

The Principles of Green Islamic Microfinance in a Philosophical, Normative, and Sociological Context

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Abstract: The global environmental crisis has become a threat that disrupts macroeconomic stability and oppresses marginalized groups in developing countries. In this context, green finance has been developed as an instrument that supports the financing of economic activities oriented towards environmental conservation and the achievement of the Sustainable Development Goals (SDGs). On the other hand, Islamic financial principles based on *maqashid sharia* are aligned with these goals through an emphasis on welfare, justice, and environmental responsibility. Sharia Microfinance Institutions (MFIs) have a strategic role in expanding access to financing for communities and MSMEs, but the implementation of green finance principles in MFIs is still fragmented and has not been supported by a comprehensive Green Islamic Microfinance model. This study aims to outline the philosophical, normative, and sociological foundations of Green Islamic Microfinance and formulate a structural model built on Islamic finance principles and environmental aspirations. This study uses a qualitative approach with the grounded theory (GT) method with literature review and in-depth interviews as data sources. The results of the research show that there are 10 main principles that are the basis of green Islamic microfinance, namely: (1) *Tauhid* and *Istikhlaf*, (2) *Maqashid* Orientation - *Hifz al-Bi'ah*, (3) Riba-free, Gharar, Maysir, and Tadlis, (4) Justice and Balance (*Mizan*), (5) *La Dharar wa La Dhirar*, (6) *Ta'awun* and *Takaful*, (7) *Sidq, Amanah*, and Transparency, (8) *Falah* (Holistic Well-Being), (9) *Tadarruj wa Taysir*, dan (10) Shariah Environmental Governance (SEG). The ten principles are the normative and operational basis for Green MFIs in integrating economic, social, and environmental sustainability goals in a balanced manner in accordance with sharia values. **Keywords:** Green Islamic Microfinance; Green Finance; Sharia Microfinance Institutions; Sustainable Development.

Introduction

The global environmental crisis has transformed into a threat that disrupts macroeconomic stability and oppresses marginalized groups in developing countries (Effendi, 2013; Wulandari & Pramesti, 2021). In Indonesia, the microfinance sector plays a crucial role in the financial inclusion of the underprivileged (Alifa et al., 2025; Andini et al., 2026; Wediawati et al., 2018). However, in reality, the conventional model still separates economic growth from responsibility to the environment, so that financing activities are at risk of funding the exploitation of nature without an adequate environmental impact monitoring system (Effendi, 2013). As a new concept, *Green Islamic Microfinance* (GIM) integrates the values of Islamic law with the sustainable finance paradigm (Syukri et al., 2026; Khairunnisa et al., 2025; Siregar, 2025). Sourced from *Maqasid al-Shari'ah* through the pillars of environmental protection (*hifz al-bi'ah*), this concept prohibits exploitative transaction activities (riba, gharar, maysir) and changes the concept of economic actors (*Homo Islamicus*) into ecological ethical agents who manage nature as a mandate to achieve *falah* (Jasmine & Rohim, 2024; Mursal et al., 2025; Raimi & Bamiro, 2025; Syukri et al., 2026; Wediawati et al., 2018).

Indonesia has currently successfully led the macro green finance market through the issuance of *Sovereign* and *Retail Green Sukuk* which raised funds of nearly USD 12 billion, but this achievement is still in contrast to the slow implementation of green instruments at the micro level (Effendi, 2013; Faizi et al., 2024; Kholil et al., 2025). On the other hand, the MSME sector is the backbone of the national economy which covers 65-66 million business units (99%), absorbs 117 million workers (97%), and contributes up to 61% to the national GDP or the equivalent of more than IDR 9,500 trillion (Alifa et al., 2025; Jasmine & Rohim, 2024; Kholil et al., 2025; Ningluthfi & Nurohman, 2024). However, MSMEs still face a *funding gap* of 47%, and various government stimulus schemes such as subsidized KUR (6% interest) and 0.5% final income tax incentives have not been able to integrate environmental sustainability parameters into their creditworthiness assessment procedures (Effendi, 2013).

The acceleration of green finance at the level of Sharia Microfinance Institutions (MFIs) is also hampered by limited risk management capacity, lack of understanding of managers, weak supervisory standards, and high environmental administration costs such as AMDAL (Effendi, 2013; Gina & Effendi, 2015). In addition, the existence of an operational dilemma is evident in the batik industry in Pekalongan, where the majority of micro artisans are forced to dispose of chemical waste without treatment due to the limited capacity of the WWTP together.

On the other hand, if the MFI tightens the green criteria rigidly, these small business actors will be directly eliminated from access to capital that hurts the social mission of poverty alleviation (Gina & Effendi, 2015; Wediawati et al., 2018). This condition is emphasized by empirical studies Jaenal Effendi (2013) in Pasuruan, which shows that MFI financing has proven to be effective in increasing material welfare, but has a *negligible impact on customers' environmental awareness due to the institutional orientation that is still fully focused on self-sustainability* (Effendi, 2013).

To address the gap between the enforcement of green criteria and financial inclusion, there is a need for integrated solutions that combine Islamic social finance innovations, digital technologies, and regulatory standardization (Jasmine & Rohim, 2024; Raimi & Bamiro, 2026). Among them is the reconstruction of the ZISWAF tripartite model through *Green Zakat* and *Green Waqf* which is used to fund *mustahik* business capital and communal environmental infrastructure (such as WWTP) without burdening the capital of micro business actors (Effendi, 2013; Ningluthfi & Nurohman, 2024; Putri Azkia Risyda et al., 2025; Raimi & Bamiro, 2026). Furthermore, the use of the Sharia Green Crowdfunding platform is carried out to reduce the funding gap and distribute low-cost and transparent financing to prevent greenwashing (Andini et al., 2026; Jasmine & Rohim, 2024; Raimi & Bamiro, 2026). Finally, the implementation of innovative contracts such as *Green Salam* that binds ecological commitments has proven effective in increasing customer understanding of sustainability by up to 74% in Indonesia, which is supported by the OJK through low-cost standardization instruments such as the Sustainable Finance Taxonomy, the Green Calculator application, and the Climate Risk Stress Test (Effendi, 2013; Wulandari & Pramesti, 2021). This is the basis for the formation of a new concept called Green Islamic Microfinance Institutions.

Method

This research is a qualitative research by applying the Grounded Theory (GT) approach to construct theories inductive and deductive directly from empirical data obtained in the field (Anselm et al., 2008; Noble & Mitchell, 2016; Stough & Lee, 2021). As a qualitative design, Grounded Theory does not begin with proof or testing a priori hypotheses, but focuses on the discovery of behavioral patterns and the explanation of social processes from the empirical field itself. This approach unites the development activities of social research theory and practice as a single process. The main advantage of this methodology lies in its high ecological validity, where the resulting theory is very close to practical reality because it is dynamically constructed from the real-world context being studied.

Through inductive-deductive approaches that are combined simultaneously, the direction of research is allowed to develop flexibly as new categories of field data analysis emerge (Corbin, 2021; Strauss, 1994). Thus, the design of this study is responsive to the development of phenomena without losing the rigor of scientific procedures. Literature review and qualitative *in-depth interviews* are used as the main data collection instruments because of their ability to provide direct access to the subjective meanings, actions, and social processes experienced by participants (Charmaz & Thornberg, 2021; Noble & Mitchell, 2016; Thomson, 2010). The interview structure is designed to be intensive, open, and adaptive, rather than strictly structured, to provide space for participants to reflect freely on their experiences (Hallberg, 2006). A semi-structured approach is applied to maintain the focus of the interview on the research domain while maintaining flexibility in exploring new issues that arise spontaneously (Mashuri et al., 2022).

The interview process in this study is conceptualized as an intersubjective data co-construction process between researchers and participants (DiCicco-Bloom & Crabtree, 2006; Foley et al., 2021). This relationship is a "conversation with a purpose" in which the researcher's questions and participants' responses influence each other and sharpen the conceptual categories that are being constructed. To enrich contextual understanding and strengthen theoretical construction, in-depth interviews were combined with secondary data collection methods (Liu et al., 2022; Noble & Mitchell, 2016; Ulpah et al., 2025). Triangulation is carried out through direct observation of social behavior in the field, self-reflection of researchers, and analysis of institutional documents or organizational reports. The unification of these data sources aims to capture ongoing social dynamics in its entirety, identify patterns of causality, and answer critical questions about why a social condition can occur.

Results and Discussion

Sharia Microfinance Institutions (MFIs) are an institution that exists as a transformative effort in the financial sector landscape in Indonesia (F. H. Harahap & Nawawi, 2022; Vanni & Wijayanti, 2020). The institution is designed to serve low-income segments of society as well as Micro, Small, and Medium Enterprises (MSMEs) that have historically been neglected by the formal banking system due to structural constraints (Vanni & Wijayanti, 2020; F. H. Harahap & Nawawi, 2022; Ridwan, 2023). The growth of MFIs is driven by the socio-religious awareness of the community who want financial intermediation that is free from interest (*riba*) and in line with Islamic principles (Bakhri & Wulandari, 2020; Vanni & Wijayanti, 2020; F. H. Harahap & Nawawi, 2022). The main characteristic that distinguishes MFIs from conventional Microfinance Institutions (MFIs) is

their dual *role*, which balances commercial motives (*tamwil*) for business development and social motives (*maal*) for poverty alleviation (F. H. Harahap & Nawawi, 2022; Ridwan, 2023).

The relevance of the existence of LKMS is very crucial when looking at the massive contribution of the MSME sector to the national economy (Ridwan, 2023). Based on data obtained from the OJK in 2024, this sector covers around 65 million business units, absorbs more than 90% of the national workforce, and contributes 60.51% to the Gross Domestic Product (GDP). Based on the classification of business capital, the majority of the total business units are dominated by the micro segment at 98.67% (around 64.6 million units), while small businesses account for 1.22%, and medium enterprises only 0.1% (Suaiah & Nawawi, 2022). In the midst of this potential, capital constraints remain the main obstacle. An empirical study from the Financial Services Authority (OJK) shows that around 47% of MSME financing needs have not been served by formal financial institutions, with an estimated supply *gap* of Rp 2,740 trillion. MFI is here to reduce this gap through the provision of customary financial schemes, without demanding burdensome physical asset guarantees as usually required by conventional banking (Bakhri & Wulandari, 2020; M. A. Harahap & Soemitra, 2022).

Historically, the development of MFIs in Indonesia has been rooted in the independent initiatives of local communities (grassroots) since the post-independence era until it developed massively starting in the early 1990s (Bakhri & Wulandari, 2020). This movement is the beginning of the formation of thousands of units of *Baitul Maal wat Tamwil (BMT)* and Sharia Cooperatives spread across urban and rural areas (Bakhri & Wulandari, 2020; F. H. Harahap & Nawawi, 2022; Ridwan, 2023). For managers and customers, the establishment of LKMS is not just a purely economic action, but part of real *da'wah (da'wah bi al-hal)* to ground the teachings of Islam in the field of *muamalah* (Sakai, 2014).

The micro, small, and medium enterprises (MSMEs) sector does play a crucial role in the Indonesian economy, but at the same time it bears great ecological consequences because small-scale manufacturing activities, intensive agriculture, and unsustainable trade contribute significantly to local emissions and waste accumulation (Salem, 2023). Sharia Microfinance Institutions (MFIs), such as *Baitul Maal wat Tamwil (BMT)* and sharia cooperatives, are strategically positioned to bridge the gap in access to green financing for the *unbanked* through the implementation of green inclusive finance frameworks (Faizi et al., 2024; Idris et al., 2024; Siregar, 2025). This framework seeks to achieve the results of the triple bottom line simultaneously: poverty alleviation (social), profitability of MFIs (economic), and preservation of the local environment (ecology) (Idris et al., 2024; Salem, 2023).

Global empirical evidence suggests that the implementation of environmental strategies by microfinance institutions can be reliably measured using the Green Index framework (Salem, 2023). A case study on the Islamic microfinance sector in Tunisia shows a positive correlation between shareholder commitment to ecological issues and the gradual improvement in the environmental performance score of micro-institutions (Salem, 2023). Based on the Green Index methodology, the evaluation of the ecological performance of LKMS is supported by five main dimensions that run interdependently (Salem, 2023).

1. Philosophical and Theological Pillars

Green Islamic microfinance (GIM) stands on a theological philosophical foundation that redefines the essence of the relationship between creators, humans, and the universe (Bsoul et al., 2022; Rusmiati & Mahmud, 2025). This concept is different from the conventional financial system that separates the motive of materialistic accumulation from distributive justice, the Islamic system views the macrocosm and microcosm as manifestations of the divine will (*nizām ilāhī*) that have intrinsic moral value (Salman & Asmanto, 2024). The existential reality of humans on earth is centered on stewardship mandates and very heavy ecological mandates (Bsoul et al., 2022; Rusmiati & Mahmud, 2025).

2. Ontological Dimensions

The main theological foundation regarding the ecological role of humans is documented in Surah Al-Baqarah verse 30 which perpetuates the cosmic dialogue between Allah SWT and the angels (Bsoul et al., 2022; Rusmiati & Mahmud, 2025). When Allah announced the plan for the creation of man as a *caliph* on earth, the angels expressed deep concern about the destructive potential of the new creature that was prone to damage (*façades*) and shed blood (Bsoul et al., 2022; Rusmiati & Mahmud, 2025). The destructive nature of humans predicted by this angel is empirically proven through the unbridled exploitation of nature, marked by a rate of global carbon emissions of 36.6 billion tons and a 69% decline in global wildlife populations since 1970 (Bsoul et al., 2022). Islam responded to this moral crisis by rejecting radical anthropocentrism that legitimized unlimited exploitation (Bsoul et al., 2022).

Through the principle of oneness (*Tawhid*), the universe is recognized as the absolute property of Allah SWT, while humans are only given temporary use rights that are bound by the obligation to maintain balance (*mizan*), justice (*'adl*), and improvement (*islah*) (Bsoul et al., 2022; Klongrua et al., 2025; Rusydiana et al., 2025). Neglect of ecosystem sustainability is seen as tantamount to a violation of the essence of Islamic law itself, which

in Islamic ecological theology is categorized as a form of denial of extreme spiritual favors or *kufr al-bi'ah* (Wibowo et al., 2026). This internalization of theological values triggered the expansion of traditional social interaction from human relations (*ḥabl min al-nās*) to structured ecological responsibilities (*ḥabl ma'a al-bi'ah*) (Marianingsih, 2025; Salman & Asmanto, 2024). The sociological manifestation of this ontological obligation can be found in the local wisdom (*'urf*) of the Muslim community, such as the tradition of *Bekarang Iwak* in Palembang, South Sumatra—namely catching fish together in flooded swamps using traditional tools that are environmentally friendly (Baiti et al., 2026).

3. Epistemological Dimension

The epistemology of green Islamic microfinance has fundamental differences when compared to modern Western epistemology which is dominated by materialism and secular rationalism (Mutmainah et al., 2025). Islamic epistemology is firmly rooted in the dimensions of faith (*iman*) and revelation (*wahyu*), which guide the design of financial transactions through four main values (Inayati et al., 2024; Jalili et al., 2025; Mutmainah et al., 2025):

1. Transcendence: Relating every economic transaction with the realization that the universe belongs to Allah SWT and humans hold the mandate of temporary ownership (*khalifah*).
2. Benefit (*Maslahah*): Ensuring that capital allocation brings real benefits to the general welfare and avoids harm.
3. Restoration (*Al-Islah*): Committed to repairing, conserving, and preventing damage to natural ecosystems.
4. Humanism: Ensures that financial activities are oriented towards the equitable empowerment of vulnerable groups without exploiting non-human lives.

To exercise these values, green Islamic microfinance draws its methodological validity through the systematic integration of the four main sources of Islamic law, namely the Qur'an, Sunnah, Ijma', and Qiyas, which are reinforced by the principles of Islamic law (*Qawaid Fiqhiyyah*) (Mutmainah et al., 2025).

Table 1. Sources of Islamic Law and its application to green microfinance

Sources of Islamic Law	The Epistemological Role in Green Microfinance	Integration Mechanism and Practical Application
<i>Al-Qur'an</i>	Providing a transcendental basis, establishing the mandate of a human caliphate, and prohibiting any form of ecological damage (<i>fa'ade</i>) (Inayati et al., 2024; Mutmainah et al., 2025)	It is the basis for prohibiting industrial financing that is destructive to the environment and requiring green ethics-based screening (<i>green screening</i>) (Inayati et al., 2024; Jalili et al., 2025)
<i>Sunnah (Hadis)</i>	Explain the operational rules of ethical transactions and exemplify real actions for nature conservation (Inayati et al., 2024; Mutmainah et al., 2025)	Legitimacy of the establishment of conservation areas (<i>hima</i>) and financing of reforestation efforts by microfinance institutions (Inayati et al., 2024)
<i>Ijma'</i>	Building a collective consensus of experts (<i>ijtihad jama'i</i>) to validate new financial instruments oriented towards the public benefit (Mutmainah et al., 2025; Zuardi et al., 2025)	Fatwa with the national sharia council that ratifies innovations such as <i>green sukuk</i> , digital money waqf, and sharia micro insurance (Amin, 2017; F. Helmi et al., 2026; Zuardi et al., 2025)
<i>Qiyas</i>	Analyze the similarities between contemporary financial schemes and classical muamalah contracts (Mutmainah et al., 2025)	Analogize modern green investment financing (such as micro solar panel technology) into classic contracts such as <i>mudharabah</i> , <i>musyarakah</i> , or <i>istishna'</i> (Jalili et al., 2025; Widiastuti et al., 2025)

Facing the acceleration of the development of the Islamic finance industry and the complexity of the challenges of global climate change, scholars are required to produce responsive and competitive muamalah legal fatwas (Mutmainah et al., 2022; Helmi, 2018). DSN-MUI formulates a distinctive *ijtihad* methodology called *Al-Taysir al-Manhaji* (Mutmainah et al., 2025; Saputra et al., 2025; Helmi, 2018). As a conceptually, this method prioritizes the principles of convenience, facilitation, and spaciousness (*taysir*) for muamalah financial industry players, but the process must be carried out consistently within the corridor of a valid and structured *ushul fiqh* methodology (*manhaj*) (Helmi, 2018; Mutmainah et al., 2025; Saputra et al., 2025). This approach has a firm dividing line from the practice of excessive simplification of the law (*tashil*) or the search for the easiest legal loopholes without a methodological basis (*tatabbu' al-rukhash*) (Saputra et al., 2025; Helmi, 2018).

In addition to *Al-Taysir al-Manhaji*, there are three other solutions of Islamic law (*makharij fiqhiyyah*) that are often used by DSN-MUI in formulating sustainable muamalah fatwa (Helmi, 2018; Saputra et al., 2025):

1. **Tafriq al-Halal 'an al-Haram:** A strict separation between the halal and haram components of transactions.
2. **I'adah al-Nazhar:** A critical review or re-examination of classical jurisprudence in order to be in harmony with contemporary socio-economic realities.
3. **Tahqiq al-Manath:** An in-depth analysis to determine and verify the legal causes (*'illat*) in the unprecedented modern financial phenomenon.

4. Axiological Dimension

Axiology as a branch of philosophy that discusses the essence of the value and usefulness of science provides a strong foundation for the operationalization of green Islamic microfinance (Arum et al., 2026; Marianingsih, 2025; Salem, 2023). The basic purpose of sharia is formulated to realize the public good (*maslahah*) and prevent damage (*mafsadah*) (Arum et al., 2026; Salem, 2023; Rahim et al., 2024). The balance between real economic activities, social justice, and ecological carrying capacity limits can be mathematically formulated as optimizing the public benefit influenced by real economic productivity, equitable distribution of distributive justice and maintaining environmental quality, by minimizing the potential for ecological harm or damage through sharia penalty parameters (Arum et al., 2026; Rahim et al., 2024; Salem, 2023; Sari & Sulistyowati, 2023; Siregar, 2025).

To lead to balanced investment decision-making between commercial motives and ecological sustainability, the objective utility function for green Islamic Microfinance Institutions (MFIs) in optimizing the holistic welfare index can be done by integrating four main components, namely net financial benefits for the institution, social development utilities (such as poverty reduction, fair wages, and women's empowerment), ecological conservation functions (including reducing carbon emissions, water use efficiency, and biodiversity conservation), as well as ecological damage functions (Jalili et al., 2025; Marianingsih, 2025). Each component is given an operational weight determined by the sharia council by meeting normalization conditions and the existence of compliance stress factors that are used to reflect the level of institutional compliance with sharia principles. In the traditional formal Islamic finance model, ecological aspects are generally ignored so that the utility function is more profit-oriented and nominally compliant. In contrast, in a more comprehensive model, the supervisory board assigns weight to conservation and ecological damage aspects so that institutions are encouraged to screen financing portfolios based on real ecological impacts, rather than solely financial benefit considerations (Jalili et al., 2025; Marianingsih, 2025).

5. Normative-Methodological Basis

As part of bridging normative texts with the operational practices of contemporary microfinance institutions, a dynamic methodological framework is needed. This is where *Maqasid al-Syari'ah* plays a central role as an ethical compass and a tool for evaluating sustainability performance (Marianingsih, 2025; Siregar, 2025; Zuardi et al., 2025). The classical ideas of Imam Al-Ghazali define five basic elements that must be protected: religion (*hifz ad-din*), soul (*hifz an-nafs*), reason (*hifz al-aql*), heredity (*hifz an-nasl*), and property (*hifz al-mal*) (Marianingsih, 2025; Siregar, 2025; Zuardi et al., 2025). In its development, contemporary scholars reconstruct this scope by including environmental conservation (*hifz al-bi'ah*) as a very crucial dimension of *daruriyyat* (Marianingsih, 2025).

This theological synergy resulted in *fiqh al-bi'ah* (environmental fiqh) that placed human beings in a cosmic position of balance through three main philosophical concepts: oneness (*tawhid*), the role of guardians (*caliphate*), and ecological balance (*mizan*) (Jalili et al., 2025; Naz'aina et al., 2024; Wibowo et al., 2026). By integrating *fiqh al-bi'ah* into microfinance, environmental ethics is no longer treated as a voluntary Corporate Social Responsibility (CSR) activity, but rather as a legally binding contractual mandate (Wibowo et al., 2026).

At the micro level, this correlation is measured through the SDG maqasid integration index which formulates the relationship between sharia-based funding and the achievement of ecological sustainability indicators (Zuardi et al., 2025). Furthermore, the existence of fiqh rules (*qawa'id fiqhiyyah*) is able to provide a practical tool for risk managers in microfinance institutions to formulate environmental screening policies (Jalili et al., 2025). Through these principles, normative principles are elaborated into concrete investment evaluation instruments (Begum et al., 2019; Jalili et al., 2025; Zuardi et al., 2025).

Table 2. Application of fiqh principles in the framework of green microfinance

Rules of Fiqh	Classical Theoretical Meaning	Implications in Green Microfinance	Risk Screening and Mitigation Mechanism
<i>Dar'ul mafasid muqaddamun 'ala jalbil mashalih</i>	Preventing harm must take precedence over taking advantage.	Denial of funding for projects that damage nature even though they are very financially	Implementation of strict environmental exclusion criteria in microfinance portfolios.

		profitable.	
<i>La dharara wa la dhirar</i>	It is not permissible to harm oneself and others reciprocally.	Micro business activities must not cause negative externalities to the local ecosystem.	Pre-financing environmental impact audit on micro enterprises (e.g. agriculture or small industry).
<i>Al-darar yuzal</i>	The harm that has already occurred must be eliminated or rehabilitated.	Obligation to fund renewable technologies and clean energy transition.	Provision of low-cost special financing for the conversion of environmentally friendly production tools.
<i>Al-masyaqqah tajlibut taysir</i>	Difficulties in bringing convenience to the implementation of the law.	Providing financial flexibility for micro-customers affected by climate disasters.	Reconstruction of financing contracts, tenor extensions, or elimination of bills through social funds.
<i>At-tasharruf 'alar ra'iyati manuthun bil-mashlahah</i>	The actions of authority over the people must be based on the benefit of the people.	Institutional capital allocation policies must prioritize long-term socio-ecological welfare.	The obligation of the board of directors to allocate a portion of the portfolio specifically for green financing.

Furthermore, the normative foundation of green Islamic microfinance rests heavily on the authority of sahih hadith and hasan muamalah which provide clear guidelines regarding transaction fairness, honesty (*sidq*), trust, and social responsibility (Rafly, 2025; Wijaya & Sofa, 2025). The prophetic tradition pays great attention to the preservation of water, soil, plants, and animals (Bsoul et al., 2022). Among the *hadiths ahkam* that underlie this ecological commitment are:

1. Prohibition of water waste.

From Abdullah bin Amr (may Allah be pleased with him), he said:

"The Prophet once passed Sa'ad who was performing ablution. Then he said to him, 'Why is it excessive like this, O Sa'ad?', Sa'ad replied, 'Is there also excess in ablution?' and the Messenger of Allah replied, 'Yes. Even if you're in a flowing river.'" (HR. Ahmad and Ibn Majah)

2. The need for transcendent human accountability for the management of the earth.

From Abu Sa'id al-Khudri Radhiyallahu anhu, the Prophet said:

"Indeed, the world is sweet and green, and indeed Allah has made you caliphs in this world, and He will see how you do. So keep yourselves from the world..." (HR. Muslim)

3. Tree planting activities are considered as sustainable jariyah alms.

Anas (ra) narrated that the Prophet PBUH said, "A Muslim does not plant a tree or sow seeds on the ground, and then a bird or a human or an animal comes and eats some of it, but what he eats is his alms." (HR. Bukhari)

Historically, the upholding of the values of economic justice and the protection of public rights was realized through the *institution of al-Hisbah* (Rafly, 2025). This prophetic Sunnah-based market supervision agency is not only tasked with preventing price manipulation and fraud in the market, but also supervises companies and individuals to carry out their social and environmental responsibilities. Through *the principle of al-Hisbah*, the market is ensured to function fairly and transparently, while limiting the actions of corporations or micro business actors that damage the ecosystem for instant profits (Rafly, 2025; Wijaya & Sofa, 2025).

6. Sociological Dimension & Community Empowerment

The Socio-Ecological Paradox: The Devil's Circle of Poverty and Environmental Degradation in Rural Areas

Sociologically, the phenomenon of structural poverty in rural areas is often directly proportional to the rate of environmental degradation, forming a socio-ecological vicious cycle (Effendi, 2013). Socio-economic inequality caused by the scarcity of natural resources limits the access of the poor to productive economic opportunities (Effendi, 2013). When access to formal financial capital is closed, poor people are forced to adopt short-term survival methods that damage the environment, such as illegal logging, excessive use of harmful chemical pesticides, or destructive fishing. These destructive actions accelerate ecological damage that reduces the carrying capacity of land and traps them back into the abyss of poverty (Effendi, 2013).

Financial exclusion acts as a major trigger that exacerbates this vicious cycle (Hamdani et al., 2024). Without access to ethical formal financial institutions, micro business actors are vulnerable to interest-based debt (*riba*) from informal loan sharks (Hamdani et al., 2024; Setiawan, 2023). Dependence on usury loans gives birth to

consecutive negative consequences, ranging from damage to social relations, psychological pressure, to multidimensional poverty (Setiawan, 2023). On the contrary, switching to sharia ethical financing schemes has a positive domino effect on physical well-being, mental stability, and social cohesion in rural communities (Setiawan, 2023).

In addition, microfinance institutions in general also carry out a double bottom line, namely achieving financial sustainability and expanding social reach to the poor (outreach) (Smolo & Ismail, 2011; Ahmad et al., 2020). A comprehensive global study comparing data panels containing 543 conventional MFIs and 101 Islamic MFIs showed that Islamic microfinance institutions consistently have sociological advantages in terms of depth and breadth of social reach compared to conventional institutions (Ahmad et al., 2020). The characteristics of sharia financing that prioritize *risk-sharing* and ethical partnerships are considered more friendly to the poor who do not have assets to collateralize, as well as overcome cultural-religious obstacles due to the prohibition of usury (Ahmad et al., 2020; Hamdani et al., 2024).

In Indonesia, one of the MFI models that applies this principle is *Bank Wakaf Mikro (BWM)* (Rahib et al., 2022). The difficulty of accessing capital also contributes to problems and obstacles to the development of the Micro, Small, and Medium Enterprises (MSMEs) business. Productive waqf itself is a solution in overcoming the difficulty of accessing capital, the presence of the Micro Waqf Bank (BWM) helps access to capital financing for Micro, Small, Medium Enterprises (MSMEs) in need and there is a group-based development program. Among them is the active participation of rural women in sharia micro-entrepreneurship programs proven to have a very significant positive impact on the three main empowerment dimensions (Hamdani et al., 2024):

1. Social: Expand the community support network and solidarity of vulnerable groups.
2. Economy: Increasing household financial independence and strengthening family food security.
3. Psychological: Increase confidence and decision-making capacity in domestic and local leadership.

The ultra-micro sharia joint responsibility system provides a strong foundation for social coordination, so that women groups of farmers or traditional fishermen can maintain each other's business runs smoothly and minimize moral risks (Fatwa DSN-MUI No. 162/2025).

7. Green Islamic Microfinance (Green Islamic Microfinance) Framework

Green Sharia Microfinance Institutions (MFIs) that aim to achieve *falah* need to place sustainability, and evidence-based governance as a single system, not as ten stand-alone principles. Literature reviews consistently show three main conclusions: the normative basis of Green MFIs is already very strong and operational instruments are available, but their implementation in the field is still held back by weak standardization, literacy, institutional capacity, and real impact measurement (Dirie et al., 2024; Marianingsih, 2025; Muklis et al., 2025).

The principles of Tauhid, Istikhlaf, and *Maqashid* provide a solid ethical-normative foundation for Green MFIs to view the earth as a mandate. Through this lens, financing activities are reconstructed as a means of maintaining the public benefit, not just a profit instrument for the sake of pursuing margins (Anisa, 2025; Lestari et al., 2025; Syukri et al., 2026). Recent literature has also begun to shift towards the recognition of *hifz al-bi'ah* (protecting the environment) as an extension of contemporary *maqashid* that integrates spirituality, public policy, and green financing (Marianingsih, 2025; Parmujianto, 2024; Syukri et al., 2026).

This sustainability framework is not just a cosmetic addition to the five classic *maqashids*. Several studies have confirmed that aspects of environmental sustainability, distribution justice, and social responsibility are inherently inherent in the concepts of *maqashid* and *maslahah*. Therefore, sharia compliance, which is only legal-formal, is considered inadequate (Boudawara et al., 2023; Lestari et al., 2025; Sheikh, 2025). The criticism of Islamic financial institutions is the same: many institutions are still too oriented towards short-term financial goals and have not really met the socio-environmental *maqashid* (Anisa, 2025; Haneef, 2020). For MFIs, the implications are clear: *hifz al-bi'ah* deserves to be positioned close to the level of *daruriyyat* (primary needs) when ecological damage has threatened lives, livelihoods, and intergenerational justice (Kholil et al., 2025; Ossofo et al., 2025; Sadly, 2026).

The transformation towards "Green MFIs" is not just a change in label, but a fundamental reconstruction of governance, climate risk mitigation, and substantive sharia audits. Green MFI architecture is rooted in a theocentric paradigm that views nature as a trust, not an object of exploitation. The foundation is built on three main pillars:

1. Tawheed: The awareness of the absolute possession of Allah SWT. over the universe, which directs every economic activity to be in harmony with the will of the Creator.
2. Istikhlaf (Amanah): The position of man as a caliph who is responsible for prospering the earth (*imarah al-ardh*) and preserving it from damage.
3. Mizan: The principle of ecosystem balance that must be maintained through proportional consumption and production behavior.

In the discourse of contemporary Islamic law, Sofian Al Hakim as a resource person in the field of sharia supervision, made an important reconstruction of the status of *Hifz al-Bi'ah* (protecting the environment), shifting it from a mere complement (*tahsiniyyat*) to an essential need (*daruriyyat*) through *the path of wasilah*:

"Pelestarian lingkungan paling akurat ditempatkan sebagai kepentingan daruri secara wasilah (penyangga), karena air, udara, dan tanah yang sehat adalah prasyarat tegaknya hifz an-nafs (jiwa), hifz an-nasl (keberlanjutan generasi), dan hifz al-mal (penghidupan). Berdasarkan kaidah mā lā yatimmu al-wājib illā bihi fahuwa wājib, dimensi lingkungan kini menjadi pilar pengawasan substantif yang setara dengan lima maqashid klasik dalam konteks perlindungan kehidupan." (Sofian Al hakim)

The implementation of green policies in the micro sector also often faces the challenge of banking pragmatism. These tensions can be analyzed through a comparison of views between regulators and environmental economists. In financing decision-making, there is a clash between economic rationality and strategic opportunities. In terms of the challenge of rationality, Dian Masyita emphasized that financial institutions will continue to prioritize financial health, such as the low Non-Performing Loan (NPL) rate. If MSMEs are not financially qualified, the "green" or "sharia" labels will not trigger the disbursement of funds. He stated:

"Rasional ekonomi itu bekerja saat orang memilih mengambil keputusan tidak hanya sekedar... dia green atau enggak. Kalau NPL-nya akan tinggi, dia mau mau mau green, mau pro atau dia mau halal, mau apa segala macam... perusahaannya tidak qualified, kita enggak akan ngasih dana ke sana." (Dian Masyita)

Based on the side of strategic opportunities, Ahmad Komarulzaman as an environmental economist who is also part of the SDGs Center sees that "green" status can actually be a paved road. Green rebranding opens up access to new sources of funding (channeling) from large-scale donors. He explained:

"kalau tujuannya untuk mendapatkan financing dari eh lembaga ini mungkin bisa jadi celah... bisa dijual dalam kerangka ESG. Ada beberapa financing yang memang fokus... kan ada juga green suku green bond terus juga SDG bond itu kan memang ada yang di branding [khusus untuk target kelestarian lingkungan]." (Ahmad Komarulzaman)

Regarding regulatory compliance, the main challenge is how the green strategy of MFIs can be integrated with national reporting targets. Dian Masyita reminded the importance of aligning institutional data with Bappenas and the government's Net Zero target.

"Bapenas itu kan punya punya jangka panjang ya... link enggak sama BAPENAS... pelaporan Indonesia Net Zero segala macam itu siapa sih."

He also encouraged MFIs to see their potential in the future by studying existing reporting standards.

"ada ini karbon ada bursa karbon... bursa karbon itu menilai sustainability dan nanti pada akhirnya bisa diperjualbelikan." (Ahmad Komarulzaman)

However, this compliance and environmental awareness create a opportunities in the form of demand-side pressures that form new segmentation. Ahmad Komarulzaman explained that customers who have ecological awareness are willing to pay premium prices for organic or environmentally friendly products, so that the profitability of the institution can actually increase.

"Dia rebranding dengan green dia bisa mendapatkan eh pasar untuk yang green dan harga barangnya itu lebih mahal. Jadi dia bisa segmented ke situ profitnya bisa jadi naik." (Ahmad Komarulzaman)

At the operational level, the implementation of ESG (Environmental, Social, and Governance) standards risks burdening micro customers who are not even bankable. Given the scale of MSMEs, Dian Masyita highlighted the reality that "Islamic microfinance is very small". This condition was recognized by Ahmad Komarulzaman as a challenge because it is rigidly required.

"bisa jadi sesuatu yang memberatkan... jadi administrasi ini bertambah [bagi masyarakat bawah]." (Dian Masyita)

However, the cost and operational burden of waste treatment can be transformed into strategic opportunities through the application of circular economy principles. Instead of being a burden post, circularity turns the cost of residual processing into an instrument of long-term profitability. He also emphasized that the circular economy is at the core of a green economy that is in line with the principles of Mizan and the *prohibition of Israf* (waste). This model turns the linear (take-make-discard) pattern into a closed cycle. He gave an example of success in the canned pineapple processing industry.

"Tadinya dia itu... produsen nanas kaleng... di sampahnya itu banyak banget... Dia teliti gitu ini gimana nih biar yang tadinya itu sampah itu harus bayar biar jadi eh manfaat jadi profit... ternyata si sampah ini itu bisa jadi pakan sapi... Jadi yang tadinya itu biaya sekarang tuh jadi bisa jadi profit. Residu itu dijadiin lagi, diolah lagi sehingga nanti itu jadi input lagi [yang mendatangkan keuntungan baru]." (Ahmad Komarulzaman)

Furthermore, to overcome the high cost of environmental audits at the micro level, MFIs can adopt the "Supply Chain Audit" strategy. Citing the phenomenon in the textile industry where global brands such as Adidas pressure suppliers in Indonesia to adopt green principles, MFIs can use the supply chain as a verification mechanism. If micro customers supply products to large vendors that have been verified green, then MFIs can rely on the second-party audit. This creates a "green ripple effect" that is inexpensive and effective for microfinance institutions.

From a policy technical perspective, greenwashing is not just an ethical violation, but a substantive form of

Shariah Non-Compliance. Sofian Al Hakim defines false environmental claims as *Tadlis* (misleading) and *Kidzb* (lies) that can harm the halalness of the object of the contract.

Another view from academics, namely Cupian, who is an academic in Islamic Finance as well as the leader of the Association of Indonesian Islamic Economics Study Programs (APSEII), emphasized the urgency of the "Literacy before Inclusion" strategy. Given that micro customers tend to focus more on the sustainability of the daily economy, green inclusion that is enforced without mature literacy will meet with failure. Policy strategies must involve a Pentahelix approach that optimizes the role of religious leaders or community leaders (*Kiai/Community Leaders*) to preach that caring for the environment is part of faith and a form of prevention of ecological tyranny.

The Green MFI policy must not kill the micro sector. In accordance with the principle of *Tadarruj wa Taysir* (gradual and facilitating) carried out by Sofian Al Hakim, green standards for MSMEs must be applied proportionately. MFIs are encouraged to refer to TKBI Version 3 issued in 2026, by implementing simpler adaptive indicators (such as traffic light systems: *green, transitional, not yet fulfilled*) voluntarily so as not to burden the managerial capacity of small business actors.

Philosophically, the conceptualization of Green MFIs shifts from mere formalistic contractual compliance (*al-iltizām al-syakli*) to the achievement of substantive benefits (*tahqīq al-maqāshid*). Literature review and in-depth interviews with experts show that there are ten principles of Green MFIs that are intertwined to achieve *falah* (holistic well-being). Cupian stated that environmental ethics are very much in line with the implementation of sharia goals and Sustainable Development Goals (SDGs):

"Sebenarnya dengan ekonomi Islam itu tidak ada masalah karena ini ada kaitannya dengan implementasi maqosid syariah... yang di dalamnya yang sejalan dengan apa namanya dengan SDGs yang di antaranya adalah salah satunya ada tentang eh green." (Cupian)

The biggest challenge for MFIs today is the trap of pseudo-Sharia compliance that focuses only on the validity of contracts on paper, but turns a blind eye to the ecological impact of their portfolios. To mitigate the risk of greenwashing, Sofian Al Hakim proposed a rigid separation of the legal aspects of taklifi.

"Besaran istilah kufr al-bi'ah sejatinya konstruk teologis-da'wah untuk penyadaran moral... Sebaliknya, fasad fil ardh bersifat Qur'ani dan dapat dioperasionalkan melalui penilaian masalah-mafsadah... DPS berlegitimasi menyatakan suatu pembiayaan tidak sesuai prinsip syariah secara substantif-maqashidi... Namun untuk menjatuhkan label batal secara mengikat semata-mata atas dasar lingkungan, saya menuntut salah satu dari: (a) sandaran fatwa DSN-MUI yang eksplisit, atau (b) pelanggaran hukum/regulasi yang nyata." (Sofian Al hakim)

This was agreed by Ahmad Komarulzaman who reminded the dangers of this green cosmetic at the micro-operational level.

"Idealnya sih enggak ya. Itu kan jadinya teh green apa istilahnya itu green washing. Jadi seolah-olah seolah-olah green padahal kan gitu. Jadi klaimnya aja green padahal mah ya cuman make up aja gitu." (Ahmad Komarulzaman)

He added that the validity of *green finance* must be assessed from measurable evidence of negative impact reduction.

"Jadi bukan hanya dari total kegiatan dia, total apa barangnya, tapi juga dari upaya dia untuk menurunkan dari yang bisnis itu juga bisa... nanti kan bisa dihitung penurunan emisinya berapa." (Ahmad Komarulzaman)

In addition, *Islamic Blended Finance* is present as a solution to absorb green financing risks through philanthropic instruments. However, the mixing of commercial funds and Islamic philanthropy must be avoided in order to maintain compliance with asnaf and the provisions of the law of origin. Sofian Al Hakim gave a clear demarcation line.

"Zakat terikat delapan asnaf dan syarat tamlik... Menjadikan dana zakat sebagai first-loss penyerap risiko portofolio komersial bermasalah jika ia menanggung risiko bisnis pemodal... Wakaf uang: pokok wakaf bersifat abadi dan wajib dijaga (hifz al-'ain); ia tidak boleh tergerus oleh fungsi first-loss... Struktur paling bersih menurut saya adalah pemisahan lapis (ring-fencing)... Fungsi first-loss paling tepat ditanggung oleh dana infaq/sedekah/CSR." (Sofian Al hakim)

When a climate disaster or weather anomaly triggers crop failure (*jā'ihah*), aspects of distributive justice (*'Adl*) and mutual cooperation (*Takaful*) must be realized through a just relief mechanism. The principle of *lā dharar wa lā dhirār* (not to harm oneself and others) is applied in a two-way manner so that customer protection does not come at the expense of institutional liquidity. Sofian Al Hakim explains this risk management scheme:

"Fiqh klasik telah menyediakan doktrin wadh' al-jawā'ih, pengurangan atau penghapusan beban akibat bencana panen... Skema yang saya terapkan: rescheduling (perpanjangan tenor), reconditioning (keringanan margin... berupa ibrah'), restructuring... Solusinya: siapkan dana kebajikan/ta'awun bencana (dari zakat/infaq) sebagai penyangga, sehingga keringanan ditanggung kantong sosial... Secara ex-ante, lekatkan takaful mikro berbasis indeks (cuaca/panen)." (Sofian Al hakim)

With this concept, this will provide justice and peace of mind for the implementers at the operational level of this green MFI.

Conclusion

Finally, based on the results of the research conducted, it can be concluded that the transformation towards *Green Islamic Microfinance* (GIM) in Sharia Microfinance Institutions (MFIs) is a strategic solution to overcome inequality due to the use of the concept of green finance in macro and micro terms as well as efforts to stop the vicious cycle of poverty and environmental damage that occurs in the MSME sector in Indonesia (Effendi, 2013). The conceptualization of the Green MFI ecosystem is carried out by reconstructing the pillars of environmental protection (*hifz al-bi'ah*) from just a complement (*tahsiniyyat*) to an essential need (*daruriyyat*) based on *wasilah*, which demands a paradigm shift of economic agents (*Homo Islamicus*) to be more ecological ethical in order to achieve *falah* (Marianingsih, 2025; Mursal et al., 2025). To bridge the clash between the rationality of the financial health of institutions and the inclusivity of micro business actors who are not yet *bankable*, the operationalization of GIM must be realized through the 10 Main Principles of Green MFIs that integrate various sharia environmental governance (*Shariah Environmental Governance*), contract innovation, the use of *Sharia Green Crowdfunding*, and the optimization of *Islamic Blended Finance* (ZISWAF) which is bound by the rules of separation in the area of various risks (*ring-fencing*) in order to prevent the practice of misinformation (*tadlis/greenwashing*). Among the 10 Main Principles that integrate all the views of experts and regulators, namely:

1. *Tauhid and Istikhlaf* (Basic Principles): Viewing the absolute possession of Allah SWT. and placing humans as caliphs who hold the mandate to prosper the earth without damaging it (*fasad*).
2. *Maqashid - Hifz al-Bi'ah* Orientation: Placing environmental conservation as a *scale of daruriyyat (wasilah)* in every policy of fund distribution.
3. *Riba-free, Gharar, Maysir, and Tadlis-free*: Strictly prohibit the practice of greenwashing because it is categorized as an act of misinformation (*tadlis*) and lies (*kidzb*).
4. Justice and Balance (*Mizan*): Balancing the rationality of the financial health of the institution with the preservation of nature through a circular model.
5. *La Dharar wa La Dhirar*: Prioritizing the principle of prevention of ecological damage (*dafr al-mafasid*) rather than simply chasing shortterm profit margins.
6. *Ta'awun* and Takaful: Optimizing social instruments (ZISWAF) and index-based micro-takaful to share climate disaster risks for vulnerable indigenous/micro communities.
7. Sidq, Trust, and Transparency: Require accountable and *evidence-based green impact reporting*, such as emission reduction metrics or residue treatment.
8. *Falah* (Holistic Well-Being): Making the success of the hereafter the ultimate goal through financing that brings real benefits to humans and the environment.
9. *Tadarruj wa Taysir*: Implementing green standards and regulations gradually and making it easier for MSME actors not to shut down the micro sector that is not yet *bankable*.
10. *Shariah Environmental Governance* (SEG): Transforming the role of the Sharia Supervisory Board (DPS) from just a verifier of the validity of formal-legal contracts to a substantive-*maqashidi* supervisor who is able to actively evaluate environmental metrics.

The implementation of these ten principles will be able to ensure that MFIs grow into financial institutions that are not only healthy in terms of economic rationality, but also at the forefront of protecting the environment through credible and accountable sharia channels. This finding is part of the formation of a new concept that can be used to overcome environmental problems based on a micro scale that has the potential to be further developed. Although in practice no one has explicitly declared it as a green MFI based on this framework, the need for definite rules and there is still a need for adjustments to the implementation of this concept, further research on the principles of Green Islamic microfinance is still open and will be able to have a wider impact.

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