The Role of Islamic Finance on Sustainable Development in Ghana*

Gana'da Sürdürülebilir Kalkınmada İslami Finansın Rolü

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Abstract

This paper examines the role of Islamic economics and finance principles and products in achieving Sustainable Development Goals (SDGs) in Ghana. To achieve the objectives, the study used descriptive study and qualitative methods of data analysis and to some extent used some data from sustainable development reports. The finding from the study shows that Islamic finance in Ghana is currently hindered by awareness barriers and regulatory challenges that result in restrictions on the contribution to SDGs. At the same time, the study revealed that through the application of the waqf model, Islamic finance is contributing a lot to the attainment of the SDGs in Ghana. The study recommends that expanding Islamic financial products, such as microfinance and socially responsible investments, will enhance financial inclusion and support entrepreneurship in Ghana (SDG 8). Public-private partnerships (PPPs) using sukuk can help fund large-scale infrastructure projects, contributing to sustainable cities (SDG 11) and climate action (SDG 13). By integrating Islamic finance into national policy, Ghana can foster a more inclusive, ethical, and resilient economy that aligns with global sustainability goals.

Keywords: *Sustainable Development Goals (SDGs), Islamic Finance, Ghana*

Özet

Bu makale, Gana'da Sürdürülebilir Kalkınma Hedeflerine ulaşmada İslam ekonomisi ve finansı ilkelerinin ve ürünlerinin rolünü incelemeyi amaçlamaktadır. Bu hedeflere ulaşmak için çalışma, betimleyici bir çalışma ve nitel veri analizi yöntemleri kullanmış ve sürdürülebilir kalkınma raporlarındaki bazı verilerden faydalanmıştır. Çalışmanın bulguları, Gana'daki İslami finansın şu anda farkındalık engelleri ve düzenleyici zorluklar nedeniyle sürdürülebilir kalkınma hedeflerine katkı sağlama konusunda kısıtlamalarla karşılaştığını göstermektedir. Aynı zamanda, çalışma, vakıf modelinin uygulanmasıyla İslami finansın, özellikle Gana'da Sürdürülebilir Kalkınma Hedeflerine ulaşılmasına önemli katkılar sağlayacağını iddia etmektedir. Çalışma, mikro kredi ve sosyal sorumluluk yatırımları gibi İslami finans ürünlerinin genişletilmesinin, Gana'da finansal kapsayıcılığı artıracağını ve girişimciliği destekleyeceğini (SKH 8) önermektedir. Sukuk

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kullanılarak yapılan kamu-özel sektör ortaklıklarının (PPP'ler), büyük ölçekli altyapı projelerinin finansmanına yardımcı olabileceğini, bu sayede sürdürülebilir şehirler (SKH 11) ve iklim eylemi (SKH 13) için katkı sağlayabileceğini belirtmektedir. Son olarak, bu çalışma İslami finansın ulusal politika ile entegrasyonu sayesinde Gana'nın küresel sürdürülebilirlik hedefleriyle uyumlu, daha kapsayıcı, etik ve dayanıklı bir ekonomi geliştirmesini sağlayabileceğini iddia etmektedir.

Anahtar Kelimeler: *Sürdürülebilir Kalkınma Hedefleri (SKH), İslami Finans, Gana*

1. Introduction

In today's increasingly interconnected world, the need for a financial system that is ethical, inclusive, and sustainable has become more urgent than ever. Global challenges like poverty, inequality, and climate change have underscored the necessity for a financial framework that not only drives economic growth but also ensures social equity and environmental protection (Hoque et al., 2023; OECD, 2020)inequity, illiteracy, malnutrition and environmental pollution to ensure peace, happiness, prosperity and sustainability as envisaged in sustainable development goals (SDGs. Islamic finance, grounded in the ethical principles of Shariah law, presents an alternative model that emphasizes fairness, equity, and social responsibility—values that are directly aligned with the objectives of sustainable development (Siddique, 2019). At its core, sustainable development aims to strike a balance between economic growth, social well-being, and environmental protection, ensuring that future generations can meet their own needs without compromising the needs of the present. Islamic finance shares this vision, as it prioritizes investments that contribute to both economic prosperity and the welfare of society while safeguarding the environment (Alhammadi, 2024; Brescia et al., 2021).

The principles of Islamic finance are deeply connected to sustainable development, particularly when compared to the profit-driven focus of conventional financial systems. Traditional financial models often emphasize short-term profits, sometimes at the cost of social justice and environmental sustainability. In contrast, Islamic finance rejects exploitative practices such as interest (riba), gambling (maysir), and excessive risk-taking, instead promoting financial transactions grounded in fairness, transparency, and shared risk (Hassan et al., 2020). Profit-sharing mechanisms like mudarabah (profit-sharing partnership) and musharakah (joint ventures) are central to Islamic finance, encouraging long-term and responsible investment practices. These contracts foster a more inclusive financial system, where both investors and entrepreneurs share risks and rewards, ensuring that business ventures contribute to sustainable growth. This model supports economic development and promotes social justice and environmental responsibility, aligning with the United Nations' Sustainable Development Goals (SDGs) of reducing poverty, enhancing financial inclusion, and combating climate change. Therefore, the principles of Islamic finance provide a solid foundation for creating a financial system that is both ethically grounded and sustainable over the long term (Raimi et al., 2024; Shahid et al., 2024).

Islamic finance also significantly promotes financial inclusion, especially for underserved and marginalized communities. Traditional banking systems often leave many people without access to financial services, particularly in developing countries. This exclusion stems from high interest rates, stringent collateral demands, and the inability to participate in interest-based systems, limiting opportunities for those who need it most. Islamic finance offers a solution through Shariah-compliant microfinance products, which allow individuals to access credit without the burden of paying interest (Ahmed & Mohieldin, 2019). This opens up new opportunities for entrepreneurs in low-income communities to start businesses, create jobs, and improve their livelihoods, directly supporting the achievement of SDG 1 (No Poverty) and SDG 10 (Reduced Inequality). Moreover, Islamic finance's focus on equity and shared responsibility extends to green finance, where it aligns with global efforts to address climate change. Through mechanisms like green sukuk (Islamic bonds), Islamic finance is supporting the transition to a more sustainable economy by funding eco-friendly projects such as solar power plants, waste management systems, and renewable energy infrastructure. These investments not only offer financial returns it also plays a role in advancing SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action) by backing projects that promote environmental sustainability (OECD, 2020; Shahid et al., 2024).

Furthermore, Islamic finance has proven to be a powerful tool for financing sustainable infrastructure projects, which are vital for long-term economic and social well-being. Infrastructure development, whether in housing, transportation, or healthcare, requires large-scale investment, which Islamic finance can provide through instruments such as ijarah (leasing) and murabahah (cost-plus financing). These financial tools enable projects to be funded in a way that adheres to Shariah principles while benefiting society as a whole (Bhala, 2012; Nadwi et al., 2015). Unlike conventional financing, which may prioritize profit over people, Islamic finance ensures that infrastructure projects contribute to improving the quality of life and promoting sustainability. Despite these promising aspects, Islamic finance faces challenges, including a lack of standardization in the interpretation of Shariah law across different regions and financial institutions. This inconsistency can hinder the broader adoption of Islamic financial products (Nadwi et al., 2015). Moreover, there is a need for greater awareness and education about the potential benefits of Islamic finance, particularly in non-Muslim-majority countries. For Islamic finance to reach its full potential in promoting sustainable development, a concerted effort is required to inform policymakers, financial institutions, and investors about how this financial model can contribute to the achievement of the SDGs. With the right regulatory frameworks, enhanced collaboration between Islamic financial institutions, governments, and international organizations, and a strong commitment to education and innovation, Islamic finance can become an even more influential force in driving global sustainability efforts (Hassan et al., 2020; Nienhaus, 2012; Siddique, 2019).

Islamic finance is utilized as an alternative for the conventional system in emerging and developing economies; though in recent times, an expansion into the developed countries has been witnessed (Hassan et al., 2019) Islamic Financial Services Board (IFSB. According to the Global Islamic Financial Services Industry Stability Report 2024, the assets of the IFSI witnessed a growth of 4% year-on-year (YoY) to reach USD 3.38 trillion in 2023. As outlined by the same report, Islamic banking constitutes 70.21% of the total global IFSI assets and is ranked the largest sector of the IFSI in 2023. Sub-Sahara Africa holds only 0.70% of the global finance assets while Gulf Cooperation Council regions retain the majority share in terms of regional distribution (IFSB, 2024). Ghana is a country located in the Sub-Saharan region, in which limited access to Islamic financial services has been exhibited.

Approximately 20% of the Ghanaian population is Muslim, and due to the prohibition of riba in Islamic teachings, a significant portion of this group is excluded from benefiting from the country's traditional interest-based financial services (Seidu & Mashood, 2020). Despite the growing global interest in Islamic finance, there is no research on how it can be leveraged to provide inclusive financial services to the Muslim population in Ghana. This gap presents an opportunity to explore how Islamic finance could offer alternative financial products—such as interest-free loans and Shariah-compliant investments—specifically designed to meet the needs of Ghana's Muslim community. Further research is needed to assess the potential for Islamic finance to enhance financial inclusion, foster entrepreneurship, and support the broader socio-economic development of underserved Muslim populations in Ghana, thus contributing to achieving key SDGs like poverty reduction and reduced inequality. The main aim of this study is to examine the real potential and benefit of Islamic financial institutions and their role in achieving development goals in Ghana.

To achieve this, a descriptive and analytical approach is employed, utilizing qualitative research methods to explore the intersection of Islamic social finance (ISF) and the SDGs. The research involves a comprehensive literature review, drawing from library research, content analysis of academic articles, and institutional reports. This secondary data will provide a theoretical foundation for understanding the mechanisms through which Islamic finance operates and its relevance to sustainable development in Ghana. The data collected will be analyzed qualitatively to identify key themes and relationships between the principles of Islamic finance and the SDGs. A comparative analysis will be conducted to assess the convergence and divergence between ISF practices and the SDGs in Ghana.

2. Literature Review

2.1. Sustainability and Islamic Finance

Sustainability is inherently embedded in the principles of Islamic finance, aligning with the core values of social justice, fairness, and long-term welfare. Islamic finance prohibits unethical practices such as riba, maysir and gharar (excessive uncertainty), ensuring that transactions are fair and equitable for all parties involved (Siddique, 2019). The emphasis on risk-sharing, as seen in financial instruments like mudarabah and musharakahh, encourages long-term, sustainable investments by ensuring that all stakeholders, including entrepreneurs and investors, share both the risks and rewards of ventures (Ahmed & Mohieldin, 2019). This promotes responsible financial practices that are not driven by short-term speculative gains, but rather by tangible, productive outcomes that contribute to social and environmental well-being (M. Billah et al., 2024; Siddique, 2019). Additionally, Islamic finance restricts investment in industries deemed harmful to society or the environment, such as alcohol, gambling, and weapons, ensuring that financial activities align with ethical and sustainable goals (Mohieldin et al., 2012).

Moreover, Islamic finance is grounded in the concept of asset-backed financing, where transactions must be linked to tangible assets or real economic activities, promoting sustainability by funding projects with lasting, positive impacts on both the economy and the environment (Dirie et al., 2023; Nadwi et al., 2015) Green sukuk are a prime example of this, as they finance renewable energy projects and environmentally-friendly infrastructure, helping to advance global sustainability efforts (M. M. Billah et al., 2024; Permana, 2024; Piratti & Valentino, 2015). Additionally, the principles of zakat (obligatory giving) and waqf (endowments) are central to Islamic finance, promoting social welfare and wealth redistribution, which helps alleviate poverty and reduce inequality (Gumus, 2019). These ethical practices and investment principles make Islamic finance a strong tool for supporting sustainable development, addressing global challenges such as climate change and social inequality, and fostering long-term, inclusive prosperity (Ahmed & Mohieldin, 2019; Dirie et al., 2023; Ouendi & Ounis, 2018).

Additionally, sustainability intersects with Islamic ontology in different manners. Islamic finance is based on the principles of stewardship (khilafa) and social justice (adil), ethical conduct (akhlaq), and unity under tawhid. Stewardship emphasizes humans as caretakers of the Earth, guiding them to manage resources sustainably and ethically, avoiding harmful practices like riba and speculation. Social justice, rooted in the Islamic moral economy, stresses equitable wealth distribution, cooperation, and societal welfare, ensuring economic activities promote fairness and reduce inequality. Ethical conduct promotes justice by prohibiting exploitative practices such as interest, excessive uncertainty, and gambling, ensuring financial transactions are transparent, fair, and free from harm (Asutay & Yilmaz, 2021; Kader, 2021; Zarrouk & Al-haija, 2017).

The principle of tawhid underscores the interconnectedness of all aspects of life under God's sovereignty, guiding a holistic approach to finance that aligns financial activities with social justice and community well-being. These principles encourage an economic system that balances individual and collective interests, promoting both ethical responsibility and sustainability. In essence, Islamic finance seeks to foster a just, sustainable, and equitable financial ecosystem, ensuring that economic decisions contribute positively to both society and the environment while adhering to ethical and moral guidelines (Muqorobin, 2008).

2.2. The Role of Islamic Economics and Finance in Advancing Development

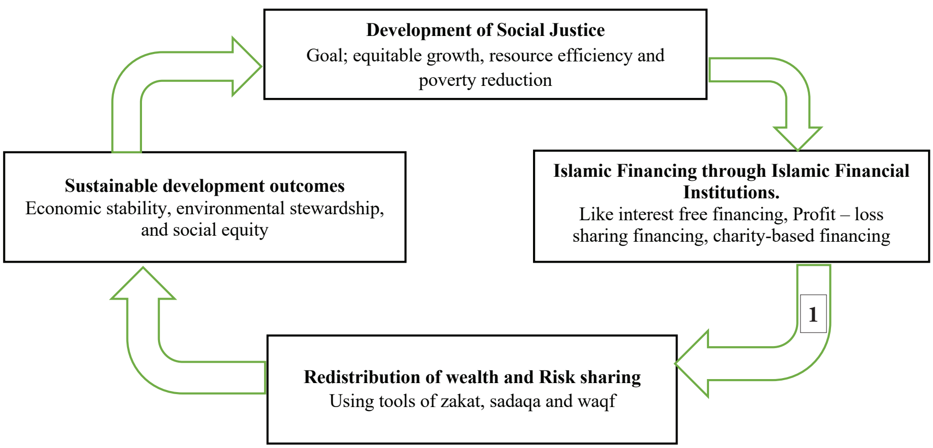
Islamic economics is a framework rooted in Islamic principles that seeks to address the economic and social issues faced by Muslim countries. It emphasizes a return to Shari'a (Islamic law) to guide economic behavior, promoting fairness, equity, and social justice. The system prioritizes efficient resource allocation based on divine laws, fostering social cohesion, cooperation, and unity among individuals (Atia, 2020.; Dembele & Bulut, 2021). Core principles like tawheed and brotherhood influence economic activities, guiding individuals to manage resources in alignment with their relationship with God. Islamic economics stresses the importance of ethical conduct in market exchanges, profit maximization, and the fundamental principle of social justice, all of which are intended to create a fair and balanced economic environment (Muneer & Khan, 2019).

Central to Islamic economics is the idea of wealth redistribution, with the goal of reducing inequality and promoting socio-economic justice. This redistribution is facilitated through financial instruments such as zakat, sadaqah (voluntary charity), and qard hasan (interest-free loans) (Lanzara, 2021; Rusydiana, 2020). Zakat, in particular, serves as a primary mechanism for wealth redistribution, requiring individuals to give a portion of their wealth to those in need. Sadaqah and other voluntary charity forms contribute to alleviating poverty and supporting societal welfare. These tools are vital in creating a more just and equitable distribution of resources, ensuring that wealth is used to address the needs of the disadvantaged while discouraging excessive consumption (Muneer & Khan, 2019; D. Mustafa, 2020).

Islamic financial instruments and institutions play a critical role in supporting the principles of Islamic economics. Islamic banks, takaful, waqf, and hisbah (market supervision) are vital components of this system (Hassan et al., 2020; D. Mustafa, 2020; QFC, 2020.) These institutions embody the principles of Islamic economics by promoting financial activities that align with ethical guidelines set out in the Shari'a. Islamic banks, for example, avoid interest-based transactions and focus on profit-sharing models, which contribute to sustainable development and poverty alleviation. Such institutions help facilitate socio-economic progress by ensuring that financial transactions are conducted in a manner that promotes social justice and human welfare (Furqani & Ratna, 2017; Kjetil, 1998; D. A. Mustafa, 2015).

An essential concept within Islamic economics is risk-sharing, which fosters a just and equitable economic structure. Mechanisms such as mudarabah and musharakahh ensure that risks and rewards are shared among participants, encouraging entrepreneurship and sustainable investment. These risk-sharing models reduce financial speculation and foster stability by ensuring that all parties involved are accountable for the outcomes. By promoting equitable distribution of risks and rewards, Islamic economics encourages ethical practices and supports long-term development. Overall, Islamic economics aims to promote poverty alleviation, equitable wealth redistribution, and sustainable development through the integration of social justice, ethical finance, and human welfare (Perwira & Wahyudi, 2022; Zarrouk & Al-haija, 2017).

Figure 1: Cycling Islamic Finance and Sustainable Development towards Global Prosperity



Sources: Authors' compilation

As seen in Figure 1, the cycles connecting Islamic finance to sustainable development begin with the fundamental principles of development and social justice, which prioritize equitable growth, poverty reduction, and resource efficiency. Islamic financial institutions then help to achieve these goals by providing Sharia-compliant financing instruments including sukuk, mudarabah, and musharakah, all of which are based on risk-sharing and asset-backing principles. These systems promote wealth redistribution through tools such as zakat, sadaqah, and waqf, ensuring that wealth circulates throughout the economy and reaches those in need. These actions result in better economic stability, lower income disparity, and improved social equity, as well as investments in sustainable projects. These results, in turn, reinforce the core objectives of development and social justice, resulting in a continuous virtuous cycle that combines ethical financial practices with SDGs.

Islamic finance, with a global asset base surpassing USD 2.5 trillion, is becoming an increasingly important force in promoting sustainable development. Its growth aligns with key objectives highlighted in OECD reports, particularly in the areas of green financing and inclusive growth. One of the standout innovations in Islamic finance is Green Sukuk—Shariah-compliant bonds used to finance sustainable projects such as renewable energy, sustainable agriculture, and environmentally friendly infrastructure. Countries like Indonesia and Malaysia have emerged as leaders in this space, using Green Sukuk to channel funds into low-carbon initiatives, directly supporting the OECD's emphasis on climate goals. In addition to green bonds, Islamic finance plays a significant role in social development through mechanisms such as Zakat (charity) and Waqf (endowment). These tools collectively generate billions of dollars annually, providing critical funding for sectors such as healthcare, education, and poverty alleviation. This is fully in line with the OECD's agenda of reducing inequality and driving inclusive economic growth. Furthermore, Islamic finance's commitment to Environmental, Social, and Governance (ESG) principles ensures that its investments are both ethical and socially responsible. This ethical framework strengthens its role as a key player in sustainable finance. Islamic finance enables small and medium-sized enterprises (SMEs) to thrive by fostering financial inclusion, particularly through Shariah-compliant microfinance initiatives. This empowerment helps create jobs and stimulates economic growth in underserved communities, addressing another priority of the OECD. The core principles of risk-sharing in Islamic finance, through structures such as Mudarabah (profit-sharing) and Musharakah (partnership), offer equitable and resilient financial solutions. These mechanisms are well-suited to meet the OECD's call for innovative and sustainable approaches to financing development (OECD, 2020).

2.3. The current status of Islamic Finance in Ghana

Islamic finance in Ghana is an emerging sector, with its roots largely tied to the increasing Muslim population and the growing interest in Sharia-compliant financial products. It is still in a nascent stage compared to more developed countries in the Islamic finance world (Ibrahım & Yatoo, 2024) (Ibrahım & Yatoo, 2024). Islamic banking in Ghana is still in its early stages, with no fully licensed Islamic banks yet operating. However, several conventional banks, such as Access Bank and Wenchi Rural Bank, have established Islamic banking windows offering Sharia-compliant products to meet the growing demand from the Muslim population. Additionally, two licensed Islamic microfinance institutions, Ghana Islamic Microfinance (GIMF) and Salam Capital, provide essential financial services to underserved communities (Seidu & Mashood, 2020). The Bank of Ghana has shown support for the sector, indicating plans to issue the first Islamic banking license, but the regulatory framework remains underdeveloped. While there is potential for significant growth, the adoption of Islamic banking has met with mixed reactions from consumers, largely due to unfamiliarity and the lack of comprehensive regulatory support (Mbawuni & Nimako, 2017, 2018).

Islamic finance in Ghana, while holding significant potential, faces several key challenges that hinder its growth and widespread adoption (Seidu & Mashood, 2020). About competition with conventional financial institutions, it is one of the foremost obstacles. Established banks in Ghana have strong customer bases, a broad range of financial products, and significant brand loyalty, making it difficult for new Islamic finance institutions to gain traction. Lack of awareness is another critical barrier. Many Ghanaians, including those within the Muslim community, remain unfamiliar with the principles of Islamic finance, which include interest-free banking and profit-sharing models. This lack of understanding leads to hesitancy in adopting Islamic financial products, and educating the public will be essential to overcoming this challenge (Abdul-Wahab et al., 2019; Mbawuni & Nimako, 2018). Furthermore, the relatively smaller Muslim population in Ghana poses a challenge, as the core customer base for Islamic finance remains limited. While Ghana's Muslim population is growing, it is still a minority, and scaling Islamic finance institutions to serve a larger portion of the population is challenging (Abdul-Wahab et al., 2019).

According to Seidu & Mashood, (2020) critical issue lies in regulatory challenges. While the Bank of Ghana has supported Islamic banking, the regulatory environment remains underdeveloped. There are limited clear guidelines for Islamic financial products such as Sukuk (Islamic bonds) and Takaful (Islamic insurance), and obtaining licenses for Islamic financial institutions can be slow and bureaucratic. Convincing regulatory authorities to fully support and implement a framework for Islamic finance requires both time and demonstration of the sector’s potential, which can be difficult in the face of competing priorities within the financial system (Seidu, 2022). The limited availability of Islamic finance products also poses a challenge. Currently, Islamic finance in Ghana primarily focuses on microfinance and basic banking products. However, more complex products, such as Islamic insurance (Takaful) or investment products like Sukuk, are still in their infancy or unavailable. This lack of product diversity makes it harder for Islamic finance to compete with conventional banks that offer a wide array of financial services. Lastly, financial literacy is a major barrier to the expansion of Islamic finance. While financial inclusion is one of the key benefits of Islamic finance, the understanding of Islamic finance principles is still limited even among the Muslim population, particularly in rural areas where access to financial education is minimal. Providing widespread financial education and training for both consumers and financial institutions is essential to ensure the sector’s sustainability and growth (Abdul-Wahab et al., 2019; Mbawuni & Nimako, 2017; Seidu & Mashood, 2020).

2.3. The Discussions on the Role of Islamic Economics and Finance on Sustainable Development

Alhammadi (2024) and Irfany et al. (2024) both explore how Islamic finance can serve as a powerful tool for addressing global challenges. Alhammadi focuses on the role of Islamic finance in fostering economic diversification and digital transformation in the Gulf Cooperation Council (GCC) region, with an emphasis on reducing oil dependency and fostering technological innovation. In a similar vein, Irfany et al. (2024) examine the environmental impact of Islamic finance, finding that Islamic financial assets promote green investments that align with sustainability goals, while Islamic banking financing has minimal impact on reducing CO2 emissions. These findings underscore the growing recognition of Islamic finance's potential to drive economic resilience and environmental sustainability, especially through green initiatives and sustainable investments.

Expanding on the theme of sustainability, Raimi et al. (2024) and Shahid et al. (2024) delve deeper into the ways Islamic finance contributes to the SDGs, particularly in mitigating financial risks and fostering economic inclusivity. Raimi's study highlights how Islamic Sustainable Finance (ISF) supports green entrepreneurship, sustainable projects, and small and medium-sized enterprises (SMEs), thereby advancing the SDGs across environmental, social, and economic dimensions. Similarly, Shahid et al. (2024) explore the alignment between ISF and the SDGs, revealing that most SDGs align well with the principles of Islamic finance. Both studies underscore the role of Islamic finance in fostering financial stability and inclusive economic development by incorporating Shariah-compliant ethical standards into financial practices.

Another important facet of Islamic finance's role in sustainable development is its use of Islamic finance tools such as zakat, waqf, and sukuk. Dirie et al. (2023) and Hoque et al. (2023) explore how these tools contribute to the achievement of the SDGs. Dirie's systematic review of 178 studies shows that Islamic finance mechanisms like zakat, waqf, and qard-hasan are effective in promoting social welfare, poverty alleviation, and economic sustainability, particularly in countries like Indonesia and Malaysia. These findings complement Hoque's exploration of how integrating zakah with corporate social responsibility (CSR) initiatives helps address pressing issues like poverty and malnutrition in emerging economies like Bangladesh, directly contributing to SDGs such as No Poverty and Zero Hunger.

M. Billah et al. (2024) and Harahap et al. (2023) add depth to the discussion by examining the operational aspects of Islamic finance in advancing the SDGs. Billah emphasizes the importance of maintaining Shariah-compliance in sustainable investment and project development while promoting innovative financial products and hybrid models. Harahap, on the other hand, emphasizes how Islamic finance, in alignment with Maqasid al-Shari'ah, contributes significantly to human welfare and sustainable development. Both studies advocate for stronger regulatory frameworks and institutional cooperation to bolster the effectiveness of Islamic finance in driving sustainable development.

With respect to Islamic finance using the dynamic panel GMM methodology, Mazlan et al., (2023) analyzes data from 2012 to 2019. The findings indicate that regulatory frameworks do not have a significant impact on Islamic finance in developed nations, Muslim minority countries, or other Arab regions. Furthermore, corporate governance appears to be statistically irrelevant in the Middle East and North Africa (MENA) as well as in non-Asian countries. These outcomes suggest that there is a need for a new regulatory approach, one that focuses more on product specifications, policies, and procedural requirements. Therefore, improving governance indicators could help increase global understanding and foster broader acceptance of the Islamic finance industry. Abdullah, (2023)the rights and obligations of parties in exchange contracts are determined based on the different underlying contractual structures. Among the key shariah principles that provide conceptual premises for determination of yield-entitlement from an investment, include the principles of al-kharaj bil-dhaman and al-ghunm bil-ghurm. According to these two principles, in order to be entitled to a financial return or yield, the owner of an underlying asset, activity or capital must bear the related market as well as ownership risks. These two principles have a great bearing on how the shariah-compliant banking and financial activities are conducted. In the context of Islamic Financial Institutions (IFIs examines the application of the dhaman principle in Islamic finance contracts and identifies gaps between theory and practice. Using a qualitative approach, the study finds that misapplication of dhaman may affect the Shariah-compliance of profits, potentially leading to improper allocation of yields. It recommends aligning Islamic banking practices with theoretical principles by ensuring risks are properly assigned to those who claim the corresponding profits. Butt et al., (2023) explore the relationship between Islamic finance and economic growth. The results show that Islamic finance positively contributes to economic growth, with a stronger effect in Muslim-majority and developing countries compared to non-Muslim and developed nations. The study suggests that regulators should focus on developing Islamic finance to boost economic growth and raise public awareness of Islamic financial products. The findings also highlight the potential of Islamic finance in fostering socio-economic development and inclusive growth, especially in Muslim-majority and developing regions. Herindar & Shikur, (2023) analyzes the intersection of Islamic Finance and Sustainable Development Goals (SDGs) through text analysis of 80 documents (2010-2021). Using R, it identifies two key research networks: 'green economy' and 'sustainable development'. Thematic mapping categorizes topics into four clusters: emerging themes (e.g., microfinance, waqf), basic themes (e.g., Islamic banking), highly developed but isolated themes (e.g., green economy reporting), and motor themes (e.g., investment, energy sustainability). The findings underscore the significant role of Islamic finance in advancing SDGs, particularly in environmental sustainability.

In terms of practical application, OECD (2020) and Ahmed & Mohieldin (2019) offer a broader perspective on the role of Islamic finance in supporting the SDGs. The OECD report highlights the immense potential of Islamic finance to mobilize funds toward development initiatives, with a focus on collaborating with OECD donors and strengthening partnerships to enhance aid effectiveness. Similarly, Ahmed & Mohieldin explore how Islamic finance can support the SDGs by mobilizing resources for large-scale infrastructure and social projects, focusing on financial inclusion, poverty reduction, and economic growth. These studies reinforce the idea that Islamic finance is not just a financial system but a transformative tool for achieving global sustainability goals.

Finally, Abdullah (2018) and Nadwi et al. (2015) explore the specific tools within Islamic finance, such as waqf and green economic transitions, that can directly support sustainable development. Abdullah's study suggests that waqf has substantial financial resources that can help Muslim-majority nations meet SDG-related goals, aligning Shariah principles with the global SDG agenda. Nadwi et al. advocate for a Green Economic Transition (GET), where Islamic finance tools contribute to eco-conscious policies and business strategies aimed at environmental sustainability.

2.4. Islamic Finance Tools for SDGs

Islamic finance, with its principles of fairness, risk-sharing, ethical investing, and social responsibility, is crucial in advancing all 17 SDGs. It promotes poverty alleviation through tools like zakat, sadaqah, and interest-free loans, supporting the reduction of inequality and the provision of financial inclusion (Hamed, 2020; Shahid et al., 2024) Islamic finance contributes to SDGs related to hunger, health, quality education, and affordable energy by financing sustainable agriculture, healthcare, education, education, clean energy, and infrastructure as presented in Table 1. It fosters gender equality by providing equitable access to financial resources, encourages responsible consumption, and supports environmental sustainability through investments in renewable energy and eco-friendly projects (Dirie et al., 2023). Additionally, Islamic finance aids in building sustainable cities, combating climate change, and promoting peace and justice by ensuring ethical governance and transparent financial systems. Through these mechanisms, Islamic finance encourages partnerships for the global good, ensuring that development is both inclusive and sustainable, ultimately contributing to the achievement of all SDGs (Hana & Pujiati, 2023; Hassan et al., 2020)

Table 1: The role of Islamic Finance Tools on SDGs

SDGs No	**Goal**	**Islamic Finance Tools**	**Contribution to the SDGs**
1	Zero Poverty	Zakat, Sadaqat, Qard al-Hassan (interest-free loans), (Islamic microfinance)	Provides direct financial assistance to the poor, offers interest-free loans to vulnerable families, and supports poverty alleviation through wealth redistribution.
2	No hunger	Zakat, Sadaqat, Waqf	Funds food security programs, support agricultural projects, and ensures that food reaches the most vulnerable populations through charitable mechanisms.
3	Good Health & Well-being	Takaful, Retakaful (reinsurance), Waqf	Provides affordable healthcare coverage, funds healthcare infrastructure such as hospitals, and promotes access to medical care for underserved communities.
4	Quality Education	Waqf, Sukuk, Mudaraba (profit-sharing)	Funds schools, scholarships, vocational training, and educational infrastructure, ensuring quality education is accessible to all.
5	Gender equality	Islamic microfinance, Mudaraba, Musharakah, Sukuk	Supports women entrepreneurs, ensures equitable access to finance for women, and funds gender-inclusive development projects.
6	Access to clean water and sanitation	Sukuk, Waqf, Murabahah	Funds clean water and sanitation infrastructure projects, providing sustainable solutions for access to water and sanitation in underserved areas.
7	Affordable and clean energy	Green Sukuk, Sukuk, Murabahah	Finances renewable energy projects, such as solar, wind, and hydro, encourage sustainable energy development and improve access to clean energy.
8	Decent work and Economic growth	Mudaraba, Musharakah, Islamic microfinance	Promotes job creation, supports small businesses, and encourages entrepreneurship through ethical financial structures that promote inclusive economic growth.
9	Industry, Innovation, and Infrastructure	Sukuk, Murabahah ~~and~~, Mudaraba	Funds infrastructure projects, fosters industrial development and supports innovation by providing financing for new technologies and industrial growth.

10	Reduced Inequalities	Zakat, Sadaqat, Qard al-Hassan, Islamic microfinance, Waqf	Redistributes wealth from the affluent to the poor, providing financial services to underserved communities and reducing economic inequalities.
11	Sustainable cities and Communities	Sukuk, Murabahah, Musharakah	Supports infrastructure development in sustainable urban areas, including affordable housing, public transport, and green spaces, ensuring environmental and social sustainability
12	Responsible Consumption and Production	Green Sukuk, Sukuk, Islamic microfinance, Financing for renewable energy projects	Supports sustainable production and consumption by financing eco-friendly projects, promoting responsible business practices, and encouraging investments in renewable energy.
13	Climate Action	Green Sukuk, Sukuk, Murabahah, Mudarabah	Finance projects focused on reducing greenhouse gas emissions, renewable energy, and climate change mitigation, fostering sustainable development.
14	Life below water	Sukuk, Murabahah, Waqf	Funds marine conservation projects, sustainable fisheries, and clean water initiatives that protect aquatic ecosystems
15	Life on land	Green Sukuk, Financing for sustainable agriculture and conservation projects	Funds initiatives that preserve natural resources, promote biodiversity, and support sustainable land use, ensuring long-term environmental health.
16	Peace, Justice, and Strong Institutions	Islamic finance regulations, Corporate governance, Sukuk, Mudarabah	Promotes transparency, accountability, and ethical financial practices, contributing to the development of just, strong institutions and governance structures.
17	Partnership for the goals	Sukuk, Musharakah, Mudarabah, and Islamic Micro finance.	Encourages partnerships between governments, NGOs, financial institutions, and businesses to achieve SDGs by providing funding and ethical financing models.

Source: Adapted from *M. Billah et al., (2024); Ebrahim et al., (2021) and Gumus, (2019*)

Islamic finance tools such as Zakat, Sadaqat, and Qard al-Hassan significantly address poverty and promote social justice. Zakat, a mandatory charity, redistributes wealth from the wealthy to the less fortunate, directly supporting SDG 1 (Zero Poverty) by reducing wealth inequality and alleviating poverty. Sadaqat, a voluntary charity, complements this effort by funding vital social services such as food security, healthcare, and education. Meanwhile, Qard al-Hassan, providing interest-free loans, helps individuals and small businesses who lack access to traditional financing, promoting financial inclusion and empowering vulnerable communities, thus contributing to SDG 10 (Reduced Inequalities).

The Waqf (Endowment Fund), a charitable mechanism, has a significant impact across multiple SDGs due to its long-term, sustainable nature. It is a form of perpetual charity where assets are donated for social causes, and the returns from these assets fund various social services. Waqf contributes to SDG 2 (No Hunger) by funding food security programs and agricultural projects aimed at ensuring access to food for underserved populations. It also plays a vital role in SDG 3 (Good Health & Well-being) by providing ongoing financial support for healthcare institutions such as hospitals, medical clinics, and public health initiatives. Furthermore, Waqf is a major contributor to SDG 4 (Quality Education), supporting the establishment of schools, scholarships, and vocational training programs that ensure education is accessible to all, particularly marginalized groups. Additionally, SDG 6 (Clean Water & Sanitation) benefits from Waqf by financing clean water supply projects and sanitation infrastructure in underdeveloped regions. Through its enduring funding, Waqf provides sustainable support for social development, reducing inequalities and improving living conditions over the long term.

In addition to these tools, Islamic finance provides mechanisms like Mudaraba and Musharakah, which foster entrepreneurship, job creation, and inclusive growth, contributing to SDG 8 (Decent Work & Economic Growth). Islamic Microfinance supports underserved populations by offering interest-free loans, addressing SDG 1 and SDG 10. Takaful (Islamic insurance) ensures affordable healthcare and economic stability, supporting SDG 3 (Good Health & Well-being). Sukuk (Islamic bonds) fund large-scale infrastructure and clean energy projects, helping achieve SDGs 7 (Affordable and Clean Energy) and 9 (Industry, Innovation & Infrastructure). These financial instruments promote economic development, social welfare, and sustainability, aligning with multiple SDGs.

3. Current Status and Progress of SDGs in Ghana

The current status revealed that Ghana faces several challenges in achieving SDG 1 (No Poverty), SDG 2 (Zero Hunger), and SDG 3 (Good Health & Well-being) as presented in Table 2. High maternal mortality, stunting (17.5%) wasting (6.8%) in children, and limited access to healthcare contribute to persistent poverty, especially in rural areas, where many people live below the poverty line. With 29.92% of the population living on less than $3.65 a day, poverty exacerbates issues like food insecurity and poor nutrition. Efforts to address hunger are reflected in the moderate undernourishment rate of 4.92%, but challenges remain, as the country still faces high rates of malnutrition in children. Despite efforts to improve health services, including skilled birth attendance and vaccination rates, the country struggles with high maternal and child mortality, the burden of non-communicable diseases, and poor nutrition, all exacerbated by food insecurity and poverty. These challenges underscore the need for integrated policies to reduce poverty, improve food security, and enhance healthcare access, which are critical for achieving sustainable development in Ghana.

In Ghana, significant progress has been made toward achieving several SDGs, particularly SDG 4: Quality Education and SDG 5: Gender Equality as seen in Table 2. To enhance access to education, the government has implemented a series of impactful initiatives, including the Free Senior High School (FSHS) program, Free Compulsory Basic Education (FCBE), Functional Literacy Programs, Capitation Grants, and the School Feeding Program. These programs have played a key role in improving school enrollment rates from primary through to high school. Despite these successes, challenges regarding the quality of education remain, as highlighted by Abaidoo, (2021) emphasizing the need for further improvements to ensure these initiatives yield maximum student benefits. Regarding gender equality in education (SDG 5), Ghana has worked to increase female enrollment and completion rates, particularly through the policies of FCBE and FSHS. However, financial challenges and household responsibilities continue to limit the educational opportunities for girls. Osei Kwadwo & Konadu, (2020) highlight these barriers but also note that gender equality in education has seen positive strides, with female enrollment increasing due to these targeted policies. Nonetheless, more efforts are needed to address underlying socio-economic factors to ensure full gender equality in education.

Ghana has made notable progress in achieving SDG 6 (Clean Water and Sanitation), with 88.42% of the population having access to basic drinking water services. However, a significant gap remains in sanitation, as only 28.62% of the population has access to basic sanitation services. The low percentage of treated wastewater (3.02%) and the relatively high consumption of water embodied in imports (263.22 m^3/capita) highlight key areas for improvement. To address these challenges, investment in wastewater treatment infrastructure, sanitation facilities, and water conservation projects is essential. Similarly, in SDG 7 (Affordable and Clean Energy), while 86.32% of the population has electricity access, only 30.32% use clean cooking technologies, and Ghana's energy production still has a considerable carbon footprint (0.92 $MtCO2/TWh$). The renewable energy share is growing but remains low at 11%, underscoring the need for greater investments in clean energy and clean cooking solutions. Islamic finance, with its ethical and sustainable investment principles, can play a pivotal role in supporting infrastructure projects, renewable energy development, and improved access to sanitation and clean energy technologies, helping Ghana achieve these critical SDGs.

Table 2: Current Status of SDGs in Ghana

S/N	Goal	Rating	Trend
1	No poverty	Major challenges remain	Stagnating
2	Zero hunger	Major challenges remain	Moderately improving
3	Good health and well-being	Major challenges remain	Moderately improving
4	Quality education	Significant challenges remain	Moderately improving
5	Gender equality	Major challenges remain	Stagnating
6	Clean water and sanitation	Major challenges remain	Moderately improving
7	Affordable and clean energy	Significant challenges remain	Moderately improving
8	Decent work and economic growth	Significant challenges remain	Moderately improving
9	Industry, Innovation, and Infrastructure	Significant challenges remain	Moderately improving
10	Reduced inequalities	Major challenges remain	Unavailable
11	Sustainable cities & communities	Major challenges remain	Stagnating
12	Responsible consumption & production	Achieved	Moderately improving
13	Climate action	Challenges remain	Moderately improving
14	Life below water	Major challenges remain	Stagnating
15	Life on land	Significant challenges remain	Stagnating
16	Peace, justice & strong institutions	Major challenges remain	Stagnating
17	Partnership for the goals	Significant challenges remain	Stagnating

Source: Authors' compilation

Ghana exhibits mixed progress in achieving SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation, and Infrastructure). Despite a low unemployment rate of 3.6% and 68.2% of adults having access to financial services, the country experienced a negative GDP growth of -3.3% in 2022, indicating an economic contraction that requires urgent action. Additionally, although 93% of the rural population has access to all-season roads and mobile broadband subscriptions are high (68.4%), there remains room for improvement in infrastructure, particularly logistics and research and development, where scores are still low. The incidence of modern slavery (2.9 per 1,000 population) and limited access to clean financial services highlight challenges in ensuring decent labor rights and economic inclusivity. To foster sustainable economic growth and innovation, Ghana needs to improve financial inclusion, invest in research and infrastructure, and promote policies that guarantee decent work and human rights. Islamic finance, with its ethical and inclusive principles, can support these efforts by funding sustainable projects, promoting social equity, and stimulating innovation in key sectors like infrastructure and technology. Ghana's progress on SDG 12 (Responsible Consumption and Production) and SDG 13 (Climate Action) reveals a complex picture of both challenges and opportunities. While the country produces a relatively low amount of municipal solid waste (0.42 kg/capita/day), electronic waste (1.82 kg/capita) remains a growing concern, signaling the need for better waste management systems. Production-based nitrogen emissions and air pollution are also areas requiring improvement, with nitrogen emissions at 7.92 kg/capita in 2024. However, Ghana's moderate levels of air pollution associated with imports (1.02 DALYs per 1,000 population) and its relatively small plastic waste exports reflect some positive environmental practices. In terms of SDG 13, Ghana's CO2 emissions from fossil fuel combustion remain low, but its contributions to global emissions through exports of fossil fuels (718.7 kg/capita) highlight the need for a broader approach to climate action, addressing both domestic and export-related emissions. For both SDGs, Ghana must enhance waste management, reduce nitrogen emissions, and adopt more sustainable production practices, while continuing to improve climate policies and promoting renewable energy. Islamic finance could play a crucial role in supporting sustainable, environmentally friendly projects and initiatives that align with these SDGs, especially through green financing mechanisms.

Islamic finance in Ghana faces several challenges that hinder its potential to contribute effectively to the achievement of the SDGs. One major challenge is the low level of public awareness, fueled by misconceptions such as the belief that Islamic finance is exclusive to Muslims, that it offers no financial returns due to the prohibition of riba and the fear of Islamization, which limits its acceptance, especially among non-Muslims in a diverse society. Additionally, the lack of a comprehensive legal and regulatory framework for Islamic finance in Ghana, including appropriate taxation methods and clear guidelines for operations, stifles growth and investment in this sector. The absence of essential Islamic financial products, such as takaful, sukuk, and fully-fledged Islamic banks, further exacerbates the situation, leaving businesses and individuals with limited access to ethical financial solutions. These challenges must be addressed to unlock the full potential of Islamic finance in Ghana and enable it to support the country's progress toward achieving the SDGs.

In Ghana, the most widely used Islamic financial tool is waqf. It is a unique Islamic practice where assets are donated for community and charitable purposes and has a powerful potential to help achieve the SDGs. Its strength lies in providing long-term, sustainable funding for various initiatives that improve social well-being. For instance, waqf can be used to support programs that reduce poverty (SDG 1), such as providing financial assistance, food, or vocational training to those in need. It can also fund education through scholarships or the construction of schools, which improves access to quality education (SDG 4), especially for those who might otherwise be left behind. Moreover, waqf can be directed toward healthcare, helping to build hospitals or clinics (SDG 3), and improving access to essential medical services, especially in underdeveloped areas. It also plays a critical role in improving sanitation and water access (SDG 6), such as funding water wells and public sanitation projects in areas where these services are scarce. In addition to social services, waqf has the potential to drive sustainable economic growth and environmental protection. It can fund small businesses, vocational training, and entrepreneurship programs (SDG 8), helping people become self-reliant and create job opportunities. Through waqf, communities can receive funding for affordable housing, public spaces, and infrastructure (SDG 11), contributing to more inclusive, resilient cities. It also promotes equality (SDG 10) by targeting marginalized groups, ensuring they have access to essential resources and opportunities. Finally, waqf can support environmental sustainability (SDG 13), funding projects like renewable energy initiatives or reforestation programs. By helping to address both social and environmental challenges, waqf provides a holistic approach to sustainable development, benefiting communities for generations to come.

3.1. How Does Islamic Finance Contribute to Sustainable Development in Ghana?

Islamic finance, deeply rooted in principles of fairness, social justice, and ethical conduct, emerges as a powerful tool poised to drive progress toward SDGs in Ghana. While still in its nascent stages, the strategic application of instruments such as waqf holds the potential to directly address pressing challenges in the Ghanaian context, notably on poverty (SDG 1), hunger (SDG 2), and healthcare (SDG 3). By utilizing waqf to finance critical infrastructure projects such as schools, healthcare facilities, and food assistance programs, Islamic finance can provide sustainable support to disadvantaged populations, thereby enhancing their access to essential services in the long term. Furthermore, mechanisms like zakat and sadaqat can play a pivotal role in redistributing wealth, ultimately aiding in the alleviation of poverty and food insecurity in the country. These financial tools facilitate the transfer of resources from wealthier individuals to those in need, thereby fostering a more equitable development trajectory in Ghana. As the Islamic finance sector in Ghana continues to expand, the utilization of innovative instruments such as sukuk and takaful presents additional avenues to address SDGs related to infrastructure development, clean energy, and economic growth. Sukuk, for instance, can serve as a viable mechanism for financing large-scale projects such as renewable energy initiatives (SDG 7) and vital clean water and sanitation infrastructure (SDG 6), serving the dual purpose of meeting environmental and social needs. Takaful, an insurance model grounded in mutual cooperation, has the potential to enhance healthcare access and financial security for vulnerable populations, particularly in rural areas.

Moreover, Islamic microfinance, including interest-free loans such as Qard al-Hassan, can be instrumental in supporting entrepreneurship, particularly among women and small enterprises. By providing financial services devoid of interest burdens, these microfinance tools not only foster gender equality (SDG 5) but also promote inclusive economic growth (SDG 8) in Ghana. Islamic finance's commitment to ethical investment positions it as a key player in advancing environmental sustainability, responsible consumption, and climate action (SDGs 12, 13, and 15). Initiatives such as Green sukuk could catalyze funding projects in renewable energy, sustainable agriculture, and conservation—critical components in addressing climate change and promoting environmental stewardship. In a country like Ghana, grappling with significant environmental degradation and climate-related challenges, Islamic finance stands poised to support projects that mitigate carbon emissions and encourage sustainable development practices. Furthermore, the emphasis on responsible business conduct within Islamic finance ensures that investments align with environmental and social goals, offering a pathway to develop sustainable cities (SDG 11) and encouraging responsible production and consumption patterns. While the Islamic finance sector in Ghana is still in its developmental phase, its foundational ethical principles hold the potential to guide the nation towards a more sustainable, equitable, and inclusive future, supporting both economic growth and environmental preservation.

4. Conclusion

Islamic finance in Ghana holds significant potential for contributing to the achievement of the SDGs but faces several hurdles that need to be addressed to unlock its full capabilities. The key challenges hindering the sector's growth include low public awareness and misconceptions about Islamic finance, such as the mistaken belief that it is exclusive to Muslims or lacks financial returns due to the prohibition of riba. These misconceptions, combined with the fear of Islamization, particularly among non-Muslims, reduce the willingness of diverse communities to embrace Islamic financial solutions.

Additionally, the absence of a comprehensive legal and regulatory framework for Islamic finance, coupled with the lack of appropriate taxation methods and operational guidelines, creates an uncertain environment that limits investment and the development of Islamic financial products. Furthermore, the underdevelopment of essential Islamic financial instruments, such as takaful, sukuk, and fully-fledged Islamic banks, leaves a gap in ethical financial solutions that could otherwise benefit businesses and individuals in Ghana. However, despite these challenges, one notable strength of Islamic finance in Ghana is the use of waqf, an Islamic practice that provides sustainable funding for charitable and community initiatives. waqf's potential to contribute to multiple SDGs is evident in its capacity to support long-term projects aimed at poverty reduction, quality education, healthcare, water and sanitation, and sustainable economic growth. Furthermore, waqf can help build resilient infrastructure, promote social inclusion, and protect the environment.

Policy Recommendations

To effectively utilize Islamic finance in advancing the SDGs in Ghana, a comprehensive strategy is required. Key recommendations include increasing public awareness and education about Islamic finance to clear up misunderstandings and highlight its ethical and inclusive aspects. Furthermore, establishing a robust legal and regulatory framework for Islamic financial products like sukuk, takaful, and waqf is crucial to creating an environment conducive to their growth. This framework should also include tax incentives and clear regulations to attract investments and encourage innovation in Islamic financial solutions. Additionally, promoting the use of waqf for financing sustainable community projects—such as those focused on education, healthcare, and poverty alleviation—can directly support the achievement of SDGs, including poverty reduction (SDG 1), quality education (SDG 4), and good health and well-being (SDG 3). In addition, increasing the availability of Islamic financial products, particularly microfinance and socially responsible investments, can significantly enhance financial inclusion and support entrepreneurship (SDG 8). Public-private partnerships (PPPs) could play a pivotal role in financing large-scale infrastructure projects, such as renewable energy initiatives and affordable housing, through sukuk issuance. This approach would contribute to the achievement of SDGs related to sustainable cities (SDG 11) and climate action (SDG 13). By fostering these initiatives and positioning Islamic finance as a key driver of sustainable development, Ghana can build a more inclusive, ethical, and resilient economy. Integrating Islamic finance into national policy will not only support economic growth but also align Ghana's development agenda with global sustainability objectives.

Future research on Islamic finance in Ghana should explore how to establish Islamic financial institutions, including banks and insurance companies, by examining the regulatory framework needed to support their formation. Studies could focus on identifying the opportunities for such institutions to thrive in Ghana's market, such as the potential demand for ethical finance products and the role of Islamic finance in promoting financial inclusion. Additionally, research should investigate the challenges faced in setting up these institutions, including legal, cultural, and economic barriers, and propose solutions for overcoming them. Finally, future studies should offer a roadmap for the way forward, providing policy recommendations for creating a supportive environment that enables the growth and integration of Islamic finance into Ghana's broader financial system.

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