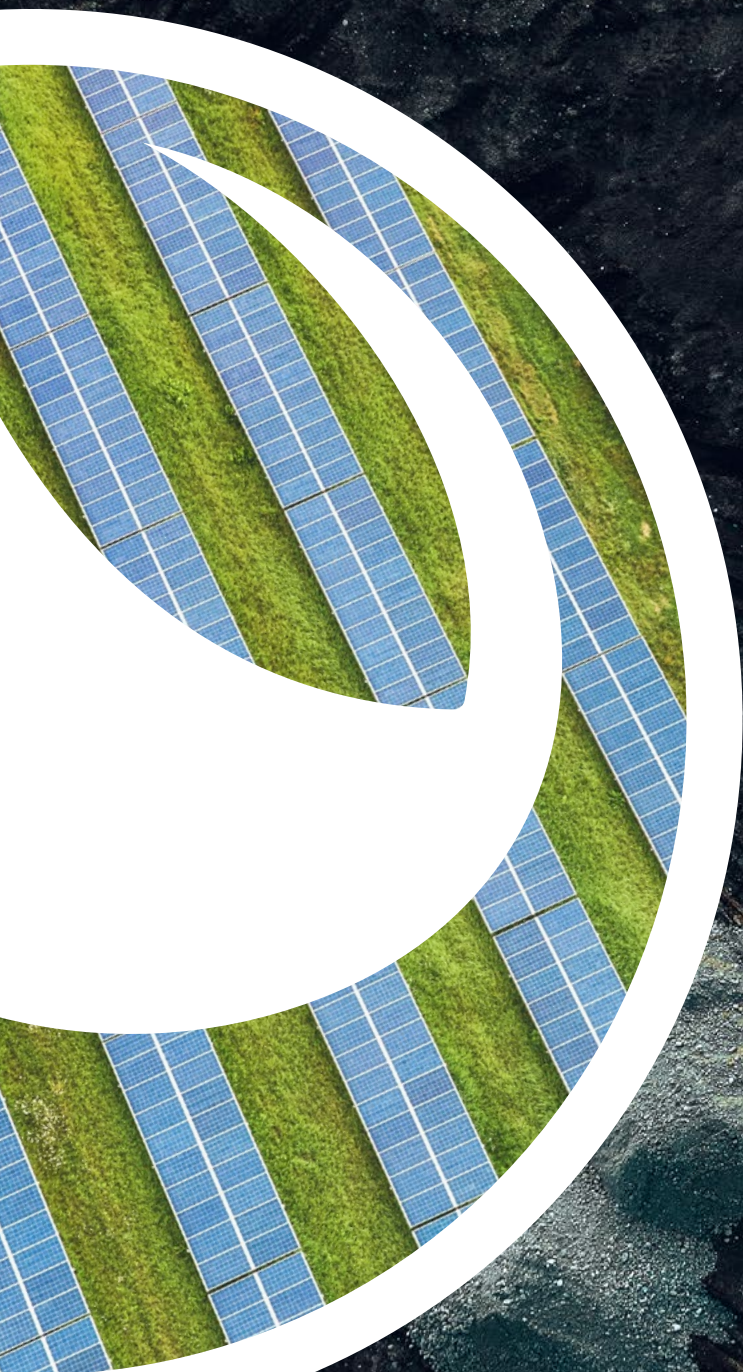


Reassessing Coal in Islamic Finance: Ethical Imperatives for Divestment and Sustainability

Summary Insight Paper



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About Islamic Sustainable Finance Initiative (ISFI)

ISFI is a pioneering partnership between the Global Ethical Finance Initiative (GEFI), Islamic Finance Council UK (UKIFC), HSBC Middle East, and Greenpeace MENA. It is designed to empower Islamic finance to lead the transition towards a sustainable and inclusive future.

Against the backdrop of COP28 and the associated transformative regional pledges including the UAE Banks Federation's AED 1 trillion commitment to sustainable finance, ISFI seeks to build the ecosystem for Islamic sustainable finance through a structured systematic programme that focuses on practical market issues. The programme's core elements include tailored capacity building, industry round tables, thought leadership papers and reports and market landscape analysis.

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Introduction

Islamic finance has demonstrated its ability to evolve as new evidence emerges. Tobacco was once tolerated, but when scientific consensus established its harms and juristic consensus followed, it was prohibited and excluded from financial portfolios. The World Health Organization estimates tobacco-related deaths at more than 8 million each year. Coal now presents an even greater ethical dilemma. It is a major source of pollutants that cause millions of premature deaths each year and the most carbon-intensive fossil fuel, a major driver of climate change. Its combustion undermines life, wealth, and the environment, the very objectives of the *maqāṣid al-sharī'ah*.

The purpose of this insight note is to highlight the factors scholars, regulators, and practitioners should consider in reassessing coal within Islamic finance. The detailed discussion paper, with annexed evidence and methodology, will be released at COP30 and can be found on the [Ummah for Earth website](#). This insight note is intended to frame the debate and build appetite for the more detailed analysis to come.

Why coal matters now

Coal accounts for around 41 per cent of fossil carbon dioxide emissions and remains a major source of methane. Atmospheric concentrations of greenhouse gases have reached levels not seen in human history, pushing the planet towards ecological tipping points. The World Health Organization estimates that air pollution causes about 6.7 million premature deaths each year, with coal a principal contributor. Independent studies attribute around 5.1 million deaths annually to ambient PM_{2.5} from fossil fuels, with coal a major contributor, with earlier modelling placing the fossil-fuel toll even higher (over 9 million). Vulnerable groups bear the heaviest burden: children, the elderly, pregnant women, and low-income communities.

The economic costs are no less severe. The World Bank estimates that pollution-related damages exceed USD 8 trillion annually, eroding wealth and productivity and creating fiscal instability. Coal-driven climate impacts amplify these costs through floods, droughts, and heatwaves, which undermine national development strategies and place disproportionate burdens on the most fragile economies.

Muslim-majority countries are directly implicated. Of the fifteen states still expanding coal power, one third are Muslim majority (for example, Indonesia, Pakistan and Bangladesh). This trajectory raises a fundamental question: can Islamic finance continue to permit investment in coal when the evidence of health and other harm is overwhelming and alternatives are increasingly viable?

41%

Of fossil CO₂ emissions come from coal

\$8T

Pollution-related damages according to the World Bank

6.7M

Estimated annual premature deaths caused by air pollution

Jurisprudential reasoning

Islamic jurisprudence offers a structured methodology for assessing harms. The Qur'an prohibits self-destruction (2:195), condemns waste (17:26–27), and enjoins protection of the earth (7:56). The legal maxim *lā ḍarar wa lā ḍirār* forbids harm to oneself and others. The *maqāṣid al-sharī'ah* identify the preservation of life, wealth, intellect, lineage, and in contemporary application the environment.

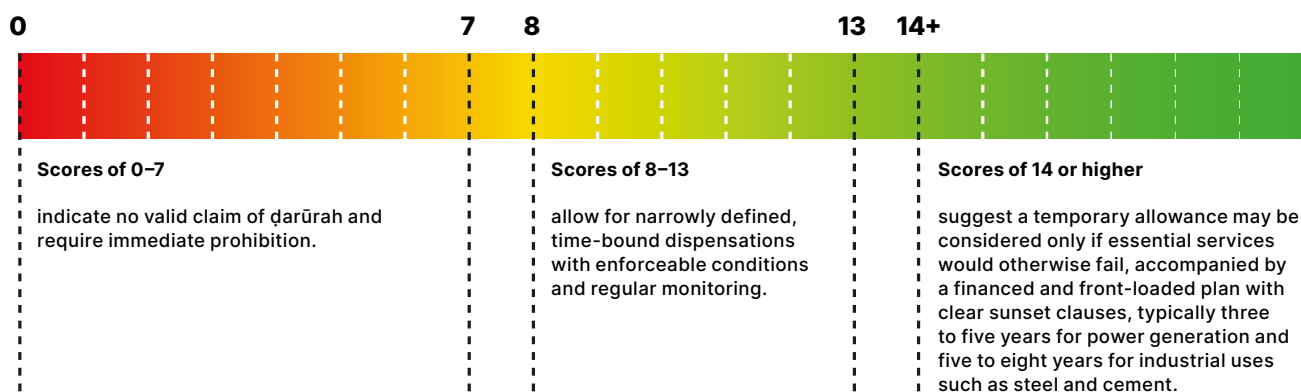
Through analogy (*qiyās*), coal can be compared with tobacco. Tobacco was initially debated, even tolerated, until evidence established its dangers. Once the *'illah* (proven harm), was clear, consensus moved towards prohibition. Coal shares and amplifies the same *'illah*: systemic harm to life, public health, the economy, and the environment. By the same reasoning, coal should be classified as non-permissible in principle.

Islamic law recognises necessity (*ḍarūrah*), permitting temporary allowances where strict adherence to a rule would cause greater harm. Yet *ḍarūrah* is tightly bounded. It cannot be invoked for convenience or cost savings. Any reliance must be time-bound, transparently justified, and accompanied by credible transition plans in the spirit of *tadarruj* (gradualism). This framework preserves ethical clarity while recognising real-world constraints.

A framework for discernment

To assist scholars and decision-makers, the accompanying paper introduces a practical tool: the *ḍarūrah* scorecard. It evaluates claims of necessity across nine criteria, including the share of coal in the energy mix, economic capacity to transition, availability of renewable alternatives, public health burden, strength of transition policies, employment dependence, methane intensity, industrial reliance, and the balance between import and domestic production.

The scorecard produces an interpretation band:



This framework enables consistency across contexts, ensures transparency, and aligns jurisprudential reasoning with empirical evidence.

National pathways

Application of the framework shows that contexts vary but the ethical direction remains clear.

Malaysia pioneered the world's first green sukuk and now embeds sustainability across its Islamic finance sector. With low coal dependence and strong regulatory frameworks, there is no justification for *ḍarūrah*. The United Arab Emirates has codified net-zero commitments in law, while Saudi Arabia's Vision 2030 and Green Finance Framework illustrate that fossil-dependent economies can still chart credible paths of transition. These contexts indicate that coal should be excluded entirely, with Islamic finance mobilised to accelerate renewable energy and sustainable infrastructure and to reallocate capital away from coal-exposed assets.

Pakistan has increased its reliance on coal but simultaneously issued its first sovereign domestic green sukuk for clean energy. Its vast solar potential means that any allowance for coal can only be narrow and temporary, targeted at essential services with sunset clauses. Indonesia still generates more than 60 per cent of its electricity from coal, but its new energy plan allocates the majority of future capacity to renewables. Here, limited *ḍarūrah* may exist in off-grid regions, but national reliance cannot be justified indefinitely. Bangladesh and Türkiye face acute health burdens and have growing renewable potential: allowances, if any, must be short term and tightly defined with clear sunset clauses.

These examples show that the approach of prohibition in principle and *ḍarūrah* in exception can be applied fairly and consistently, with outcomes that reflect both local realities and universal ethical imperatives.

Tools already available

Islamic finance already possesses the infrastructure to operationalise coal exclusion. Green sukuk, pioneered in Malaysia and now spreading across the Muslim world, can finance renewable energy, grid upgrades, storage, and efficiency. ESG-aligned Islamic funds can integrate coal exclusions alongside social and environmental metrics. Index providers can adjust methodologies to exclude coal companies and coal expansion. Shari'ah boards can embed the scorecard into governance, ensuring consistent rulings. Regulators and central banks can integrate coal exclusions into supervisory frameworks and align them with national climate strategies. The Islamic Development Bank and other multilaterals can mobilise blended finance to de-risk transition in coal-dependent economies.

The precedent of tobacco shows that once a ruling is clear, financial markets adapt quickly. Prohibition does not diminish opportunity; it redirects capital towards sectors that are *ḥalāl* and *ṭayyib*, advancing *maṣlaḥah*, the public good.

Addressing common concerns

Some argue coal is indispensable for growth and employment. Yet true growth in Islamic terms must be ḥalāl and ṭayyib. When health costs, disaster impacts, and stranded asset risks are accounted for, coal is net negative. Renewable energy creates more jobs per unit of investment and strengthens energy security by reducing import bills.

Others invoke energy poverty. Yet decentralised solar and storage solutions are increasingly cost-competitive, offering reliable access without coal's health and climate penalties. ḍarūrah cannot be equated with cheaper options nor with business-as-usual.

Steel and cement are often cited as sectors where coal cannot yet be replaced. Substitutes such as electric arc furnaces and hydrogen-based steelmaking already exist and are scaling rapidly. At most, sector-specific, temporary allowances could be considered under ḍarūrah, contingent on demonstrable investment in alternatives and firm sunset clauses.

Technological fixes such as scrubbers or carbon capture cannot remove the core 'illah of systemic harm. They reduce emissions at the margins but do not eliminate particulates, mercury, methane, or lifecycle carbon dioxide and often shift risks rather than eliminate them.

These objections, when tested against evidence and jurisprudential principles, do not outweigh the imperative to prohibit coal in principle.

Implications for the Islamic finance sector

Reclassifying coal as non-permissible in principle, with temporary allowances only under ḍarūrah, would align Islamic finance with its ethical foundations and restore consistency to its screening methodologies. Scholars, standard setters, and regulators have clear roles:

- Scholars and fatwa councils can issue opinions that establish the prohibition in principle, endorse the scorecard, and set expectations for tadarruj in practice.
- Standard setters such as AAOIFI and the IFSB can incorporate coal exclusions into guidance and prudential norms.
- Central banks and regulators can require disclosure of coal exposures, time-bound run-off plans, and the integration of coal exclusions into product approvals.
- Institutions can map exposures, publish transition strategies, and launch green and transition sukuk that finance alternatives.
- Multilaterals can provide concessional facilities, de-risk private investment, and fund just-transition measures such as worker retraining and livelihood diversification.

Conclusion

Coal presents an ethical dilemma greater than tobacco, with harms that are systemic, global, and intergenerational. Its continued permissibility risks undermining the coherence of Islamic legal reasoning and the credibility of Islamic finance. The jurisprudential tools exist: qiyās from tobacco, maqāṣid imperatives, ḍarūrah for temporary exceptions, and tadarruj to manage transition. The financial instruments exist: sukuk, ESG funds, supervisory frameworks, and blended finance. The direction is clear.

Recognising coal as non-permissible in principle, with narrow, time-bound allowances only where ḍarūrah is evidenced through the scorecard, affirms the integrity of the shari'ah, protects life, wealth, and the environment, and positions Islamic finance as a decisive force in the just and orderly energy transition.

The transition away from coal must also be just. Worker retraining, livelihood diversification, affordable energy access, and the safeguarding of essential services are necessary to ensure that the burdens of transition do not fall disproportionately on vulnerable groups. Without such safeguards, prohibition risks undermining the very principle of maṣlahah it is intended to uphold.

The task before scholars and practitioners is therefore to translate overwhelming evidence into jurisprudential clarity and financial governance. Recognising coal as ḥarām in principle, and managing transitional allowances under ḍarūrah with rigour, would not only preserve the integrity of the shari'ah but also demonstrate its capacity to guide collective responses to the defining challenges of this century.

