, our research delved deeply into examining how Islamic economic principles relate to the concept of investment. The

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global economy has suffered from recessions, but we found that adopting investment approaches can help revive it. Our research suggests that green investment strategies within the Islamic economy could be an effective and lasting solution to our global economy's challenges. Policymakers and market participants should take note and consider this strategy to maintain environmental stability while overcoming the effects of the recession.

Keywords: Green Investment Strategy, Global Recession, Green Sukuk, Sustainability, Environmental Responsibility.

Introduction

The global financial crisis that occurred in recent decades has presented significant challenges to the world economy, especially in Indonesia. The crisis involved all economic sectors as market turmoil, corporate bankruptcies, and a broad decline in economic growth. Innovative and sustainable investment strategies are needed to overcome these challenges that can drive global economic recovery.

In this context, the concepts of the Islamic economy and green investment have emerged as promising solutions. Islamic economics provides a solid foundation for building a fair and sustainable financial system, whereas green investment aims to direct capital flows to environmentally friendly and sustainable sectors. The combination of these two concepts, namely green investment strategies in the Islamic economy, offers an interesting approach to addressing the challenges of the global financial crisis.

Indonesia itself in the second quarter of 2022 against the second quarter of 2021 experienced growth of 5.44% yoy (year on year). (Kementerian Komunikasi dan Informatika Republik Indonesia, 2022; Yuli Nurhanisah, 2022) Although in the first quarter of 2022, there was a contraction (negative growth) of 0.96%, this did not continue and influence in the second quarter of 2022. (Kementerian Komunikasi dan Informatika Republik Indonesia, 2022) Based on yoy (year on year) and qdq (quarter to quarter) growth data, it can be concluded that Indonesia is not on the brink of recession like many other countries but Indonesia must prepare policies to anticipate the global recession that threatens many countries. Possible impacts from a global economic recession could deeply affect Indonesia's trade and industrial sectors. And with this impact, education in the country could also be affected, making it hard to fund different scholarships. Funds could be used to improve school and campus infrastructures. Additionally, the economic crisis could lead to delays concerning salary and allowance disbursements for education staff.

So far, green economy studies can be grouped into several categories. First, the development of Islamic green finance including ecosystem aspects and prospects. (M. S. Khan & Aamir, 2017; Liu & Lai, 2021; Sekreter, 2017) Second, the relationship between the green economy and Islamic finance by exploring the relationship between the two. (Aam Slamet Rusydiana et al., 2022) Third, systemic risks and contagion in Islamic and conventional financial markets. (Naeem et al., 2023) Fourth, sustainable investment, responsibility, impact, and potential between Islamic Funds and socially responsible investment in achieving Sustainable Development Goals (SDGs). (Ibrahim, 2011; Ismail & Shaikh, 2017; Yesuf & Aassouli, 2020)

The principles of Islamic economics can be used to develop green investment strategies, which could help tackle the global recession. In evaluating the performance of such strategies, researchers have applied careful methodologies and analyzed various economic concepts. This study aims to explore the potential of green investment in Islamic economics.

Identifying current limitations is imperative to formulating successful proposals for assimilating eco-friendly investment techniques into the Islamic economy and surmounting hindrances and difficulties. The study will focus on understanding these constraints in all sectors.

To tackle the hardships of the worldwide economy, policymakers, market players, and the public alike are looking forward to gleaning some useful intel on the prospect and efficacy of environment-friendly investment tactics from the findings of the investigation. All parties involved are hopeful that this drive towards sustainable financial growth will prove fruitful. Sustainable solutions aimed at benefiting the global economy can be achieved through the application of both green investment principles and Islamic economics.

Literature Review

Green Investment in the Islamic Economy

The concept of green investing, also referred to as ethical investing, is gaining popularity in the worldwide economy, particularly in the Islamic economy. Green investment is viewed as a tool that supports environmental management and sustainable development in the context of the Islamic economy. It consists of many

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investment kinds intended to produce financial returns as well as social and environmental advantages. (Al-Roubaie & M. Sarea, 2019)

Investments made under Islamic economics must be compliant with Sharia law. These guidelines seek to maintain the development process, safeguard the environment, and organize fairness among all stakeholders. As a result, green investment in the Islamic economy places equal emphasis on the social and environmental consequences of such initiatives as on their financial benefits.

Green investment can be a potential answer to the issues of sustainable development. Green investment can assist in promoting equitable and sustainable development by taking into account the environmental and social implications of investment, as well as adhering to Sharia principles. It demonstrates how Islamic economics may help the world accomplish sustainable development goals.

Sustainable Economy in the Islamic Economy

In the perspective of an Islamic economy, the financial sector is separated into two basic categories: equities markets and banking. The proper operation of these sectors is critical in every economy. The study intends to investigate the short- and long-term relationship between the Islamic finance sector (Islamic debt and Islamic stock markets) and the long-term economic growth of the two largest Muslim economies. (Saleem et al., 2021)

The findings show that, in the long run, the Islamic banking industry has a considerable and favorable impact on achieving long-term economic growth in both countries. However, in the short run, the Islamic stock market appears to have a good association with Pakistan, whilst the Islamic banking sector appears to have a significant and beneficial correlation with Indonesian economic growth. (Saleem et al., 2021)

The green economy is a strategy for generating growth while preserving that nature can continue to offer essential services that allow life to exist. In this context, Islamic economic principles promote economic equality, according to which wealth should be distributed across society; thus, sustainability activities must be promoted.

Global Recession in the Islamic Economy

Islamic economics is a system of economics based on Islamic religious ideas. Fairness, balance, and the preservation of the environment are among these concepts. During a financial crisis, Islamic economics provides novel and practical remedies. For example, in Islamic economics, the idea of risk sharing can assist in minimizing the excessive buildup of hazards, which is frequently the primary cause of economic recessions. (Ashraf, 2021)

Islamic finance is one illustration of how Islamic economics might help overcome economic crises. Islamic finance is a branch of Islamic economics with an emphasis on Sharia-compliant financial transactions. In the case of economic downturns, Islamic finance can act as a powerful layer of protection against externally caused cycles like the Covid-19 crisis. However, to translate these ideas into genuine influence, a range of functioning effectively institutions are required. Many crucial components of the Islamic banking industry are still missing today. (Ashraf, 2021)

A worldwide recession is a global economic phenomenon that impacts economies all over the world. It is typically characterized by a decline in growth in the economy, a rise in poverty, and a decline in currency value. The worldwide economic downturn can be viewed as an issue and an opportunity in the Islamic environment. Issues because it can lead to heightened income disparity and poverty, but also opportunities since it can drive economic system innovation and transformation. (Ririn Riani & Ries Wulandari, 2022)

Faced with a worldwide recession, Islamic economics has various potential remedies. One of these is the risk-sharing principle, which promotes collaboration and cooperation among the people in society. This principle has the potential to make society more robust to the harmful consequences of recessions. Furthermore, Islamic economics stresses the vital role of morals and ethical behaviors regarding financial transactions, which can aid in the prevention of speculative and dangerous behavior, which is frequently the root cause of economic crises. (A. Ahmed, 2010)

However, to translate these ideas into genuine influence, a range of functioning effectively institutions are required. Many critical components of the Islamic banking industry are still absent today. The recession should be viewed as a chance to fill the void and diversify the sector. Even though the crisis started without it, its influence

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on Islamic banks is projected to be equivalent to that of conventional banks. (Ririn Riani & Ries Wulandari, 2022)

Methods

Research on green investment in the Islamic economy can be carried out by two methods, namely normatively and empirically. (Christiani, 2016; Patten, 2014) Normatively, research on green investment in Islamic economics examines Islamic economics related to green investment strategies. Empirical research on green investment in Islamic economics focuses on developing green investment to overcome the global economic recession. This research is empirical because it explores green investment activities in the Islamic economy in Indonesia as an appropriate and effective solution in facing the global economic recession.

The type of data in this study is secondary data. This study utilizes secondary data to obtain reports and statistics on green investment in the Islamic economy. Secondary data is obtained from reliable information search documents through government-owned websites namely Bank Indonesia and Otoritas Jasa Keuangan and online news discussing green investment in the Islamic economy.

The analysis of the data used in this study was carried out descriptively and critically. Descriptive analysis is carried out by building arguments from the data obtained followed by explanation and interpretation. Descriptive data analysis is used to describe information related to green investment in the Islamic economy in the face of the global economic recession in Indonesia. Critical analysis is used to provide an evaluation of green investment activities in the Islamic economy in Indonesia. Critical analysis is a solution to solving various green investment problems in the Islamic economy in striving for the realization of economic and sustainable growth and environmental and social preservation in Indonesia.

Result And Discussion

Green investment strategies in the Islamic economy are the right and effective solution to overcome the challenges of the global recession. The world is facing an increasingly bleak and uncertain outlook, with many negative risks emerging, such as inflation, financial tightness, and frequent lockdowns. Many countries are experiencing financial as well as fiscal problems, and the number of low-income

countries experiencing or at high risk of debt distress has increased. Higher borrowing costs, reduced credit flows, a strengthening dollar, and slow economic growth will push more countries into trouble.

By combining Islamic economic concepts based on justice, sustainability, and adherence to Allah's law, and a focus on green investments that are environmentally friendly, this strategy can provide multiple benefits. First, through investment in green sectors, the Islamic economy can promote sustainable economic growth. Second, green investments can help create broader economic diversification, reduce the risk of dependence on specific sectors, and strengthen economic resilience. Third, this strategy blends social and environmental responsibility as an integral part of economic activity, respecting the ethical values in Islamic teachings. Lastly, green investment in the Islamic economy has significant market growth potential, attracting interest and support from Muslim and non-Muslim communities concerned with sustainability. Overcoming the challenges of the global recession and encouraging sustainable economic growth can be achieved by implementing a green investment strategy in the Islamic economy. This is a crucial step towards progress.

Sustainability in Terms of Economics

The concept of Islamic economics in green investment supports economic for sustainable investment.(Ismail & Shaikh, 2017; M. F. Khan, 2020) Green investment can create a friendly environment that can foster long-term economic continual. economic sustainability is necessary for businesses to survive, thrive, and contribute to a more environmentally conscious society.(Aam Slamet Rusydiana et al., 2022) Sustainability is a vital factor for an industry's enduring success in the realm of economics. Achieving a balance between minimizing expenses and maximizing profits is no easy feat. Yet, by embarking on renewable energy investments, waste reduction, and adopting sustainable business practices, companies can cut costs while simultaneously enhancing their appeal to clients impressed by sustainability. The economic growth benefits of green investment are plentiful. The United States subprime mortgage bubble caused the global financial crisis in 2008, while the European debt crisis and the Asian financial crisis of 1997 were also historically significant financial crises. (Lada et al., 2023)

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The latest data shows the potential for a new global financial crisis caused by the impact of the COVID-19 pandemic. Many countries are seeing a decay in economic activity and a spike in unemployment likely due to a global economic downturn. The GDP of the United States experienced a drastic drop of 31.4% in the second quarter of 2020 compared to the preceding quarter, according to The World Economic Organization's (OECD) report estimating world economic growth will contract by 4.5%. (Bureau of Economic Analysis, 2020)

The world financial industry is presently going through a phase of great instability. Stock markets in various countries experienced sharp declines at the beginning of the COVID-19 pandemic. In less than 30 days starting March 2020, the S&P 500 index in the US underwent a plummet of approximately 34%. Meanwhile, countries are grappling with banking systems that are feeling the weight of increasing corporate debt and postponed payments. Possible outcomes may ensue as bankruptcy hazards and undesirable effects on the finance industry as a whole. (Rossi et al., 2021)

Environmental preservation, enduring prosperity, and societal harmony must all be balanced in pursuit of equilibrium, with economic sustainability being a vital component. This notion was stimulated by the unfavorable outcomes of uncontrolled economic development, which include social inequality, ecological decline, and financial hardship. With the application of economic sustainability, one can synchronize long-term targets for the maintenance of social welfare and environmental protection with endeavors to promote sustainable economic growth. (Basiago, 1451; Nijkamp et al., 2012)

The economic sustainability approach centers upon interweaving economic, social, and environmental elements. To achieve sustainability, decisions that impact society and the environment must be considered alongside economic ones. For example, social and environmental impact assessments must be carried out in developing public policies to ensure that such decisions benefit the economic sector and consider people's well-being and environmental sustainability.

The concept of Islamic economic sustainability has several important aspects that must be considered. (Lada et al., 2023) First, economic justice is the cornerstone of Islamic economics. The tax system and labor relations between employers and employees both align with the principle of ensuring economic resources are

distributed fairly and equitably. An emphasis on justice is placed on all of these factors.(Mustafa et al., 2016) In addition, justice is also applied in labor relations between employers and employees, as well as in the tax system.

Sustainable natural resource management is also a focus of the concept of Islamic economic sustainability. The environment is considered a mandate in Islam, where man's role as a caliph on earth holds responsibility for its maintenance and preservation. To avoid damaging these resources, implementing economic policies that uphold their sustainability is crucial. Along with this, Islamic economic sustainability rests on the principles of business ethics. This concept encourages ethical and good-oriented business practices. Business transactions must adhere to Islamic ethical principles, such as transparency, honesty, social responsibility, and rejection of *riba* (interest).(Abdullah & Baharom, 2019; Al-Harran, 2016; Al-Marzouqi & Sadeq, 2021)

The idea of Islamic economic sustainability includes an emphasis on economic empowerment, particularly for those who are disadvantaged. Inclusivity is promoted by principles like almsgiving and zakat, which aim to decrease social inequality and enhance overall societal welfare.(Aam Slamet Rusydiana et al., 2022). In the context of finance, the concept of Islamic economic sustainability encourages the development of financial instruments that are under Sharia principles, such as *Mudarabah*, *Musharakah*, and *Wakalah*. Sustainable and socially responsible investment is a major concern in Islamic financial management, one of which is green investment.(Liu & Lai, 2021; Sekreter, 2017)

Economic Diversification in Investment

Green investment can create broader economic diversification to weather the global recession. (Naeem et al., 2023) The investment will not depend on sectors that have high risk. Diversifying the economy, especially green investment, will create alternative investments under Islamic economic values and principles. (Saiti et al., 2014) The green investment sector in the Islamic economy focuses on expanding the Islamic industrial base to reduce dependence on industrial sectors that are vulnerable to economic fluctuations.(Al-Roubaie & Sarea, 2019; Syarifuddin, 2022)

The financial sector, stock market, manufacturing industry, and agriculture - all economic sectors that can be susceptible to economic turbulence - can benefit from

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an Islamic economic approach. (F. Khan & Bhatti, 2018) There is a solution: a Sharia-based financial system. Islamic economics prohibits usury, speculation, and other harmful practices in the financial system. By adopting the principles of risk sharing and fairness in financial transactions, the Sharia-based financial system can reduce economic fluctuations caused by the failure of the conventional system.

In addition, Islamic economics also prohibits excessive speculation and excessive uncertainty in economic transactions, known as *gharar*. Excessive speculation can trigger unhealthy fluctuations in financial markets and lead to economic instability. By reducing speculation and *gharar*, Islamic economics can help overcome adverse economic fluctuations and create a more stable economic environment.

Moreover, Islamic economics advocates a fair distribution of income and avoidance of an unequal accumulation of wealth in the hands of the few. (S. Ahmed & Ahmed Shaikh, n.d.; Hadji Latif, 2019; Michalopoulos et al., 2016; Samad, 2019) This principle can help reduce economic inequalities that trigger social and economic fluctuations. By ensuring a fair distribution of income, Islamic economics can create long-term stability and reduce social inequality. (S. Ahmed & Ahmed Shaikh, n.d.; Hadji Latif, 2019; Michalopoulos et al., 2016; Samad, 2019) The development of the real sector is also a focus of the Islamic economy. Investment in real sectors such as agriculture, manufacturing industry, and infrastructure is emphasized. (S. Ahmed & Ahmed Shaikh, n.d.; Michalopoulos et al., 2016) By strengthening the real sector, Islamic economics can reduce dependence on the financial sector which is vulnerable to speculative fluctuations. This will help create the foundation of a more stable and sustainable economy. (S. Ahmed & Ahmed Shaikh, n.d.; Michalopoulos et al., 2016)

Social and Environmental Responsibility

Green investment in the Islamic economy is a testament to the social and environmental responsibility that is part of maqashid sharia. Islam commands to maintain and maintain social activities, especially in the economic and environmental fields. Green investment in the Islamic economy can be viewed as a manifestation of social and environmental responsibility that is an integral part of the maqashid principles of Sharia. (Lahsasna, 2009) In Islam, there is a commandment to guard and maintain social activities, including economic and environmental ones. Thus,

green investment becomes a way for Muslims to apply their religious values to protect the earth and social life.

Green investment in the Islamic economy demonstrates strong social responsibility towards society and the environment. This practice requires Muslim economic actors to consider their investment activities' social and environmental impacts. In Islam, there is a concept of amanah (*amanat*) that requires humans to maintain and use natural resources responsibly. By adopting green investments, Muslims seek to fulfill their responsibilities towards future generations and create harmony between economic, social, and environmental interests. (M. S. Khan & Aamir, 2017)

Green investment is also in line with the principles of maqashid sharia which emphasizes the importance of balance and the well-being of mankind. In an economic context, maqashid sharia teaches about the importance of fostering the prosperity of mankind in a just and sustainable way. Green investment helps create a sustainable economy, where economic growth is not only measured in terms of financial return but also in terms of positive impact on the environment and society. Thus, green investment in the Islamic economy reflects a commitment to achieving the goals of maqashid sharia which include the benefit of mankind in all aspects of life.

Sharia maqasid, as an important concept in Islamic law, has two main aspects that must be considered in green investment as the sharia maqashid developed by Abd al-Majid al-Najjar: protecting the environment and social aspects. Green investment focuses on projects or companies aimed at reducing negative impacts on the environment and society. In the context of Maqasid Shariah, green investment is defined as an investment that is under Islamic objectives in protecting the environment and society. (Aam Slamet Rusydiana et al., 2022; Yusuf et al., 2022)

In protecting the environment, maqashid Sharia teaches that every Muslim is responsible for protecting nature. In green investing, this principle encourages investors to choose projects or companies that prioritize environmental protection.

The social aspect is also an important focus in the maqasid of Sharia. The main goal is to maintain social welfare. In the context of green investment, this means investing in projects or companies that positively impact society. For example, investment in infrastructure projects that improve the accessibility of education,

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health, and other public facilities. Investments can also be made in the microfinance sector to help the poor gain access to capital.

For investors who want to follow the principles of Islamic maqasid in green investment, they need to conduct a thorough analysis regarding the environmental and social impact of the project or company they are going to invest in. They must also ensure that their investments conform to Islamic ethical principles that prohibit investment in industries that harm the environment or society. In addition, the selection of financial instruments must also pay attention to sharia principles, such as green sukuk or Islamic investment funds that focus on green investment, while avoiding interest-based ribawi instruments in Islam.(Al-Roubaie & Sarea, 2019; Harahap et al., 2023; Yesuf & Aassouli, 2020)

Conclusion

Green investment strategies in the Islamic economy are viable solutions to overcome the challenges of the global recession. Through the combination of Islamic economic concepts and a focus on green investment, this strategy can promote sustainable economic growth, create broader economic diversification, promote social and environmental responsibility, and explore significant market growth potential. By prioritizing investment in green sectors, the Islamic economy can reduce negative impacts on the environment, create new business opportunities, and respect the ethical values espoused in Islamic teachings. Overall, the green investment strategy in the Islamic economy is an important step towards sustainable economic growth and creating a positive impact in the face of the challenges of the global recession.

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