Advancing Climate Policy in Carbon Accounting to Control for Carbon Emissions: An Islamic Moral Economy Emphasis

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ABSTRACT

The Islamic Financial System emphasizes attaining societal welfare and benefits over social responsibility reporting and the existing function of climate policy aimed at mitigating carbon emissions. This study evaluated the elevated ethical standards required by the Islamic Moral Economy, focusing on the social and environmental goals within the Islamic Financial System. This study validated that the existing climate legislation in Malaysia and Indonesia, together with the Islamic Moral Economy inside the Islamic Financial system, had significantly heightened public awareness regarding the necessity to mitigate carbon emissions associated with gas combustion. Nonetheless, these efforts will not avert the greenhouse gas emissions potentially generated by extensive government projects employing coal power stations. The results of this study may assist policymakers in formulating effective strategies to mitigate climate change and adapt to its consequences.

Keywords: Climate Policy, Conference of Parties, Peatlands, Islamic Moral Economy

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INTRODUCTION

With the largest carbon sink in the world and the largest Islamic Finance assets from a massive Muslim population, companies in Southeast Asia have the utmost urgency to comply with the higher ethical standards mandated by the Islamic Moral Economy. Due to its universal generalizability, the successful applications of Islamic Moral Economy in Southeast Asia can be applied in other parts of the world. Therefore, this study explored the significance of carbon accounting within the climate reporting framework by explicitly considering the role of the Islamic Moral Economy (IME) with a specific emphasis on their contribution to carbon emission reduction.

Precise measurement and evaluation of the amount of greenhouse gases (GHGs) emitted directly and indirectly as a consequence of an organization's or business's operations within a specified framework is known as carbon accounting. In an effort to demonstrate their commitment to lowering carbon emissions, investors and corporations are stepping up their demand for precise carbon accounting. As of February 2023, nearly all countries' GDPs (92%) have committed to or are actively working towards a goal of reaching zero emissions by the year 2050 (IBM, 2023).

Scope 1 emissions refers to the direct release of emissions from sources that an entity owns or controls generated from manufacturing operations, fugitive emissions (such as methane emissions from coal mining), or the on-site generation of energy from coal combustion. Scope 2 emissions, also known as indirect emissions, refer to the release of greenhouse gases resulting from the purchase of power, steam, heating, and cooling by an organization. Frequently known as supply chain emissions, Scope 3 emissions refer to the greenhouse gas emissions that are produced indirectly due to the operations of a facility, but originate from sources that are not owned or controlled by the facility's business.

Scope 3 emissions, which are 5.5 times more than a company's direct emissions on average, offer corporations a substantial chance to collaborate with their suppliers to expedite global decarbonization (IBM, 2023). In alignment with that, IME adopted a multidimensional perspective to welfare and development challenges, considering individual and social well-being as complimentary rather than competitive and adversarial (Asutay & Yilmaz,

2021). The statement suggested that it promoted collaboration rather than competition and rivalry, and fostered a close bond between individuals (Afzal-ur-Rahman, 1974).

This study argued that the moral economy proposed by Islamic Finance plays a crucial role in determining the nature of climate disclosures and their subsequent translation into tangible concepts and objects. This, in turn, promotes the identification of formal and informal opportunities for climate reporting within a company. The study commenced by elucidating the significance of adopting dynamic capabilities and a natural resources-based view when examining the field of a company's adaptation to climate disclosure affecting carbon emissions. Subsequently, it delineated the concept of carbon accounting in climate reporting to elucidate their significance in the context of carbon emission.

The study subsequently examined the ways by which the 14 centuries-old Islamic Moral Economy differs from the recently issued International Financial Reporting Standards (IFRS) Disclosure Standards S1 and S2 in climate reporting settings. After achieving this, the conversation transitions to the strategic position of Southeast Asia as one of the global carbon sinks by specifically addressing its function and associated impacts. Thus, this study emphasized the significance of the Islamic Moral Economy, the climate policy, and the carbon emissions relationship for further investigation offering multiple intriguing research directions.

LITERATURE REVIEW

Climate Policy in Carbon Accounting to Control for Carbon Emissions

Indonesia demonstrates exceptional achievement in renewable energy development. The country is classified as medium in the fossil energy use and climate policy categories, however, it has a low ranking for greenhouse gas (GHG) emissions. Thus, Indonesia's performance is generally considered to be moderate. Indonesia revised its Nationally Determined Contribution in 2021 and had set a goal to achieve net zero emissions by 2060. The national experts of the climate change performance index (CCPI) considered these

aims to be inadequate and not in line with the requirements of the Paris Agreement (Burck et al., 2021).

Indonesia's energy supply remains heavily dependent on coal, with the presence of subsidies for fossil fuels. There is no definite strategy for a coal phase-out, while the country has set the aim of a 23% proportion of renewable energy by 2025. The experts have called for increased assistance in the advancement of solar and wind energy. The previous prohibition on palm oil, which was in effect until September 2021, has expired. Experts have urged the government to extend this regulation. Internationally, there is a desire for more participation in international negotiations and discourse.

The experts also recognized the necessity for a more ambitious Nationally Determined Contribution (NDC) objective (Burck et al., 2021). The Indonesian government has implemented multiple climate policies targeting corporations. Initially, the Otoritas Jasa Keuangan (OJK) mandates that publicly listed corporations (PLCs) must disclose sustainability reports in accordance with POJK51/POJK.03/2017, with a phased implementation beginning in 2020 (Loh, 2022). Furthermore, the specific provisions of sustainability reports may be found in SEOJK16/SEOJK.04/2021.

These reports encompass aspects such as sustainability governance and performance. Furthermore, the sustainability performance encompasses the Economic, Green environment, and Social dimensions. fourthly, Indonesia Stock Exchange (IDX) became a Task Force on Climate-Related Financial Disclosures (TCFD) sponsor in June 2021 as part of its commitment to assist sustainability in Indonesia's capital market (Loh, 2022).

In 2021, the Global Reporting Initiative (GRI) entered into a collaboration agreement with the Indonesian government, pledging to assist and offer reporting frameworks to fulfill the country's United Nations Sustainable Development Goals obligations. The new ESG advice will provide explicit instructions on how corporations can meet their disclosure obligations by aligning the GRI Standards with SDG targets and indicators.

Nevertheless, with a disclosure rate of 74.5% in 2022, Malaysia topped all other countries in terms of climate-related possibilities (Loh, 2022). In order to be listed, companies are required to provide Environmental, Social,

and Governance (ESG) reports. These reports must contain descriptive statements from management about major EES risks and possibilities.

To assist include sustainability into reporting, Bursa Malaysia published a Sustainability Reporting Guide in 2015 and an updated version in 2018, but following the guide is voluntary. Choosing a particular sustainability framework is not mandatory on Bursa Malaysia. Supporting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), the Joint Committee on Climate Change in Malaysia encourages transparency (Loh, 2022).

Islamic Moral Economy versus IFRS Sustainability Disclosure Standards

Islamic Moral Economy (IME) is rooted in the Holy Quran delivered by the Noble Messenger of Muhammad in March 632. Nevertheless, this 14-century-old old-Holy Quran has advanced dramatic human civilization until today by inspiring genius scholars including Al-Khwarizmi with his zero (0) Arabic numeric who inspired the invention of algorithms in the computer and artificial intelligence utilizing binary of 0 and 1 and another genius known as Al-Jabbar who invents Algebra in mathematics. The Holy Quran has changed the face of human civilization with its enlightening inspiration lasting forever.

In alignment with that, IME takes a multifaceted approach to the challenges of welfare and development viewing individual and social well-being as complementary rather than antagonistic and competitive. According to ur-Rahman (1974: 33), it encourages individuals to work together rather than compete with one another and provides an environment that encourages deep connections between people. In addition to addressing a wide range of social and ethical concerns that have an impact on economic and financial decisions, the principles of the IME reflect the fundamental idea of community prosperity.

In spite of this, the implementation of Islamic banking throughout the Muslim world over the course of the past four decades has drastically departed from these principles. As a result, it is of the utmost importance to undertake a theoretical endeavor in order to determine the future

characteristics of an Islamic Social Welfare Function (ISWF), outline its key assumptions, and investigate how it manifests itself in practical circumstances. In the absence of this, the analysis would be deficient in the agents and interactions that are required to attain the goals of shared prosperity, sustainable, and social well-being.

One of the factors that may be considered to be a contributing element to the observed social failures in Islamic banking is the absence of a social welfare and Islamic Social Welfare Fund (ISWF) that is clearly established. The premise of value-free economics and the assumption of homoeconomicus are both rejected by the IME, which stands in opposition to the neoclassical school of economic development. As an alternative, it suggests the idea of homoIslamicus, which refers to a person whose behavioral norms as a Muslim remain consistent regardless of the political, economic, or social setting in which they are found.

Obviously, in order to coexist harmoniously with society, it is necessary to possess certain ethical principles known as moral virtues (Kalkavan et al., 2021). HomoIslamicus lives a united existence, free from any distinctions between the divine and the non-divine, or between the profane and the holy. This integrated viewpoint recognizes the interdependence of both the hereafter and the earthly existence within the context of a cohesive framework (Reda, 2013). Consequently, it seems to imply that the ideas of usefulness and SWFs are inextricably linked and can never be separated from one another. Individuals who are socially oriented, have a strong awareness of God, and are concerned about the hereafter are considered to be homo Islamicus, as stated by the Islamic Message Foundation (IME).

They work toward the establishment of social fairness both within and between generations, with the objective of cultivating a real Muslim identity rather than promoting the supremacy of global capitalism (Asutay, 2007: 3). As opposed to the capitalist worldview, which necessitates competition and hostility for the development and maintenance of wealth, an Islamic economic model (IME) is based on the idea that wealth is created via collaboration and reciprocity (El-Gamal, 2007). The concentration of wealth in the hands of a small number of individuals, who are primarily motivated by economic desires, is something that Islam views as unacceptable. In its place, it places an emphasis on enhancing the circumstances of the most disadvantaged segment of the population in society.

This is in accordance with the operational framework, which states that wealth does not collect excessively in any one particular location but rather is always moving around among persons (ur-Rahman, 1974: 9). On the other hand, the establishment of the International Sustainability Standards Board (ISSB) was announced by the Trustees of the International Financial Reporting Standards (IFRS) Foundation on 3 November 2021 during COP26 in Glasgow, in response to significant market demand (IFRS, 2023).

The ISSB is now working on creating standards that aim to produce a top-notch, all-encompassing worldwide foundation of sustainability disclosures that specifically cater to the requirements of investors and the financial markets. Enhancements in carbon efficiency typically do not effectively induce reductions in corporate CO2 emissions when companies follow a strategy of expansion (Cadez & Guilding, 2017). Thus, sustainability concerns are being integrated into investment decision-making processes. There is a growing demand for enterprises to offer top-notch, internationally standardized data on sustainability-related risks and opportunities, as evidenced by comments from several meetings with market participants.

Carbon emissions reports have been utilized to evaluate corporations' corporate governance by investors (Haigh & Shapiro, 2011). Furthermore, there is a significant inclination to tackle a disintegrated environment of voluntary standards and criteria pertaining to sustainability, which impose additional expenses, intricacy, and uncertainty on both corporations and investors. The ISSB receives international endorsement for its efforts in formulating sustainability disclosure standards, which are supported by prominent entities such as the G7, the G20, the International Organization of Securities Commissions (IOSCO), the Financial Stability Board, African Finance Ministers, and Finance Ministers and Central Bank Governors from over 40 jurisdictions. The ISSB has established four primary goals.

Firstly, establishing universal criteria for sustainability disclosures worldwide. Secondly, addressing the information requirements of investors. Thirdly, enabling companies to furnish extensive sustainability information to global financial markets (IFRS, 2023). Fourthly, promoting compatibility with disclosures that are specific to particular jurisdictions or intended for wider stakeholder audiences. The ISSB expands upon the efforts of market-driven investor-centric reporting initiatives, such as the Climate

Disclosure Standards Board (CDSB), the Task Force for Climate-related Financial Disclosures (TCFD), the Integrated Reporting Framework by the Value Reporting Foundation, industry-specific SASB Standards, and the Stakeholder Capitalism Metrics by the World Economic Forum.

The ISSB is dedicated to providing cost-effective, informative, and market-driven standards. The standards are designed with a focus on efficiency, enabling enterprises to provide globally necessary information to investors across global marketplaces (IFRS, 2023). The standards are formulated with the intention of furnishing accurate and relevant information in a manner that aids investors in making informed decisions and promotes global comparability to attract investment.

To prevent duplicate reporting, a corporation can adhere to the guidelines set by the ISSB. By aligning jurisdictional standards with the global baseline, organizations can fulfill these obligations while also taking advantage of the efficiency and comparability offered by the global baseline. As of December 2023, there are two standards issued namely IFRS S1 for General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 for Climate-related Disclosures (IFRS, 2023).

Hypothesis Development

Climate policy enforces the adoption of optimal methods and strategies by requiring companies to enhance their employees' environmental expertise, support human resources in creating environmentally focused training programs, develop innovative solutions that minimize the consumption of natural resources, implement environmentally-friendly business processes, create eco-friendly products, and anticipate future trends in the green market that elevates firm's Green Absorptive Capacity (GAC).

Subsequently, Green Absorptive Capacity (GAC) becomes the main driving force behind the proactive ecological strategy of the green entrepreneurial orientation (Teece, 2016) which aims to maintain a balance between environmental legislation and the expansion of eco-enterprises even in an uncertain business environment. Adopting GAC is crucial for entrepreneurs to succeed by enabling them to develop a green mentality and proactive behavior which in turn helps them identify eco-business prospects

(Zahra Igor; Wright, Mike, 2009). Companies that possess enough GAC have the ability to effectively utilize newly acquired information for the goal of developing and implementing entrepreneurial ventures with commercial value (Zahra James C., 2008).

Thus, this stimulus would empower companies to address the environmental concerns emphasized by the NRBV. Simultaneously, moral standards that managers comply with are an essential component of an organization's environmental strategies. Navigating new approaches to reduce the amount of damage done to the environment is the primary goal including avoiding activities that are responsible for pollution, developing environmentally friendly products that are in line with the environmental concerns of customers, enhancing resource efficiency in order to prevent the degradation of natural resources, and making the most of environmentally friendly opportunities (Rehman et al., 2023;Song et al., 2021; Zameer et al., 2021).

Managers who have a strong environmental consciousness would prioritize ecological issues over business profit in order to ensure the preservation of natural resources (Mishra & Yadav, 2021) as a result of the high moral standards they have. This would be done in order to guarantee the sustainable exploitation of natural resources. The implementation of appropriate environmental measures would be an effective solution to the green problems that the NRBV is experiencing (Kraus et al., 2020). Managers are obligated to address the business agenda in their respective roles. Therefore, it is recommended that they put into action methods that are favorable to the environment and that improve the performance of their green company (Mo et al., 2022).

Through the utilization of the DCT methodology and the NRBV framework, climate policy elevates the Green Absorptive Capacity (GAC) in each country that transforms green information into practical applications and navigated by high moral standards provided by the Islamic Moral Economy in order to address the green concerns that are related with NRBV. Climate policy-GAC's competence lies in creating novel techniques for delivering environmentally friendly goods, improving process efficiency to decrease resource consumption, and advancing green chemistry to reduce hazardous waste and CO_2 emissions. These are all areas in which

climate policy-GAC has made significant strides in establishing sustainable development and stopping the accumulation of pollutants. Hence, this study hypothesized:

H1a. Climate policy negatively influences carbon emissions.
H1b. Islamic moral negatively influences carbon emissions.

METHODOLOGY

Data Sources and Research Design

This study utilized a panel dataset examining climate policy and the Islamic Moral Economy on carbon emission reduction efforts in Malaysia and Indonesia during the period 2018 – 2022 which allowed the creation of a panel dataset, specifically in the control of unobserved heterogeneity. This study employed two different measurements namely the climate change performance index (CCPI) provided by the German Watch and the production-based CO_2 emissions provided by the World Bank open data to measure carbon emission reduction efforts.

Empirical Model

To assess the impact of IME and Climate Policy (CPol) on carbon emission reduction efforts, this study employed the following regression models:

$$CEM_{.t} = b_0 + b_1 IME_{i.t} + b_2 CPol_{i.t} + b_3 FDI_{i.t} + b_4 GDP_{i.t} + m_{i.t} \quad (1)$$

$$CCPI_{i.t} = b_0 + b_1 IME_{i.t} + b_2 CPol_{i.t} + b_3 FDI_{i.t} + b_4 GDP_{i.t} + m_{i.t} \quad (2)$$

Table 1: Variables Definitions

Abbreviations	Description
Dependent Variable	
CEM_{gas}	Total production-based carbon emission emissions from the gas (CEM_{gas}) in a nation
CEM_{coal}	Total production-based carbon emission emissions from the coal (CEM_{coal}) in a nation
CCPI	The Climate Change Performance Index (CCPI) evaluates a nation's performance in four areas: energy use (20%), renewable energy (20%), climate policy (20%), and greenhouse gas emissions (40% of the total rating).
Independent Variable	
IME	Islamic Moral Economy (IME) is high moral standards embedded in Islamic Financial System measured in Islamic Law (*Sharia*) compliant financing
CPol	The sectoral targets and nation's particular implementation are evaluated in addition to the national emissions targets in the Climate Policy (CPol) indicator
Control Variables	
FDI	Foreign Direct Investment (FDI) refers to ownership in a foreign project or business by an investor, business, or government from another nation
GDP	Gross Domestic Product (GDP) refers to the standard measurement of the value added produced by a nation's production of goods and services over a given time period

RESULTS AND DISCUSSION

Table 2 presents the mean and standard deviation of the observed variables in Indonesia and Malaysia. The scores indicated that on average, the carbon emissions from gas and coal greater than zero which revealed both countries' dependency on fossil fuels. Moreover, on average, the Sharia-compliant financing that internalizes the Islamic Moral Economy (IME) was more than five indicating aggressive expansion of Islamic Finance contribution as it finances mining, quarrying, energy, and science in Indonesia and Malaysia. Similarly, the climate policy in both countries showed significant progress.

Table 2: Descriptive Statistics

Variable	Indonesia and Malaysia					
	(1)	(2)	(3)	(4)	(5)	(6)
	CEM_{gas}	CEM_{coal}	CCPI	CEM_{gas}	CEM_{coal}	CCPI
IME	-0.452*	0.245	-0.275			
	(-2.384)	(1.129)	(-1.117)			
CPol				0.071**	-0.015	0.047
				(2.789)	(-0.453)	(1.377)
FDI	0.080	-0.063	-0.191**	0.161**	-0.081	-0.137
	(1.608)	(-1.113)	(-2.959)	(2.982)	(-1.098)	(-1.883)
GDP	0.227	-0.098	1.187**	0.173	0.092	1.184
	(0.674)	(-0.255)	(2.708)	(0.606)	(0.234)	(3.059)
Constant	4.444**	0.841	3.434*	1.792***	2.271***	1.821
	(4.027)	(0.665)	(2.398)	(35.45)	(32.66)	(26.65)
Hausman P-Value	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
P-value (F)	0.143	6.180	0.001	0.095	9.840	(0.001)
R^2	0.644	0.347	0.725	0.702	0.213	(0.751)

***P < 1%; **P < 5%; *P < 10%. T-statistics are in parentheses.

Thus, this finding can be generalized to other countries that promoted Islamic Finance as inclusive financingby abolishing interest rates from loans that removed society's and businesses' financial constraints and was a successful factor of the Islamic Moral Economy and has been found that financial constraint removal and climate policy are important elements in carbon emissions mitigation (Yu et al., 2022). However, economic growth drivers including foreign direct investment was found to lead to more carbon emissions including gas-burning energy generation which was consistent with prior studies (Bae et al., 2017) (Basty & Ghachem, 2023) (Khan et al., 2020).

Table 3: Regressions Results for Both Indonesia and Malaysia

Variable	Both Indonesia and Malaysia		Indonesia		Malaysia	
	Mean	Std.Dev.	Mean	Std.Dev.	Mean	Std.Dev.
CPol	1.294984627	0.452779645	1.321230156	0.343670887	1.268739097	0.584328175
CCPI	1.61128533	0.105482964	1.702617589	0.04142624	1.519953071	0.049647633
IME	5.569338455	0.234561751	5.353956329	0.058759474	5.78472058	0.066082579
CEM_{gas}	1.907603309	0.031357329	1.896682638	0.035267473	1.918523979	0.025892807
GDP	-0.188944711	0.26204833	0.057535624	0.041972048	-0.435425047	0.02937591
FDI	0.343990553	0.186327504	0.262472036	0.049881278	0.42550907	0.242928073
CEM_{coal}	2.205613545	0.281610196	2.471745857	0.030768105	1.939481232	0.020542252

This may happen due to investor's perspective believing that gas is a "cleaner" fossil fuel. When compared to the generation of an equivalent amount of energy through the combustion of coal or petroleum products, the utilization of natural gas as a source of energy results in fewer emissions of a variety of air pollutants including carbon dioxide (CO_2). When natural gas is burned, around 117 pounds of carbon dioxide (CO2) are released into the atmosphere for every million British thermal units (MMBtu) (US Energy Information Administration, 2022).

On the other hand, coal releases almost 200 pounds of CO2 for every MMBtu, and distillate fuel oil releases more than 160 pounds of CO2 for every MMBtu burning. Utilization of natural gas for power generation and as a fuel for fleet cars in the United States has increased as a result of its ecologically favorable combustion properties. This has led to an increase in the utilization of natural gas (US Energy Information Administration, 2022).

However, cleaner does not mean clean or harmless. According to climate scientists, the increasing production of natural gas is becoming one of the primary catalysts for climate change. The development of natural gas-based industry could impede efforts to stabilize the Earth's climate (Valerie et al., 2020).

Therefore, this study's finding is consistent with the Dynamic Capabilities Theory. Climate policy and Islamic Moral Economy mandating improvement in environmental awareness will assist in developing environmentally focused training programs, devising innovative solutions that reduce natural resource consumption, implementing eco-friendly business practices, producing environmentally friendly products, and anticipating future trends in the green market to enhance the firm's Green Absorptive Capacity (GAC). Then, the GAC which acts as the primary factor that drives the proactive ecological strategy will lead to the green entrepreneurial orientation to achieve a balance between environmental regulations and the growth of eco-enterprises even in an unpredictable business environment (Teece, 2016).

However, this study found that both climate policy and Islamic Finance in Indonesia and Malaysia were still unable to deter coal-based carbon emissions which aligned with the fact that approximately 85% of

the electricity in the Southeast Asian archipelago was produced using fossil fuels with the majority of it being generated by coal-fired power stations. The climate policy was still not aligned with the government's ambitious objectives to enhance electricity generation capacity and meet the growing demand for primary energy leading to rising domestic demand for coal (Baskoro et al., 2022).

ROBUSTNESS CHECK

In order to bolster the accuracy of the findings and boost their reliability, we employed two distinct proxies, namely CEM and CCPI to quantify the primary dependent variable of this study, which pertained to efforts made to reduce carbon emissions. The estimates yielded comparable outcomes in both indicators of carbon emission mitigation endeavors.

CONCLUSION

The DCV asserted that GAC served as the primary catalyst for proactive green strategy ensuring the balance between green corporate expansion and environmental protection (Teece, 2016). Green entrepreneurial orientation and GAC have been found as a green dynamic capabilities that supported businesses in maintaining carbon emissions reduction efforts over the course of time, according to the findings of the study. The purpose of this research was to shed light on the significance of climate policy, and Islamic Moral Economy by including the NRBV Theory which is an expansion of the DCV theory.

The effectiveness of GAC was investigated within the context of the Islamic Moral Economy standards which was another way in which this study contributes to the enhancement of the Islamic Moral Economy concept. According to the findings of this study, the IME has a significant strategic influence on the development of environmentally friendly activities and the achievement of carbon emissions reduction efforts. Obviously, the willingness of firms to apply their green absorptive capacity is greatly affected by their adoption of the moral standard mandated by the IME in the Islamic Finance discipline whose boundaries are clear, not subjective, and balanced.

Thus, IME rejects extreme ideas of the Posthumanism Theory that completely abolishes the hierarchical positioning of humans' leadership over other forms of life on the planet and the notion of people as self-governing and completely constituted entities (Nayar, 2018). The Posthumanism Theory regards the human being as a combination of many elements, growing together with other life forms, interconnected with the environment and technology that can lead to dramatic transformations in the way society and current geopolitics are comprehended.

The concept of eco-theology is a clear and promising future in a region where a number of governments have incorporated religious legislation into their constitutions. Since the Qur'an indicates that God has appointed Muslims as the caretakers of his creation, the thought suggests that Muslims are religiously compelled to take care of the natural environment. The Middle East and the Muslim world as a whole could be significantly impacted by this concept, which has the potential to bring about a fundamental transformation in environmental conservation efforts.

Islam has been a driving force behind a number of revolutions and social movements that have occurred throughout the region. Eco-theology proponents contend that religion can serve as a driving force for Muslims to actively incorporate environmental consciousness into their daily lives. Numerous chapters in the Quran are relevant to the aforementioned subjects. Nevertheless, the GAC is the crucial foundation for the success of environmental management as well as for the progress of eco-innovation based on the dynamic capabilities theory. In order to proactively respond to changes in the environment and address issues regarding the environment, the governments impose climate policies stimulating the establishment of GAC.

Businesses are helped in reforming their ecologically friendly operations and generating products by the high moral standards enforced by the Islamic Moral Economy in Islamic Finance. This helps to limit the amount of ecosystem degradation. Businesses will be able to provide eco-friendly products, build sustainable processes, promote eco-conscious behavior among managers, enhance ecological system performance, and grow their eco-business thanks to the Islamic Moral Economy's influence on the country's climate policy and efforts to reduce carbon emissions.

According to the findings of the study, the incorporation of the Islamic Moral Economy into climate policy GAC results in an indirect improvement in carbon emission reduction. This study provides evidence that the Islamic Moral Economy is relevant in the process of reorganizing corporate operations by acting as the moral compass to incorporate the knowledge that has been obtained into environmentally friendly practices implemented by businesses. NRBV suggests that businesses can maintain their competitive advantages by applying distinct environmental strategies (Hart, 1995) (Hart & Dowell, 2011).

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