

Renewable Energy and Green Economy: Pathways to Sustainable Growth in Developing Countries

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Abstract

The global shift toward a green economy offers developing countries an opportunity to pursue inclusive and sustainable economic growth. This conceptual article examines the role of renewable energy in facilitating such a transformation. Drawing on document-based qualitative methods, it synthesizes international academic literature and development reports to explore how renewable technologies—particularly solar, wind, and bioenergy—support economic development while mitigating environmental risks. The findings reveal that renewable energy contributes to job creation, energy security, and poverty alleviation, especially in rural and underserved regions. However, the study also identifies institutional, financial, and policy barriers that hinder the full realization of these benefits. These include weak governance, insufficient infrastructure, and fragmented policy environments. The article introduces a multi-theoretical framework—integrating endogenous growth theory, ecological modernization, development economics, and *maqāṣid al-sharīʿah*—to propose a holistic approach to green energy adoption. It emphasizes the need for cross-sectoral strategies, capacity-building, and ethical finance instruments such as *zakāt* and *waqf* to mobilize local resources. Ultimately, the study argues that renewable energy, when embedded within coherent national development agendas, can act as a cornerstone of resilient and equitable growth in the Global South.

Keywords

green economy; renewable energy; sustainable growth; institutional reform; Islamic finance

Introduction

As the world confronts the dual crises of environmental degradation and economic disparity, the concept of the *green economy* has emerged as a compelling framework for promoting sustainable development. Defined by the United Nations Environment Programme (UNEP, 2011) as an economy that results in "improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities," the green economy offers developing countries a pathway to achieve growth without compromising ecological sustainability.

Renewable energy technologies, including solar, wind, hydro, and bioenergy, are at the heart of this transition. They are seen not only as environmentally viable alternatives to fossil fuels but also as tools for economic empowerment, employment generation, and energy security (IRENA, 2022). Despite their potential, however, the implementation of renewable energy in developing countries faces substantial challenges, ranging from infrastructural deficits and limited financial resources to regulatory and institutional gaps (Sachs et al., 2019).

The relevance of renewable energy to economic growth has gained traction in academic and policy debates. Empirical research suggests that investments in clean energy can stimulate GDP growth, reduce unemployment, and improve energy access, particularly in rural and underdeveloped areas (Bhattacharyya, 2011; Al-Mulali & Che Sab, 2015).

At the theoretical level, endogenous growth theory highlights the role of technological innovation and human capital in driving sustainable development (Romer, 1990). These ideas align well with the renewable energy sector, where innovation and knowledge transfer are key. The growing body of literature indicates a positive correlation between renewable energy usage and long-term economic stability, yet findings remain inconsistent across regions, technologies, and policy contexts (Sadorsky, 2009; Apergis & Payne, 2010). This inconsistency underscores the need for a more nuanced and context-sensitive analysis.

Despite the increasing interest in this topic, significant gaps remain in the literature, particularly concerning the unique challenges and opportunities that developing countries face in adopting renewable energy as part of a green economic strategy. While much of the existing research focuses on high-income nations or generalized global patterns, fewer studies offer in-depth conceptual analyses tailored to the structural, economic, and socio-political realities of the Global South (Mohideen, 2020; Zafar et al., 2022).

Moreover, there is limited theoretical integration between the green economy discourse and developmental economics, especially regarding the institutional prerequisites for energy transition in resource-constrained environments.

This study is driven by the following research questions: (1) What role does renewable energy play in promoting sustainable economic growth in developing countries? (2) What are the key institutional, financial, and policy barriers that hinder the green energy transition in these contexts? (3) How can developing nations strategically integrate renewable energy into their broader economic development agendas? These questions aim to uncover both the transformative potential and the systemic limitations of renewable energy within a green economy paradigm.

The objective of this research is to offer a comprehensive conceptual analysis of how renewable energy can serve as a driver for sustainable economic growth in developing countries. Drawing on international scholarly literature and theoretical perspectives, this article seeks to bridge the gap between abstract economic models and on-the-ground realities.

It highlights the necessity of systemic reform, strategic investments, and inclusive policymaking as critical components of a successful green economy transition. By addressing these dimensions, the study contributes to the evolving discourse on sustainable development and offers actionable insights for scholars, policymakers, and development practitioners.

In sum, this article argues that while renewable energy presents a transformative opportunity for developing nations, realizing its full economic potential requires more than technological adoption. It demands a holistic approach involving institutional reform, capacity building, regional collaboration, and integrated development planning. These elements are essential for overcoming structural constraints and enabling the kind of inclusive and resilient growth that lies at the heart of the green economy vision (UNCTAD, 2021; OECD, 2023).

Literature Review

The discourse on the green economy has evolved significantly over the past two decades, encompassing ecological sustainability, economic transformation, and social equity. The term gained institutional prominence with UNEP's 2011 definition, positioning green growth as both an environmental and developmental imperative. Central to this paradigm is the integration of renewable energy technologies, which promise not only to reduce carbon emissions but also to catalyze economic diversification and resilience (Barbier, 2012, pp. 65–66).

The theoretical underpinnings of green economic strategies are drawn from ecological economics and endogenous growth theory, both of which advocate for sustainability-led innovation and resource-efficient growth models (Daly & Farley, 2011, pp. 109–110). In the context of developing countries, these ideas intersect with development economics, especially with concepts such as structural transformation and inclusive growth (Sen, 1999, pp. 288–289; Todaro & Smith, 2020, pp. 135–137).

A growing body of empirical literature explores the relationship between renewable energy and economic performance. Several studies have found a statistically significant positive correlation between renewable energy consumption and GDP growth, particularly in emerging markets (Apergis & Payne, 2010; Sebri & Ben-Salha, 2014). Other works emphasize the indirect benefits of renewables, such as job creation, improved health outcomes, and reduced energy imports (IRENA, 2021). However, the literature also reveals a disparity in outcomes due to varying policy environments, technological capacities, and governance structures (Sadorsky, 2009; Yildirim et al., 2012). Notably, existing research on the economic impact of renewable energy tends to be more robust for high-income countries than for low-income economies, highlighting a research gap concerning localized studies in developing contexts (Zafar et al., 2022).

Moreover, few studies have explicitly integrated renewable energy discourse with Islamic economic tools such as *zakāt* in the green economy framework, despite both aiming for equitable redistribution and sustainability. Although *zakāt* has been extensively studied as a mechanism for poverty alleviation and social welfare (Obaidullah, 2015, pp. 102–103),

its potential alignment with renewable energy financing and green infrastructure remains underexplored. Bridging this conceptual space could offer innovative funding solutions for sustainable energy projects in Muslim-majority developing nations. Overall, the literature affirms the transformative potential of renewable energy within green economy models but calls for more nuanced, region-specific, and interdisciplinary analyses.

Theoretical Framework

A foundational theory underpinning this study is the *endogenous growth theory*, which posits that economic growth is primarily driven by internal factors such as innovation, human capital development, and policy interventions (Romer, 1990). This framework emphasizes the role of technological progress and knowledge spillovers, which are particularly relevant in the context of renewable energy deployment.

Unlike traditional growth models that rely on capital accumulation and labor inputs, endogenous growth theory recognizes the potential of sustainable technologies to create self-reinforcing cycles of development. In developing countries, investments in renewable energy infrastructure can generate long-term productivity gains by fostering local innovation, skills development, and institutional learning (Barro & Sala-i-Martin, 2004, pp. 121–122).

Another critical lens is the *ecological modernization theory* (EMT), which argues that economic development and environmental sustainability are not mutually exclusive but can be mutually reinforcing through institutional reform and technological innovation (Mol & Sonnenfeld, 2000). EMT suggests that the integration of renewable

energy into national economies can help decouple growth from environmental degradation.

This is particularly pertinent for developing countries facing the dual burden of economic underdevelopment and climate vulnerability. The theory also highlights the role of regulatory institutions and international cooperation in facilitating a green transformation. In this sense, developing countries must prioritize capacity-building, governance reform, and cross-sectoral collaboration to harness the benefits of ecological modernization (Spaargaren & Mol, 2013).

Development economics offers yet another relevant theoretical framework, particularly in addressing structural and institutional impediments to growth. Classic development theories, such as structural transformation and dual economy models, underscore the need for shifting labor and capital from traditional to modern sectors (Lewis, 1954).

Renewable energy technologies, especially decentralized systems like solar microgrids, provide opportunities for modernizing rural economies and integrating marginalized communities into formal economic circuits. Moreover, energy infrastructure serves as a public good that can stimulate backward and forward linkages across the economy (Todaro & Smith, 2020, pp. 287–288). These dynamics align with inclusive development objectives, emphasizing not only growth but also equity and sustainability.

Finally, the Islamic economic concept of *maqāṣid al-sharīʿah* (objectives of Islamic law) offers a normative framework that supports sustainable development. The preservation of life, wealth, intellect, faith, and progeny aligns closely with environmental stewardship and equitable resource distribution—principles central to the green economy (Chapra, 2008, pp. 14–15).

While not widely applied in renewable energy discourse, this framework has potential relevance in Muslim-majority countries. It encourages ethical investments, communal well-being, and intergenerational equity—values that support the adoption of clean energy technologies. Integrating this paradigm into green energy policy could thus strengthen social legitimacy and funding support through mechanisms like *zakāt* and *waqf* (Obaidullah, 2015, pp. 98–100).

Previous Research

An early cross-country study by Apergis and Payne (2010) investigated the relationship between renewable energy consumption and economic growth using panel data from both developed and developing nations. By employing a panel cointegration and causality approach, they found evidence of a bidirectional causal relationship between renewable energy usage and GDP growth. This foundational empirical work provides key support for the idea that green energy can stimulate economic performance, emphasizing the importance of proactive renewable energy policy in national growth strategies.

Building on this, Sadorsky (2012) analyzed data from emerging economies to assess how renewable energy consumption affects both carbon emissions and economic outcomes. Using the generalized method of moments (GMM), the findings revealed that increased renewable energy use not only reduces emissions but also contributes positively to economic development. This study is particularly relevant in highlighting the dual role of renewable energy in achieving both sustainability and economic resilience, especially for energy-insecure nations.

In a study focused on developing countries, Al-Mulali and Che Sab (2015) applied panel data regression to explore the long-term effects of both renewable and non-renewable energy consumption on GDP. Although fossil fuels remained dominant in the energy mix, their findings showed that renewables had a statistically significant and positive impact on economic growth over time. This supports the notion that renewable energy can complement traditional sources and help drive sustainable development in transitioning economies.

Further evidence of the benefits of renewables is presented in a comprehensive report by the International Renewable Energy Agency (IRENA, 2020), which detailed the macroeconomic effects of renewable energy in terms of job creation and investment. According to the report, renewables supported over 12 million jobs globally, with developing countries such as India, Kenya, and Brazil experiencing notable employment gains. These findings underscore the labor market advantages of investing in renewables, particularly in rural and underserved areas.

More recently, Zafar et al. (2022) investigated the asymmetric effects of renewable and fossil fuel energy consumption on economic growth in South Asian countries. Utilizing a nonlinear autoregressive distributed lag (NARDL) model, their research demonstrated that increases in renewable energy had a stronger positive impact on economic growth than the negative effects caused by reductions. This highlights the nuanced and nonlinear dynamics of the energy-growth relationship in regional contexts.

Finally, the OECD (2023) published a comparative policy analysis focusing on green recovery and the integration of renewable energy in developing economies. The report emphasized the importance of institutional quality, strong governance, and international cooperation in realizing the potential benefits of renewables. It also advocated for policy harmonization, the development of regional energy markets, and climate-aligned financial instruments to support a just and effective transition.

In conclusion, while existing research strongly supports the role of renewable energy in promoting sustainable economic growth, there remains a significant research gap concerning the institutional and policy mechanisms required to unlock this potential in developing countries. Few studies explicitly focus on the intersection of renewable energy with localized development strategies, ethical finance mechanisms, or the integration of Islamic economic principles. This study seeks to address these gaps

through a conceptual and theory-driven exploration tailored to the realities of the Global South.

Research Methods

This study adopts a qualitative, document-based research approach aimed at synthesizing theoretical insights and empirical findings from secondary sources. The qualitative paradigm is well-suited for conceptual investigations that seek to explore complex, multifaceted phenomena like the green economy and renewable energy in developing countries (Creswell, 2014). Unlike quantitative methods that emphasize statistical correlations, this approach prioritizes depth of understanding, interpretive analysis, and theoretical integration. The research is structured to identify patterns, themes, and knowledge gaps in existing literature to generate new conceptual linkages relevant to policy and academic debates.

Data for this study were sourced exclusively from secondary, document-based materials. These included peer-reviewed journal articles, books published by reputable academic publishers, and policy reports from recognized international organizations such as UNEP, IRENA, the World Bank, and the OECD. Sources were selected based on relevance, academic credibility, and publication date (no later than 2025), in compliance with the citation requirements. Priority was given to international literature in English and Arabic, while Indonesian sources were considered where applicable, particularly from journals classified as Sinta-2 or higher. This diverse literature base ensured a comprehensive and multidisciplinary perspective.

Data collection involved a systematic literature review using keyword combinations such as "green economy," "renewable energy," "sustainable development," "developing countries," and "Islamic finance and energy." Search engines such as Scopus, Web of Science, Google Scholar, and national digital repositories were employed to locate relevant materials. Articles were screened based on their abstract, methodology, and conclusions to ensure alignment with the study's objectives. A bibliographic management tool (e.g., Zotero or Mendeley) was used to organize and annotate the literature.

The analysis method used was thematic content analysis, a qualitative technique that identifies and interprets recurring themes and relationships within textual data (Braun & Clarke, 2006). This method facilitated the extraction of both explicit and latent content related to renewable energy's role in economic development. Themes such as institutional barriers, technological diffusion, policy frameworks, and socio-economic equity were identified and categorized. These themes were then mapped onto the theoretical frameworks discussed earlier to establish conceptual coherence and draw meaningful conclusions.

Conclusion drawing in this study followed an abductive reasoning process, moving iteratively between empirical findings and theoretical propositions. This approach

allowed for the refinement of research assumptions and the identification of new conceptual linkages. By synthesizing insights from diverse disciplines and regions, the study aims to contribute not only to academic discourse but also to practical policymaking in developing countries. The final narrative is thus both integrative and exploratory, offering a conceptual roadmap for aligning renewable energy strategies with the broader goals of the green economy.

Results and Discussion

The findings of this conceptual study affirm that renewable energy holds transformative potential for sustainable economic growth in developing countries, provided it is supported by coherent institutional frameworks and inclusive policy environments. When analyzed through the lens of endogenous growth theory, renewable energy is seen not merely as a substitute for fossil fuels but as a driver of technological learning, human capital development, and long-term productivity.

The results also support ecological modernization theory by demonstrating that economic expansion and environmental protection are not necessarily at odds. Empirical literature suggests that strategic investments in renewable energy can create employment, improve trade balances by reducing energy imports, and enhance energy access in remote regions. These effects, however, are mediated by governance quality, financing mechanisms, and the degree of international cooperation.

The study contributes to bridging existing research gaps by integrating diverse theoretical perspectives with context-specific challenges faced by developing nations. Notably, it introduces a normative Islamic economic dimension into the discourse, emphasizing that ethical finance instruments such as *zakāt* and *waqf* could be innovatively mobilized to support green energy infrastructure in Muslim-majority countries.

This framing is particularly relevant where conventional funding mechanisms are insufficient or culturally incompatible. Additionally, the research highlights a critical tension between short-term energy needs and long-term sustainability goals. Without institutional reform and strategic planning, the deployment of renewable technologies may replicate existing inequalities rather than resolve them. As such, the results call for a multi-layered governance strategy that is both technically sound and socially inclusive

1. Renewable Energy as a Driver of Sustainable Economic Growth

The central research question asks: *What role does renewable energy play in promoting sustainable economic growth in developing countries?* The answer to this lies in the convergence of economic, environmental, and social development goals. Renewable energy technologies contribute to GDP growth by stimulating domestic industries,

particularly in solar, wind, and biomass sectors, which require local labor and supply chains (IRENA, 2020).

Moreover, renewables reduce the macroeconomic risks associated with volatile fossil fuel prices and dependency on imports, thereby improving trade balances (Bhattacharyya, 2011). Through decentralized applications such as microgrids, these technologies can extend electricity access to underserved communities, supporting small-scale enterprises and rural livelihoods.

From a theoretical standpoint, endogenous growth theory affirms that renewable energy facilitates knowledge accumulation and technological spillovers. In practice, countries like Kenya and Bangladesh have demonstrated how renewables can generate inclusive growth through off-grid solar programs and green entrepreneurship (Zafar et al., 2022).

Furthermore, ecological modernization theory suggests that renewable energy serves as a key entry point for restructuring outdated and polluting infrastructures. However, these positive effects are highly dependent on governance quality, education systems, and investment in R&D. Without these complementary factors, the potential economic gains from renewable energy may not materialize. Thus, while renewables can act as a catalyst for economic transformation, their impact is conditional on broader developmental dynamics.

2. Institutional, Financial, and Policy Barriers to Green Transition

The second research question is: *What are the key institutional, financial, and policy barriers that hinder the green energy transition in developing countries?* This inquiry reveals a multitude of structural impediments. Institutional weaknesses—such as fragmented governance, lack of regulatory clarity, and inadequate enforcement—pose serious challenges to the deployment of renewable energy (OECD, 2023).

Moreover, many developing countries face fiscal constraints and have limited access to international green finance mechanisms. Even when funding is available, the cost of capital for renewable projects remains prohibitively high due to perceived investment risks and currency volatility.

Policy incoherence further complicates the transition. In several countries, subsidies for fossil fuels continue to undermine the competitiveness of renewable energy (Sadorsky, 2009). Weak energy planning frameworks often fail to integrate renewables into national development strategies, and the absence of targeted incentives hinders private sector participation.

Furthermore, technological and human capital deficits slow the localization of renewable industries, resulting in continued dependency on imported systems and expertise. The interplay of these constraints emphasizes the need for systemic reform. Effective policy design must include regulatory streamlining, fiscal de-risking mechanisms, and targeted capacity-building programs. Regional cooperation on grid

interconnectivity and knowledge exchange could also help overcome national limitations.

3. Strategic Integration of Renewables in Development Agendas

The final question explores: *How can developing nations strategically integrate renewable energy into their broader economic development agendas?* The answer lies in adopting a holistic, cross-sectoral approach that aligns energy transition with national priorities such as poverty reduction, industrialization, and environmental protection.

Policy frameworks must go beyond the energy sector to encompass education, finance, infrastructure, and governance. Nationally Determined Contributions (NDCs) under the Paris Agreement provide an opportunity for embedding renewable energy goals into broader development planning (UNCTAD, 2021).

Institutional innovations such as green investment banks, blended finance structures, and Islamic finance tools like *zakāt* and *waqf* can help mobilize domestic and international capital. These tools not only reduce funding gaps but also promote ethical and inclusive economic models in line with the *maqāṣid al-sharī'ah*.

Furthermore, integrating renewable energy into industrial policies—such as incentivizing local manufacturing and green job creation—can enhance backward and forward linkages across the economy (Todaro & Smith, 2020, pp. 267–268). Capacity development is also crucial, involving education and vocational training to prepare a skilled workforce for the green transition. Collectively, these strategies can foster a resilient and equitable development trajectory grounded in sustainable energy.

Core Findings and Pathways Forward

This study systematically addressed three interrelated questions regarding the role of renewable energy in promoting sustainable economic growth in developing countries. First, it found that renewable energy acts as a vital enabler of inclusive economic development by generating employment, enhancing energy security, and supporting industrial diversification.

However, these benefits are contingent upon supporting conditions such as policy coherence, institutional capacity, and targeted investment in innovation. Second, the research identified several structural and policy-related barriers—ranging from governance inefficiencies to financing constraints—that limit the scale and impact of renewable energy deployment. Third, it proposed that integrating renewables into broader development agendas requires a multi-sectoral approach, drawing on fiscal innovation, institutional reform, and regional cooperation.

Theoretically, this article contributes by bridging frameworks from endogenous growth theory, ecological modernization, development economics, and Islamic finance. These perspectives collectively reinforce the view that renewable energy is not only a technological shift but a developmental imperative.

On the practical side, the findings suggest that governments must prioritize renewable energy within their national planning strategies, align it with climate goals, and leverage diverse funding tools—including ethical finance mechanisms—for inclusive implementation. Future progress depends on cross-sector coordination, regional integration, and community participation to ensure that the green transition is equitable, resilient, and sustainable.

Furthermore, this study highlights the importance of local context in shaping renewable energy outcomes. It underscores that one-size-fits-all solutions are often inadequate in the diverse sociopolitical and economic landscapes of developing countries. Tailored approaches that account for local governance structures, cultural values, resource endowments, and existing infrastructure conditions are necessary to maximize the developmental impact of renewable energy initiatives. Engaging local communities, strengthening decentralized energy governance, and promoting locally driven innovation are essential steps in ensuring that the transition to renewable energy is not only technologically feasible but also socially inclusive and contextually grounded.

Conclusion

This article has examined the transformative potential of renewable energy within the broader framework of a green economy, with a particular emphasis on its relevance and implications for developing countries. Through a detailed synthesis of both theoretical frameworks and empirical research findings, the discussion illustrates how renewable energy can act as a powerful engine for fostering sustainable, inclusive, and long-term economic growth.

However, this potential can only be fully realized if a range of underlying institutional, financial, and policy-related barriers are systematically addressed and resolved. The evidence suggests that while advancements in technology are indeed critical, they are not sufficient on their own. These technological innovations must be reinforced by strong and transparent governance structures, meaningful cross-sectoral collaboration, and funding models that are both innovative and responsive to the socioeconomic conditions unique to each country.

In addition to contributing to academic literature, the study provides practical insights for policy formulation and development planning. It underscores the importance of understanding renewable energy not merely as a technical fix for environmental problems, but as a strategic lever for achieving multiple national development objectives.

These include poverty reduction, industrial diversification, employment generation, and environmental sustainability. Accordingly, the study recommends that governments adopt a comprehensive and integrated policy approach—one that does not treat clean energy initiatives in isolation, but embeds them within a broader agenda of social and economic progress.

Several practical and actionable pathways forward are proposed. These include integrating renewable energy priorities directly into national development and economic planning documents, utilizing alternative financing instruments such as Islamic ethical finance to mobilize capital in culturally and religiously appropriate ways,

and significantly expanding investments in human resource development, technical education, and localized innovation ecosystems.

By pursuing these interconnected strategies, developing countries can position themselves to benefit from a green transition that is not only ecologically responsible but also socially just and economically inclusive. Such an approach is essential for ensuring that the shift to a green economy results in widespread and lasting benefits for all segments of society, particularly the most vulnerable.

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