Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

Climate Risk, ESG, and Liquidity of Islamic Financial Institutions: A Conceptual Framework and Drought Illustration

Nurul Asia[1*], Muhammad Taqdir[2], Muhammad Abdu[3], Ahmad Dzul Ilmi Syarifuddin[4]

Institut Agama Islam Negeri Parepare, Indonesia*1, 2, 3, 4
*1email: nurulasia09@gmail.com
2email: taqdir15011990@gmail.com
3email: abdusauza@gmail.com
4email: ahmaddzulilmi@gmail.com

Artikel Info			
Received:	***Revised:***	***Accepted:***	***Published:***
June 22, 2026	July 28, 2026	September 25, 2026	October 20, 2026

Abstract: Climate risk is usually treated as a credit risk, while its transmission to the liquidity of Islamic financial institutions, whose liquidity instruments are limited, remains poorly mapped. This conceptual study develops a framework linking climate risk, ESG factors, and liquidity in these institutions, based on a narrative literature review and an illustration of the 2026 drought in South Sulawesi, Indonesia, drawn from news reports and informal field observations. Three transmission channels are identified: cash inflows (asset side), fund withdrawals (liability side), and the market liquidity of liquid assets. In agrarian regions, these channels can operate in two directions at once and are moderated by sectoral-geographic concentration, institutional size, and Shariah governance. Seven testable propositions are formulated. Climate risk should be built into the

Abstrak: Risiko iklim umumnya diperlakukan sebagai risiko kredit, sedangkan transmisinya ke likuiditas lembaga keuangan Islam, yang instrumen likuiditasnya terbatas, belum banyak dipetakan. Kajian konseptual ini mengembangkan kerangka yang menghubungkan risiko iklim, faktor ESG, dan likuiditas pada lembaga tersebut, berdasarkan kajian literatur naratif dan ilustrasi kekeringan tahun 2026 di Sulawesi Selatan, Indonesia, yang bersumber dari pemberitaan media dan observasi lapangan informal. Kajian ini mengidentifikasi tiga saluran transmisi, yaitu arus kas masuk (sisi aset), penarikan dana (sisi liabilitas), dan likuiditas pasar atas aset likuid. Di wilayah agraris, ketiga saluran tersebut dapat bekerja dari dua arah sekaligus dan dimoderasi oleh konsentrasi sektoral-geografis, ukuran lembaga, serta tata kelola

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

liquidity assessments of Islamic financial institutions, especially small agrarian ones, and Islamic social finance may act as an early buffer. The framework's originality lies in connecting climate and ESG transmission to liquidity risk under Shariah-compliant liquidity constraints and *maqasid al-shariah* values; its propositions require empirical testing.

Keywords: Climate Risk; ESG; Green Sukuk; Islamic Finance; Liquidity Risk.

syariah. Tujuh proposisi yang dapat diuji dirumuskan. Risiko iklim perlu dimasukkan ke dalam penilaian likuiditas lembaga keuangan Islam, terutama lembaga kecil di wilayah agraris, dan keuangan sosial Islam dapat berperan sebagai penyangga awal. Orisinalitas kerangka ini terletak pada keterkaitan transmisi iklim dan ESG dengan risiko likuiditas di bawah keterbatasan instrumen likuiditas syariah dan nilai *maqasid al-syariah*; proposisinya memerlukan pengujian empiris.

Kata kunci: Risiko Iklim; ESG; Sukuk Hijau; Keuangan Islam; Risiko Likuiditas.

A. Introduction

The 2026 dry season in South Sulawesi illustrates how physical climate risk can travel from farmland to the financial sector. Forecasts by the Indonesian Agency for Meteorology, Climatology and Geophysics (BMKG), cited in local media, described the season as abnormal and warned of extreme drought (Tribun-Timur, 2026). In Sidenreng Rappang Regency (Sidrap), one of the province's main rice-producing areas, the regent estimated in mid-September that 4,000–5,000 hectares, about 10 percent of the planted area, had been affected, and the Ministry of Agriculture distributed 561 water pumps to farmer groups (Fatir, 2026). Farmers who could pay for pumping saved their fields; others could not.

Lower farm income can weaken local purchasing power and depress the turnover of traders and micro-entrepreneurs who borrow from financial institutions. One of the authors lives in the affected area, and informal conversations with farmers and traders point to this pattern: pumping costs rose as subsidised liquefied petroleum gas (LPG) became scarce, and traders reported difficulty meeting monthly instalments. These

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

observations are treated as an illustrative hypothesis rather than a finding. The question is not only whether financing becomes non-performing, but whether the cash flows of Islamic financial institutions also come under pressure.

The Basel Committee on Banking Supervision (2022) expects banks to incorporate material climate risks into their internal liquidity adequacy assessments. Islamic financial institutions face this expectation with a distinctive liquidity configuration: the prohibition of *riba* rules out interest-based buffers, and Shariah-compliant alternatives such as sukuk trade in markets that are shallower than conventional bond markets (Mikou, Lahrichi, & Achchab, 2024).

Climate Risk, Liquidity, and Islamic Financial Institutions

Climate risk weakens bank stability, especially in small and low-capitalised banks, while sound governance and supervision can dampen its impact (Le, Tran, & Mishra, 2023). Across 88 countries, stronger climate-related financial policies are associated with lower non-performing loan ratios and better liquidity conditions (D'Orazio, 2025). Climate risk is negatively associated with bank liquidity in 23 emerging markets (Lang, Ma, Mirza, & Umar, 2023), although some liquidity dimensions rise as banks hoard liquidity as a precaution (Yu, Yahya, Umar, & Hussain, 2025). At the borrower level, extreme temperatures in Mexico increased loan delinquencies among agricultural firms and spilled over to non-agricultural industries that depend on local demand (Aguilar-Gomez, Gutierrez, Heres, Jaume, & Tobal, 2024), showing that a farm shock can reach lenders through sectors that are not themselves climate-sensitive.

Liquidity risk combines funding liquidity, the ability to meet cash outflows without unreasonable losses, and market liquidity, the ease of selling assets without a significant loss in value. In Islamic financial institutions both dimensions are shaped by Shariah constraints (Mikou et al., 2024), and sukuk, a major source of liquid assets, are

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

less liquid than conventional bonds (Almaskati, 2023). Financing quality is among the determinants of liquidity risk in Islamic banks (Hussain, Kijkasiwat, Ijaz, & Deari, 2022), so a climate shock that impairs financing in particular sectors can turn credit pressure into cash-flow pressure. In agrarian microfinance, the maturity mismatch is aggravated by financing repaid from the harvest, while deposits can be withdrawn at any time.

Research on ESG in Islamic banks focuses mainly on performance and default risk. ESG performance supports the stability of Islamic banks in member countries of the Organisation of Islamic Cooperation (Irsyad & Chairiyati, 2025), whereas Islamic banks committing to the governance pillar show a higher probability of default than conventional banks (Fakhrunnas, Kenc, & Zhang, 2025). In Indonesia, Shariah compliance weakens rather than strengthens the effect of green banking on bank value, which points to largely procedural compliance (Pramono, Prasetya, & Putri, 2026). On the climate side, Islamic banking is associated with greater adaptation readiness (Noordin & Fakhrunnas, 2026), and Shariah governance quality with the mitigation of financed emissions (Issa, Alabi, & Ubandawaki, 2025).

These studies leave three gaps. Climate risk is linked more often to credit risk and stability than to liquidity; ESG studies on Islamic financial institutions rarely address liquidity resilience; and no framework was found that integrates climate and ESG transmission to liquidity with Shariah-compliant liquidity constraints and *maqasid al-shariah*, particularly for agrarian regions. This article therefore aims (1) to map the channels through which climate risk and ESG factors reach the liquidity of Islamic financial institutions, (2) to illustrate these channels with the 2026 drought in South Sulawesi, and (3) to formulate a conceptual framework and testable propositions. Its main contribution is to treat climate risk as a trigger of two-way liquidity pressure, with

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

inflows falling and outflows rising at the same time, in institutions whose buffering instruments are limited.

B. Research Method

This study is a conceptual paper based on a narrative literature review complemented by an illustrative case. A narrative approach suits a topic at the intersection of climate risk, ESG, and Islamic finance, whose literatures remain fragmented. Literature was searched in Google Scholar, DOAJ, RePEc/IDEAS, and publisher websites using English and Indonesian keywords such as *climate risk*, *ESG*, *liquidity risk*, *Islamic banks*, *green sukuk*, *Islamic social finance*, and *risiko likuiditas bank syariah*. Peer-reviewed articles published mainly in 2021–2026 on at least one of these themes were included, together with the principles of the Basel Committee on Banking Supervision (2022) as the relevant supervisory reference. Selection was purposive and does not aim at complete coverage.

Contextual facts for the case were drawn from news reports and government statements published between August and September 2026. In addition, one of the authors, who lives in a rice-farming village in Sidrap, gathered informal accounts from farmers and small traders between April and October 2026. These accounts were not collected through structured interviews and contain no personal identifiers; they are reported as preliminary observations that generate hypotheses, and the author's position as a resident is acknowledged as a possible source of bias.

The analysis proceeded in three steps. First, prior findings were coded thematically into transmission channels, moderating factors, and buffering instruments. Second, propositions were derived from these findings and from the characteristics of Islamic financial institutions; a proposition was retained only if it was grounded in at least one reviewed study or documented fact, could be tested empirically, and stated a clear direction. Third, the framework was mapped onto the 2026 drought. Because the

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

study is not a systematic review, selection counts are not reported, and the propositions are conceptual hypotheses rather than tested results.

C. Results and Discussion

1. Transmission Channels of Climate Risk and ESG to Liquidity

Climate risk comprises physical risk, from acute events or chronic changes such as prolonged drought, and transition risk, from shifts in policy, technology, and market preferences. ESG factors add a dimension of perception and reputation that shapes the behaviour of depositors and investors. The literature synthesis identifies three transmission channels and a set of moderators, summarised in Table 1.

Table 1. Transmission channels of climate risk and ESG to the liquidity of Islamic financial institutions

Channel	Mechanism	Monitoring indicators (proposed)	Literature basis
Asset	Borrowers in climate-sensitive sectors and related local sectors lose income or face higher adaptation costs; instalments are delayed; restructuring shifts cash inflows into the future.	Non-performing financing by sector and region; share of restructured financing; timeliness of instalments.	(Aguilar-Gomez et al., 2024); (D'Orazio, 2025); (Hussain et al., 2022)
Liability	Affected customers withdraw deposits; ESG perception shapes depositor and investor behaviour; the direction of the effect is not certain.	Daily and weekly outflows of third-party funds; depositor concentration; ESG sentiment.	(Irsyad & Chairiyati, 2025); (Fakhrunnas et al., 2025); (Yu et al., 2025)
Market	The value and liquidity of sukuk held by the institution fall; green sukuk can act as a buffer if the secondary market is deep enough.	Composition of liquid assets; sukuk bid–ask spreads; liquidity adequacy ratio.	(Almaskati, 2023); (Pirgaip & Arslan-Ayaydin, 2024); (Ulfah & Al-Kahfi, 2026)

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

Channel	Mechanism	Monitoring indicators (proposed)	Literature basis
Moderators	Institutional size, capital, and the quality of (Shariah) governance determine the strength of transmission.	Capital ratio; portfolio concentration; Shariah governance score.	Le et al. (2023); (Issa et al., 2025); (Pramono et al., 2026); (Ridwanto, Abdullah, & Muchlis, 2023)

Source: Authors' analysis based on the reviewed literature

Asset channel. Borrowers in agriculture and in local trade that depends on farmers' income lose income and delay instalments, so cash inflows fall below projections. Restructuring, consistent with the Shariah emphasis on fairness, pushes those inflows further into the future. Evidence from Mexico (Aguilar-Gomez et al., 2024) and cross-country evidence on climate policies (D'Orazio, 2025) support this channel.

Liability channel. Affected customers draw down savings to cover consumption and business recovery, and ESG perceptions may influence sustainability-sensitive depositors and investors. Because ESG has been linked to stability and default risk (Irsyad & Chairiyati, 2025) but not directly to withdrawals, this channel remains a hypothesis, and its direction is uncertain given evidence of precautionary liquidity hoarding (Yu et al., 2025).

Market channel. Sukuk held as liquid assets may lose value and liquidity if their issuers are exposed to physical or transition risk, in a market that is already less liquid than the conventional bond market (Almaskati, 2023). Green sukuk attract investors willing to accept lower yields (Pirgaip & Arslan-Ayaydin, 2024), and Indonesian Generation Z investors show an intention to invest in them that is driven by attitudes, subjective norms, and financial literacy (Nazuha & Rahmawati, 2026). Their secondary market in Indonesia, however, remains constrained (Ulfah & Al-Kahfi, 2026), so green sukuk can serve as a liquidity buffer only if that market deepens.

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

Moderators. The effect of climate risk is stronger in small and low-capitalised banks (Le et al., 2023). Shariah governance is associated with the mitigation of financed emissions (Issa et al., 2025) and may likewise moderate the climate–liquidity link, but only if it is substantive: Shariah compliance weakens the green banking–value relationship in Indonesia (Pramono et al., 2026), and a meta-synthesis of Shariah auditing points to a shortage of qualified auditors, incomplete audit standards, and limited training for Shariah supervisory boards (Ridwanto et al., 2023). Transition risk works more slowly than physical risk but can affect market liquidity and reputation abruptly, so liquidity stress tests should model the two separately.

2. Case Illustration: The 2026 Drought in South Sulawesi

The drought shows how these channels may appear on the ground. The mapping is illustrative: no data on the financing quality or fund flows of institutions in Sidrap were collected, so no claim is made that the drought caused liquidity problems in any particular institution. Sidrap's standard paddy area is about 52,227 hectares, of which roughly 22,000 hectares are rain-fed, and farmers far from water sources must rely on pumps (Tribun-Timur, 2026). By mid-September, about 10 percent of the planted area had been affected, while the remaining area was considered salvageable (Fatir, 2026).

The authors' informal observations are consistent with this picture. Most fields could be saved by pumping, but residents reported that subsidised 3-kg LPG reached about Rp50,000 per cylinder, against a usual price of about Rp17,000, and that cylinders were scarce. Farmers reached by the regent's programme to bring electricity to rice fields depended less on LPG, whereas farmers who ran out of water reported lower income or losses. Traders described falling sales, difficulty paying monthly bank instalments, and drawing down savings to keep their businesses running. It is not yet known how many of these borrowers are financed by Islamic rather than conventional institutions.

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

The resulting chain can be described in five stages: (1) the drought lowers harvests and raises pumping and fuel costs; (2) farmers' income falls; (3) local consumption weakens and traders' turnover declines; (4) instalments are delayed and institutions' cash inflows fall (asset channel); and (5) farmers and traders withdraw savings, so cash outflows rise (liability channel). Stages three to five rest only on informal observations, although a similar spillover has been documented in Mexico (Aguilar-Gomez et al., 2024). The core point is two-way pressure: what matters for liquidity is the gap between inflows and outflows over a short horizon, not only non-performing financing. Exposure is also heterogeneous, since institutions concentrated in rain-fed areas, or among farmers without electricity or affordable fuel for pumping, are likely to face greater pressure. Verifying the chain will require harvest and rainfall data for stages one and two, local turnover indicators for stage three, and institutions' internal financing and deposit data for stages four and five.

3. Vulnerability of Microfinance and Agrarian Institutions

Climate shocks in agrarian regions are covariate: borrowers and depositors in the same area are hit at the same time, so diversification offers little protection. Islamic rural banks (*Bank Pembiayaan Rakyat Syariah*, BPRS), *baitul maal wat tamwil* (BMT), and Islamic savings and financing cooperatives (KSPPS) whose portfolios are concentrated in one sector and region, and whose liquidity buffers and access to external funding are limited, are therefore likely to be more exposed, consistent with the stronger climate effects found in small banks (Le et al., 2023). The planting calendar concentrates this pressure in particular periods, especially for financing with fixed monthly instalments rather than harvest-based schedules. The finding that Islamic banking contributes more to adaptation readiness than to reducing vulnerability (Noordin & Fakhrunnas, 2026) suggests that these institutions can help customers adapt but must manage their own vulnerability separately.

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

4. Buffering Instruments: Islamic Social Finance, Takaful, and Green Sukuk

Islamic finance offers several buffers that could absorb pressure before it becomes a liquidity problem. Fair restructuring can prevent default from turning into permanent arrears, although it still delays cash receipts. *Qard al-hasan* and zakat, infaq, sadaqah, and productive waqf (ZISWAF) can support affected farmers and traders so that their repayment capacity and deposits are maintained; at the macro level, zakat and waqf have been argued to support Islamic macroeconomic stability by reducing poverty and sustaining consumption and investment (Sukma, Rahayu, Risdayani, Sagita, & Hendra, 2024). *Takaful* can transfer part of the crop-failure risk away from customers and institutions, and green sukuk can expand the stock of ESG-aligned liquid assets where their market is deep enough.

Maqasid al-shariah provides the normative basis. Environmental protection (*hifz al-bi'ah*) overlaps with the protection of life (*hifz al-nafs*) and wealth (*hifz al-mal*) of affected farmers, and *maqasid* can serve not only as an ethical rationale but also as a criterion in restructuring decisions, the choice of liquid assets, and the allocation of social funds, in the same way that its principles have been proposed as criteria for evaluating profit distribution in Islamic banks (Semaun, Asia, & Taqdir, 2026). Each buffer also has limits: zakat is restricted to defined categories of recipients, productive waqf yields gradual rather than immediate cash flows, *qard al-hasan* can drain funds and create moral hazard if it is not capped, agricultural *takaful* must be affordable for smallholders, and green sukuk are largely out of reach for small institutions. Their effectiveness for liquidity must therefore be tested rather than assumed.

5. Conceptual Framework and Propositions

Figure 1 summarises the conceptual framework. Climate risk and ESG factors are transmitted through the asset, liability, and market channels to liquidity pressure on Islamic financial institutions. These relationships are moderated by sectoral-geographic

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

concentration, institutional size, and Shariah governance, and they can be dampened by Islamic social finance, takaful, green sukuk, and fair restructuring guided by *maqasid* values. The seven propositions are listed in Table 2.

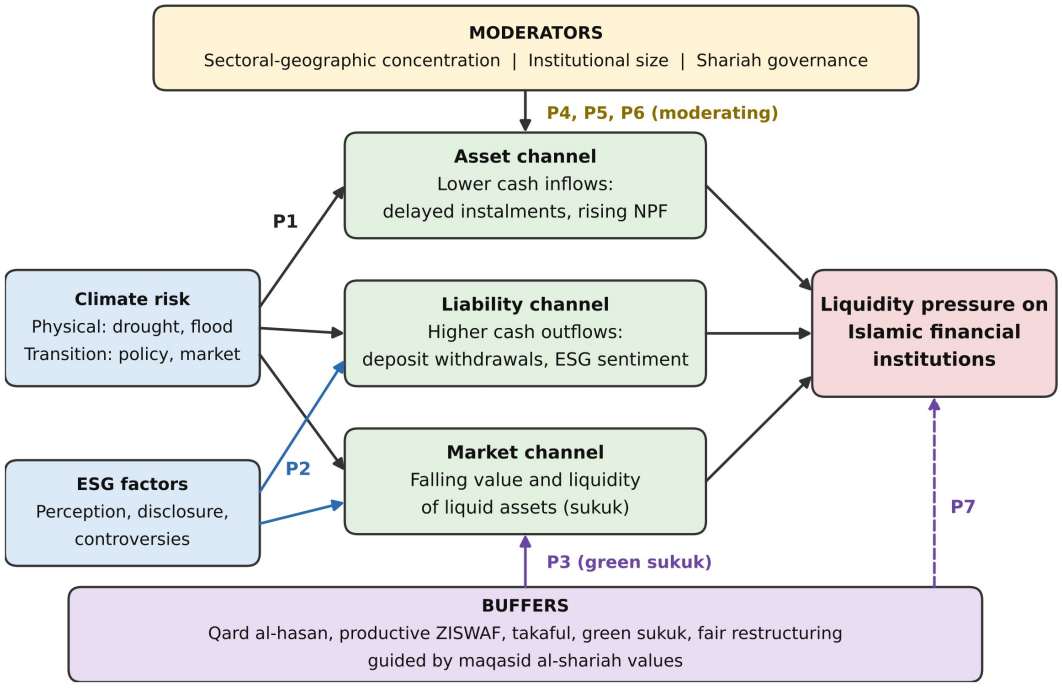


Figure 1. Conceptual framework of climate risk, ESG, and the liquidity of Islamic financial institutions
Source: Authors' analysis

Table 2. Conceptual propositions

Code	Proposition	Basis of reasoning
P1	The greater the financing exposure to climate-sensitive sectors, the greater the pressure on cash inflows and the higher the liquidity risk.	(Aguilar-Gomez et al., 2024); (D'Orazio, 2025)
P2	Poor ESG perception increases the risk of fund withdrawals by depositors and investors who are sensitive to sustainability values.	(Irsyad & Chairiyati, 2025); (Fakhrunnas et al., 2025); no direct evidence yet

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

Code	Proposition	Basis of reasoning
P3	Holding high-quality, ESG-aligned liquid assets such as green sukuk strengthens the liquidity buffer, provided the secondary market is sufficiently deep.	(Pirgaip & Arslan-Ayaydin, 2024); (Ulfah & Al-Kahfi, 2026); (Almaskati, 2023); (Nazuha & Rahmawati, 2026)
P4	Strong (substantive) Shariah governance moderates the relationship between climate risk and liquidity risk.	(Issa et al., 2025); (Le et al., 2023); (Pramono et al., 2026); (Ridwanto et al., 2023)
P5	Institutions whose portfolios are concentrated in agriculture within the same region face higher liquidity risk during droughts.	Case illustration; (Aguilar-Gomez et al., 2024)
P6	Climate-induced two-way liquidity pressure is heavier for Islamic microfinance institutions than for large banks.	(Le et al., 2023); case illustration
P7	Islamic social finance instruments, takaful, and fair restructuring absorb pressure before it becomes a liquidity problem.	(Sukma et al., 2024); no direct evidence yet

Source: Authors' analysis

Propositions P1 to P3 concern the transmission channels, P4 to P6 the moderators, and P7 the buffers. Priority tests include panel studies linking rainfall anomalies or El Niño indicators to the non-performing financing and liquidity ratios of Islamic banks and BPRS, event studies of deposit flows in affected and unaffected areas, drought-based liquidity stress tests, and qualitative studies of restructuring and social-fund practices among farmers, traders, and institution managers. Such work must address the endogeneity of institutions' operating areas, the scarcity of granular data for microfinance institutions, and the separation of climate effects from commodity prices and government policy.

6. Practical and Theoretical Implications

For regulators, the Basel principles (Basel Committee on Banking Supervision, 2022) can be translated into drought or El Niño liquidity stress scenarios that combine delayed inflows with simultaneous withdrawals, with closer attention to microfinance institutions with concentrated exposures and to their access to Shariah-compliant

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

liquidity. Coordination with energy policy also matters, since access to affordable fuel or electricity for pumping shapes farmers' repayment capacity. For managers, the priorities are mapping financing concentration by sector and by irrigated versus rain-fed land, aligning instalments with harvest cycles, backing restructuring policies with adequate buffers, partnering with zakat, waqf, and takaful institutions, and communicating ESG practices transparently to maintain depositor trust.

Theoretically, the framework separates liquidity risk from credit risk: liquidity pressure depends on the timing and size of cash flows and withdrawals, not only on financing quality. It treats climate risk as a potential trigger of two-way liquidity pressure in covariate settings, while recognising that the withdrawal effect may reverse when customers save for precautionary reasons or receive assistance. For Islamic finance theory, it moves the ESG debate on Islamic banks from performance and default risk towards liquidity resilience, and it positions *maqasid al-shariah* and Shariah governance as decision criteria and moderators whose effect depends on how substantively they are applied.

D. Conclusion

This article develops a conceptual framework that places climate risk and ESG as new factors in the liquidity management of Islamic financial institutions. It identifies three transmission channels, namely cash inflows, fund withdrawals, and the market liquidity of liquid assets, which are moderated by sectoral-geographic concentration, institutional size, and Shariah governance and can be dampened by Islamic social finance, takaful, green sukuk, and restructuring guided by *maqasid al-shariah*. The 2026 drought in South Sulawesi illustrates how a climate shock in agriculture could squeeze the cash flows of financial institutions from two directions.

Islamic financial institutions and their supervisors are therefore advised to incorporate climate risk into liquidity assessments, particularly for microfinance

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

institutions in agrarian regions, and to explore Islamic social finance as an early buffer. The study is limited by its conceptual design, purposive literature selection, reliance on news reports, and unverified field observations. Future research should test the seven propositions with institutional and climate data and verify the observations reported here through structured fieldwork.

E. Bibliography

Aguilar-Gomez, S., Gutierrez, E., Heres, D., Jaume, D., & Tobal, M. (2024). Thermal stress and financial distress: Extreme temperatures and firms' loan defaults in Mexico. *Journal of Development Economics*, *168*, 103246. Retrieved from https://doi.org/10.1016/j.jdeveco.2023.103246

Almaskati, N. (2023). Revisiting the question of liquidity: Are sukuk less liquid than conventional bonds? *Journal of Islamic Accounting and Business Research*, *14*(7), 1121–1132. Retrieved from https://doi.org/10.1108/JIABR-03-2022-0075

Basel Committee on Banking Supervision. (2022). Principles for the effective management and supervision of climate-related financial risks. Retrieved from Bank for International Settlements website: https://www.bis.org/bcbs/publ/d532.htm

D'Orazio, P. (2025). Climate risks and financial stability: Evidence on the effectiveness of climate-related financial policies. *International Review of Financial Analysis*, *105*, 104304. Retrieved from https://doi.org/10.1016/j.irfa.2025.104304

Fakhrunnas, F., Kenc, T., & Zhang, H. (2025). ESG commitment and bank's default risk in emerging and developing countries: Does Islamic bank matter? *Journal of Islamic Monetary Economics and Finance*, *11*(4), 713–742. Retrieved from https://doi.org/10.21098/jimf.v11i4.2789

Fatir, M. D. (2026). Hadapi El Nino, Kementan salurkan 561 pompa air di Sidrap. Retrieved from Antara website: https://www.antaranews.com/berita/5737133/hadapi-el-ninokementan-salurkan-561-pompa-air-di-sidrap

Hussain, A., Kijkasiwat, P., Ijaz, B. M., & Deari, F. (2022). Determinants of systematic

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

and unsystematic liquidity risk in Islamic banks. *Journal of Islamic Monetary Economics and Finance*, *8*(2), 325–340. Retrieved from https://doi.org/10.21098/jimf.v8i2.1474

Irsyad, M., & Chairiyati, F. (2025). ESG on stability and bank performance: The moderating role of diversity and inclusion in OIC countries. *Muslim Business and Economics Review*, *4*(2), 308–327. Retrieved from https://doi.org/10.56529/mber.v4i2.530

Issa, S. O., Alabi, A. T., & Ubandawaki, A. T. (2025). Climate change governance, Shariah governance quality, and financed emission mitigation: Evidence from Islamic banks in Southeast and West Asia. *Borsa Istanbul Review*, *25*(4), 722–732. Retrieved from https://doi.org/10.1016/j.bir.2025.03.011

Lang, Q., Ma, F., Mirza, N., & Umar, M. (2023). The interaction of climate risk and bank liquidity: An emerging market perspective for transitions to low carbon energy. *Technological Forecasting and Social Change*, *191*, 122480. Retrieved from https://doi.org/10.1016/j.techfore.2023.122480

Le, A.-T., Tran, T. P., & Mishra, A. V. (2023). Climate risk and bank stability: International evidence. *Journal of Multinational Financial Management*, *70–71*, 100824. Retrieved from https://doi.org/10.1016/j.mulfin.2023.100824

Mikou, S., Lahrichi, Y., & Achchab, S. (2024). Liquidity risk management in Islamic banks: Review of the literature and future research perspectives. *European Journal of Studies in Management and Business*, *29*, 56–73. Retrieved from https://doi.org/10.32038/mbrq.2024.29.04

Nazuha, A. A., & Rahmawati, F. (2026). Determinants of Generation Z's investment intentions in green sukuk as sustainable investments. *Al-Sharf: Jurnal Ekonomi Islam*, *7*(2), 363–386. Retrieved from https://doi.org/10.56114/al-sharf.v7i2.13359

Noordin, N. H., & Fakhrunnas, F. (2026). Climate change adaptation: Does Islamic banking play a role? *Journal of Islamic Monetary Economics and Finance*, *12*(2), 229–262. Retrieved from https://doi.org/10.21098/jimf.v12i2.3322

Pirgaip, B., & Arslan-Ayaydin, Ö. (2024). Exploring the greenium in the green sukuk universe: Evidence from the primary market. *International Journal of Islamic and Middle Eastern Finance and Management*, *17*(3), 423–440. Retrieved from

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).

Al-Sharf
Jurnal Ekonomi Islam
Vol. 7, No. 3 (2026) || ISSN 2723-5440 (Online)

https://doi.org/10.1108/IMEFM-05-2023-0186

Pramono, N. H., Prasetya, E. R., & Putri, D. Z. N. (2026). Implementation of green banking and sharia compliance in enhancing Islamic bank value (maqhasid sharia index) in Indonesia's Islamic commercial banks. *JESI (Jurnal Ekonomi Syariah Indonesia)*, *16*(2), 139–151. Retrieved from https://doi.org/10.21927/jesi.2026.16(2).139-151

Ridwanto, Abdullah, M. W., & Muchlis, S. (2023). Problematika auditing syariah dalam pelaksanaan shariah compliance di lembaga keuangan syariah: Sebuah meta-sintesis [Problems of Shariah auditing in implementing Shariah compliance in Islamic financial institutions: A meta-synthesis]. *Al-Sharf: Jurnal Ekonomi Islam*, *4*(3), 311–328. Retrieved from https://doi.org/10.56114/al-sharf.v4i3.11276

Semaun, S., Asia, N., & Taqdir, M. (2026). Dividend policy and equitable profit distribution in Islamic banking management: A maqasid al-Shariah perspective on shareholder value orientation and stakeholder welfare. *Al-Sharf: Jurnal Ekonomi Islam*, *7*(2), 411–426. Retrieved from https://doi.org/10.56114/al-sharf.v7i2.13492

Sukma, E., Rahayu, K. D., Risdayani, N., Sagita, N., & Hendra, J. (2024). Peran zakat dan wakaf dalam menjaga stabilitas ekonomi makro Islam [The role of zakat and waqf in maintaining Islamic macroeconomic stability]. *Al-Sharf: Jurnal Ekonomi Islam*, *5*(2), 246–257. Retrieved from https://doi.org/10.56114/al-sharf.v5i2.11634

Tribun-Timur. (2026). Kekeringan hambat pengairan sawah, Asmo Sulsel dan FIFGroup bantu petani Sidrap. Retrieved from https://makassar.tribunnews.com/sidrap/1847004/kekeringan-hambat-pengairan-sawah-asmo-sulsel-dan-fifgroup-bantu-petani-sidrap

Ulfah, I. F., & Al-Kahfi, M. F. (2026). Development of green sukuk in Indonesia based on the pillars of sustainable development. *Perisai: Islamic Banking and Finance Journal*, *10*(1), 78–98. Retrieved from https://doi.org/10.21070/perisai.v10i1.2040

Yu, W., Yahya, F., Umar, M., & Hussain, M. (2025). Disaggregated liquidity response to climate risk: A precautionary hoarding and flight-to-safety perspective. *Sage Open*, *15*(4). Retrieved from https://doi.org/10.1177/21582440251390992

This is an open acces article under the CC-BY-SA lisence (https://creativecommons.org/licenses/by-sa/4.0/).