

## **Legal Frameworks for Green Sukuk: Bridging Sharia-Compliant Environmental Finance and Community Development**

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### **Abstract**

This study examines legal fragmentation in Indonesia's Green Sukuk governance, particularly the separation between environmental verification, Sharia compliance, and community impact reporting. Using a normative juridical approach combined with content analysis of legislation, DSN-MUI fatwas, and official documents issued by the Ministry of Finance and the Financial Services Authority (OJK), this study analyzes the extent to which Indonesia's Green Sukuk framework integrates environmental regulation and Islamic financial law. A comparative legal review of Malaysia and the United Arab Emirates is also conducted to assess alternative models of ESG-Sharia governance. The findings show that Indonesia's Green Sukuk has a strong legal foundation through Law No. 19/2008 on State Sharia Securities, OJK Regulation No. 60/2017, and DSN-MUI Fatwa No. 117/2018. However, the existing framework still lacks an integrated mechanism for aligning green project verification, Sharia audit, and community development assessment. The analysis identifies institutional coordination gaps, normative separation between environmental and Sharia standards, and limited social impact indicators in Green Sukuk reporting. This study contributes to Islamic financial law by conceptualizing an integrated Sharia-environmental governance framework that links regulatory authority, maqasid al-shariah-based assessment, and community-oriented impact evaluation.

Keywords: Green Sukuk, Sharia Law, Sustainable Finance, ESG, Maqasid Al-Shariah.

### **Abstrak**

Penelitian ini mengkaji fragmentasi hukum dalam tata kelola Green Sukuk di Indonesia, khususnya pemisahan antara verifikasi lingkungan, kepatuhan syariah, dan pelaporan dampak sosial bagi masyarakat. Dengan menggunakan pendekatan yuridis normatif yang dikombinasikan dengan analisis isi terhadap peraturan perundang-undangan, fatwa DSN-MUI, serta dokumen resmi Kementerian Keuangan dan Otoritas Jasa Keuangan (OJK), penelitian ini menganalisis sejauh mana kerangka hukum Green Sukuk di Indonesia mengintegrasikan regulasi lingkungan dan hukum keuangan syariah. Kajian komparatif terhadap Malaysia dan Uni Emirat Arab juga dilakukan untuk menilai model alternatif tata kelola ESG-Syariah. Hasil penelitian menunjukkan bahwa Green Sukuk Indonesia memiliki dasar hukum yang kuat melalui UU No. 19 Tahun 2008 tentang Surat Berharga Syariah Negara, POJK No. 60/2017, dan Fatwa DSN-MUI No. 117/2018. Namun, kerangka yang ada belum memiliki mekanisme terpadu untuk menyelaraskan verifikasi proyek hijau, audit syariah, dan penilaian dampak pembangunan komunitas. Analisis ini mengidentifikasi adanya kesenjangan koordinasi kelembagaan, pemisahan normatif antara standar lingkungan dan standar syariah, serta terbatasnya indikator dampak sosial dalam pelaporan Green Sukuk. Penelitian ini memberikan kontribusi bagi pengembangan hukum keuangan syariah dengan merumuskan kerangka tata kelola syariah-lingkungan yang menghubungkan otoritas regulasi, penilaian berbasis maqasid al-shariah, dan evaluasi dampak yang berorientasi pada masyarakat.

Keywords: Green Sukuk, Hukum Syariah, Keuangan Berkelanjutan, ESG, Maqasid Syariah.

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## INTRODUCTION

The development of sustainable finance has encouraged the growth of financial instruments that integrate environmental responsibility, ethical investment, and long-term social impact. Green bonds and Green Sukuk have emerged as important mechanisms for financing climate mitigation, renewable energy, sustainable infrastructure, and other environmentally oriented projects. In Islamic finance, Green Sukuk offers a distinctive model because it combines sustainability principles with Sharia compliance, particularly through the prohibition of *riba*, *gharar*, and *maysir*, as well as the promotion of public benefit and ecological responsibility. This development reflects the increasing need for legal frameworks that can accommodate both environmental standards and Islamic financial principles in a coherent regulatory structure (Mustaqim & Heryanto, 2025; Thomas, 2025).

Indonesia occupies an important position in the development of Green Sukuk. Since 2018, the Indonesian government, through the Ministry of Finance, has issued Green Sukuk to finance environmentally sustainable projects in sectors such as renewable energy, climate-resilient infrastructure, natural resource management, and sustainable transportation. According to the Ministry of Finance's Green Sukuk Allocation and Impact Reports, these issuances demonstrate the state's effort to align public financing with climate policy and sustainable development objectives. Green Sukuk in Indonesia therefore functions not only as a fiscal instrument, but also as a legal and policy tool for connecting Islamic finance, environmental governance, and community-oriented development (Raimi & Bamiro, 2025; Sakdiyah, 2025; Syaichoni et al., 2025).

Indonesia holds a strategic position in developing Sharia-based sustainable financial instruments. Since 2018, the government-through the Ministry of Finance-has become the world's first issuer of Green Sukuk, marking a pivotal milestone in the integration of Islamic finance and the global environmental agenda. This initiative not only demonstrates Indonesia's commitment to climate change mitigation but also broadens the paradigm of public financing toward a more inclusive, ethical, and sustainability-oriented model.



Figure 1. Indonesia's Green Sukuk Performance (2018–2024): Statistical Overview of Sustainable Financing Initiatives

Source: Ministry of Finance, Republic of Indonesia, 2018–2024.

Since the initial issuance, Indonesia has consistently released Green Sukuk in both domestic and international markets. According to the Ministry of Finance's 2024 Green Sukuk Allocation and

Impact Report, the total issuance value has reached approximately IDR 25 trillion, equivalent to more than USD 1.6 billion. These funds have been allocated to support green projects encompassing renewable energy management, natural resource conservation, and climate-resilient infrastructure development. This approach demonstrates that green sukuk serve not merely as financial instruments, but also as policy tools advancing social and ecological sustainability. Indonesia's active participation in the global green sukuk market has strengthened its reputation as a country with progressive innovations in Islamic finance and legal frameworks. The legal foundation of green sukuk issuance is grounded in Law No. 19 of 2008 concerning State Sharia Securities (SBSN), supplemented by technical guidelines from the Otoritas Jasa keuangan (OJK) and fatwas issued by the Dewan Syariah Nasional-Majelis Ulama Indonesia (DSN-MUI). The collaboration among financial institutions, sharia authorities, and government bodies reflects a cooperative model that other nations may replicate, despite this success, challenges remain in environmental supervision, social impact reporting, and regulatory harmonization across institutions.

Although Indonesia has successfully positioned itself as a global pioneer of green sukuk, the legal framework governing their issuance and oversight remains fragmented. Existing regulations, such as Law No. 19 of 2008 on SBSN, provide a legal basis for sukuk issuance but do not explicitly address the environmental and social dimensions central to green sukuk. Technical guidelines such as OJK Regulation No. 60/POJK.04/2017 on Green Bonds and DSN-MUI Fatwa No. 117/DSN-MUI/II/2018 on Green Sukuk operate separately without a strong integration mechanism between positive law and sharia principles.

The absence of a comprehensive regulatory framework creates gaps in environmental oversight and the reporting of project benefits financed through green sukuk. Although the Ministry of Finance publishes annual impact reports detailing fund allocation and physical project outcomes, these reports have yet to fully capture the social dimensions aligned with community development objectives. In contrast, the core principle of maqasid syariah emphasizes human welfare and ecological balance as part of distributive justice (Ghafoorian Yavarpanah & Mohammadi, 2025; Mohd Zain et al., 2024; Raimi et al., 2024). This situation raises fundamental questions about how effectively the existing legal system can bridge sharia compliance with environmental sustainability and community empowerment goals. This research seeks to map the legal structure shaping Indonesia's green sukuk practices, assess their alignment with Sharia-compliant environmental finance principles, and propose a more integrated legal framework. The study also aims to clarify the role of law as a connecting instrument between fiscal policy, sharia ethics, and sustainable community development.

Previous studies on Indonesia's green sukuk have primarily focused on financial and investment aspects, while their legal dimensions remain underexplored. Most research highlights the effectiveness of these instruments in supporting environmentally friendly project financing but rarely examines how the underlying legal framework ensures compliance with sharia principles and contributes to social development (Adzimatinur et al., 2024; Naseri & Amani, 2024; Taufiq, 2025). This imbalance has led to a fragmented understanding of the legal position of green sukuk within the broader sustainable finance framework. Some legal studies have discussed the juridical basis for state sukuk issuance and the application of sharia principles in the capital market, yet they have not linked these to environmental policy frameworks or community development governance. Government and international financial institution reports tend to emphasize financial outcomes and project achievements without addressing the normative aspects that guarantee social

sustainability, the relationship between law, sharia values, and sustainable development goals remains insufficiently mapped (Ahmed et al., 2024; Faizi et al., 2024; Iskandar & Sulaiman, 2025).

This research aims to identify and analyze the legal framework governing the issuance of Green Sukuk in Indonesia and to assess the extent to which these instruments embody an integration between sharia compliance and sustainable environmental financing. The analysis explores the juridical foundation supporting green sukuk issuance, its connection to maqasid shariah principles, and the consistency of national practices with international green finance legal standards (Abiola-Adams et al., 2023; Fahrozi & Jakoto, 2025; Supriyadi et al., 2023). The study also highlights institutional aspects influencing policy implementation effectiveness, including coordination among the Ministry of Finance, the Otoritas Jasa Keuangan (OJK), and the Dewan Syariah Nasional-Majelis Ulama Indonesia (DSN-MUI).

This research contributes to the expansion of Islamic financial law discourse through a sustainability perspective. The approach views law not only as a mechanism to regulate financial transactions but also as a means to balance spiritual values, economic interests, and ecological responsibilities. This study aims to produce an integrative legal framework that bridges Sharia-compliant environmental finance principles with community development objectives by combining normative, comparative, and conceptual analysis. The findings are expected to serve as a reference for policymakers in designing more harmonized regulations between positive law and sharia principles, as well as guide Islamic financial institutions in strengthening the governance of green sukuk issuance to meet global ESG standards while delivering tangible benefits to society and the environment.

## **LITERATURE REVIEW**

### **Conceptual Background**

Green Sukuk should not be understood only as a Sharia-compliant financial product. It is a legal-financial instrument that brings together Islamic capital market regulation, environmental governance, and public development policy. Its legal character lies in the fact that every issuance must comply with Sharia contracts, state financial regulation, and sustainability standards. This layered structure makes Green Sukuk more complex than conventional green bonds because its legitimacy depends on both legal validity and ethical accountability (Endri et al., 2022).

Green bonds are generally assessed through environmental eligibility, use-of-proceeds requirements, external verification, and impact reporting. Green Sukuk carries an additional normative burden. The instrument must comply with Sharia principles through permissible contracts such as *ijarah*, *wakalah*, or other valid structures. The underlying asset, the flow of funds, and the project financed must also avoid *riba*, *gharar*, *maysir*, and activities that contradict Islamic law. Green Sukuk combines financial legality, environmental responsibility, and religious legitimacy in one instrument (Osman & Elamin, 2023; Thaker et al., 2022).

Islamic finance operates under the principle of *Sharia compliance*, which prohibits *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (speculation). The system emphasizes justice, transparency, and a balance between individual and collective interests. When combined with sustainability principles, these paradigms give rise to Green Sukuk—an asset-based financing instrument that unites economic, spiritual, and environmental objectives. According to (Alam et al., 2016), Green Sukuk functions not only as an alternative means of financing green projects but also as a vehicle for realizing the values of *maqasid al-shariah* within the framework of sustainable development.

Indonesia's Green Sukuk framework reflects this multi-layered legal structure. Law No. 19 of 2008 on State Sharia Securities provides the statutory basis for sukuk issuance. OJK Regulation No. 60/POJK.04/2017 introduces green project criteria, reporting obligations, and environmental

verification. DSN-MUI Fatwa No. 117/DSN-MUI/II/2018 gives Sharia guidance for Green Sukuk. These three instruments form the legal foundation of Green Sukuk, but they do not yet operate as a single integrated governance system. The SBSN Law focuses on issuance authority, the OJK regulation focuses on environmental finance, and the DSN-MUI fatwa focuses on Sharia compliance. This separation shows that Green Sukuk is not only a matter of financial innovation. It is also a problem of legal coordination (Daoulhadj & Hussin, 2023; Hakim, 2024). Scholars such as (Pitchay et al., 2025) and (Fadzil & Haikal, 2024) have demonstrated that Islamic finance inherently embodies sustainability principles through the concepts of *adl* (justice), *ihsan* (benevolence), and *maslahah* (public good). Green Sukuk thus reinforces the social function of Islamic finance—channeling funds from surplus sectors to the real economy in ways that serve public welfare.

### **Maqasid al-Shariah as a Basis for Green Project Evaluation**

Maqasid al-shariah provides the substantive foundation for assessing whether Green Sukuk truly serves Islamic legal objectives. Classical scholars such as Al-Ghazali and Ibn Ashur explained that Sharia aims to protect essential human interests, including religion, life, intellect, lineage, and property. Contemporary scholars such as Jasser Auda and Mohammad Hashim Kamali expanded this framework by linking maqasid with justice, public welfare, institutional reform, and good governance. Environmental protection can be placed within this broader maqasid framework because ecological degradation directly threatens life, property, welfare, and intergenerational justice.

Green Sukuk requires maqasid to function as more than an ethical label. Maqasid should become an evaluative standard for green project verification. *Hifz al-nafs* can be translated into indicators such as disaster risk reduction, public health protection, access to clean water, and protection from climate-related harm. *Hifz al-mal* can be reflected in transparent fund management, protection of public assets, and long-term economic resilience. *Hifz al-bi'ah* can be assessed through emission reduction, waste management, biodiversity protection, renewable energy output, and sustainable use of natural resources. These indicators allow maqasid to move from abstract doctrine into operational legal assessment (Ahmed et al., 2024; Fahrozi & Jakoto, 2025).

The current challenge lies in the separation between Sharia audit and environmental verification. Sharia review often focuses on contract validity and compliance with formal Islamic finance rules. Environmental verification usually focuses on project eligibility and measurable ecological outcomes. A maqasid-based approach can connect these two processes by requiring green projects to demonstrate both environmental benefit and social welfare. Green Sukuk should not be considered fully compliant only because its contract is valid and its project is environmentally classified as green. It should also show that the project advances public welfare, ecological protection, and distributive justice.

### **Legal Pluralism and Normative Interaction in Green Sukuk Governance**

Legal pluralism offers a strong theoretical lens for understanding Green Sukuk governance in Indonesia. John Griffiths and Sally Engle Merry describe legal pluralism as a condition where several normative systems coexist and shape legal practice within the same social field. Wael Hallaq's work on Islamic law also shows that Sharia has its own normative authority, interpretive tradition, and ethical structure. Green Sukuk operates precisely within this kind of plural legal field because state law, Sharia norms, capital market regulation, environmental standards, and global sustainability principles meet in one financing instrument.

Indonesia's Green Sukuk governance shows how legal pluralism can produce both strength and tension. State law gives formal authority for sukuk issuance. OJK regulation defines green project eligibility and reporting standards. DSN-MUI fatwa provides religious legitimacy and Sharia guidance. Environmental standards add another layer of accountability through verification and impact assessment. These legal sources support the same instrument, but they come from different institutions and follow different logics of validation.

Fragmentation appears when these normative systems are not institutionally reconciled. A project may satisfy environmental criteria but lack clear maqasid-based assessment. A sukuk structure may be valid under Sharia contract rules but still fail to measure community impact. An issuer may publish an allocation report without showing whether the financed project improves welfare at the local level. Legal pluralism helps explain why the problem is not simply the absence of rules. The deeper issue is the absence of a mechanism that can align different rules, authorities, and standards into a coherent governance structure (Aassouli et al., 2018; Kismawadi & Irfan, 2025).

### **Governance Theory and Institutional Coordination**

Governance theory explains why the effectiveness of Green Sukuk depends on coordination among institutions rather than on the existence of regulations alone. A strong legal framework requires clear authority, consistent standards, monitoring mechanisms, and procedures for resolving conflict between institutions. Sustainable finance governance also requires the participation of financial regulators, Sharia authorities, environmental verifiers, issuers, and affected communities.

Indonesia's Green Sukuk governance involves several institutions with different mandates. The Ministry of Finance acts as issuer and manager of sovereign Green Sukuk. OJK regulates capital market instruments and sustainable finance. DSN-MUI provides Sharia authority through fatwas and advisory functions. Environmental agencies and independent verifiers may assess green eligibility and ecological outcomes. The presence of these institutions shows that Indonesia already has the basic components of Green Sukuk governance. The main weakness lies in the limited coordination among them.

Sharia audit, environmental verification, and community impact reporting still tend to work in separate tracks. This separation weakens legal accountability because no single mechanism ensures that a project is simultaneously green, Sharia-compliant, and socially beneficial. Malaysia's Sustainable and Responsible Investment Sukuk framework offers a useful comparison because sustainability requirements and Sharia governance are placed within a more integrated regulatory structure. The United Arab Emirates also shows the value of multi-agency coordination and Sharia advisory involvement in sustainable Islamic finance. Indonesia can draw lessons from these models without copying them mechanically. The country needs an institutional design that fits its own legal structure while closing the gap between ESG verification, Sharia audit, and community development assessment.

### **Research Gap: Toward an Integrated ESG-Sharia-Community Impact Model**

Existing studies on Green Sukuk have enriched discussions on Islamic finance, sustainable investment, and green project financing. Many studies examine issuance growth, investor demand, project allocation, and the contribution of Green Sukuk to sustainable development. Other studies discuss the legal basis of sukuk issuance and the role of Sharia principles in Islamic capital markets. These studies provide important foundations, but many of them still treat legal validity, Sharia compliance, environmental verification, and social impact reporting as separate matters (Mahama & Yakubu, 2025; Masood et al., 2024).

This separation leaves a significant research gap. Green Sukuk has not been sufficiently examined as a legal-pluralist governance instrument where state law, Sharia norms, environmental regulation, and community development objectives interact. Few studies have developed a model that integrates ESG verification, Sharia audit, maqasid-based indicators, and community impact assessment. The effectiveness of Green Sukuk should not be measured only through issuance value, allocation reports, or formal Sharia approval. It should also be measured through legal coherence, environmental accountability, and social benefit.

This study addresses that gap by positioning Green Sukuk as an integrated legal-financial instrument. The analysis combines maqasid al-shariah, legal pluralism, and governance theory to explain why Indonesia's Green Sukuk framework remains fragmented and how that fragmentation

can be addressed. The proposed direction moves Islamic financial law beyond formal compliance and toward substantive accountability. Green Sukuk can only function as a credible instrument of sustainable Islamic finance when environmental verification, Sharia assessment, and community impact evaluation are connected within one governance framework.

(Ezzuddin, 2024) in Malaysia demonstrated that the country's success in developing Green Sukuk was not solely due to economic stability but also to the existence of an integrated legal framework that combines capital market regulations and Sharia guidelines within a single regulatory structure. Malaysia's *Securities Commission Sukuk Guidelines* emphasize the dual mechanism of Sharia audit and environmental impact verification, ensuring both financial and ethical integrity.

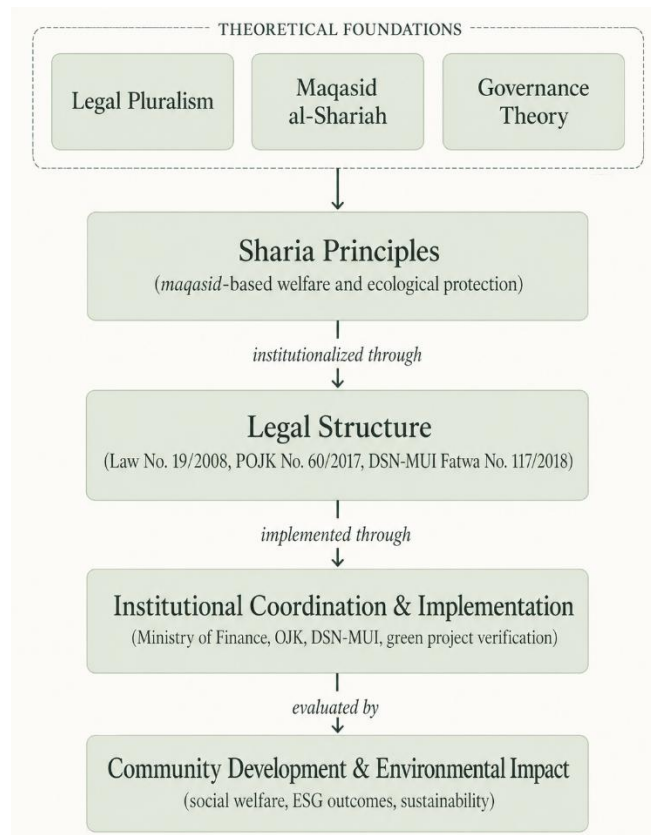
In the United Arab Emirates, research by (Kahina & Lamya, 2025; Seth & Pathan, 2025) highlighted a *hybrid governance approach* in which financial authorities collaborate with the national Sharia board to establish ESG-Sharia screening standards. This model has strengthened international investor confidence in the UAE's Green Sukuk market through its high degree of transparency and accountability. In the United Kingdom, a study by (Balative et al., 2025; Kunhibava et al., 2024) revealed that the adaptation of Green Sukuk in non-Muslim jurisdictions can be effective when supported by regulations emphasizing environmental accountability and ethical finance principles.

Rachman (2020) found that Green Sukuk regulations still face overlaps between the SBSN Law and OJK Regulation No. 60/2017, particularly regarding the supervision of environmental impact reporting. Fadhilah (2022) argued that although DSN-MUI Fatwa No. 117/2018 provides clear moral guidance, its implementation remains only partially integrated with the national environmental audit system. Meanwhile, the Green Sukuk Allocation and Impact Report (Ministry of Finance, 2023) shows improved transparency in fund allocation but limited evaluation of social benefits at the community level.

### **Analytical Framework**

The analytical framework is derived from legal pluralism, maqasid al-shariah, and governance theory. Legal pluralism explains the coexistence of state law, Sharia norms, and environmental standards in the governance of Green Sukuk. Maqasid al-shariah provides the substantive criteria for assessing whether Green Sukuk promotes welfare, environmental protection, and community benefit. Governance theory is used to explain how these norms are translated into institutional coordination, regulatory practice, and project implementation. These three perspectives are combined because Green Sukuk is not only a financial instrument, but also a site where multiple legal and institutional orders interact.

The variables in Figure 2 are arranged to show a causal and analytical sequence. Sharia principles serve as the normative foundation, the legal structure represents their formal institutionalization, implementation reflects the operation of regulatory and supervisory mechanisms, and community development together with environmental impact forms the outcome of the entire governance process. This framework is used to read legal data by tracing whether the values articulated at the normative level are consistently translated into legal rules, institutional practice, and measurable socio-environmental outcomes:



**Figure 2. Analytical Framework Research**

The figure 2 illustrates the analytical logic used in this study to examine Green Sukuk governance in Indonesia. The model begins with Sharia principles because maqasid al-shariah provides the normative foundation for evaluating whether Green Sukuk serves public welfare, ecological protection, and social justice. These principles do not operate automatically in practice. They require institutionalization through a legal structure consisting of statutory law, financial regulations, and Sharia fatwas. Law No. 19 of 2008, OJK Regulation No. 60/2017, and DSN-MUI Fatwa No. 117/2018 represent the main legal instruments through which maqasid values are translated into formal rules for Green Sukuk issuance and supervision.

The next stage shows that legal structure only becomes effective when it is implemented through institutional coordination. The Ministry of Finance, OJK, DSN-MUI, environmental verifiers, and project-implementing agencies must work within a coherent governance mechanism to ensure that Green Sukuk projects are legally valid, Sharia-compliant, environmentally credible, and socially beneficial. The final stage places community development and environmental impact as the outcome of the governance process. This means that the effectiveness of Green Sukuk should not be assessed only from issuance value or formal compliance, but also from its ability to generate measurable benefits for communities and the environment. The framework is used in this study to trace whether the normative objectives of Green Sukuk are consistently reflected in legal design, institutional practice, and socio-environmental outcomes.

## RESEARCH METHOD

This study employs a qualitative legal research design with a normative, comparative, and conceptual orientation. The main objective is to examine how Indonesia's Green Sukuk framework regulates the relationship between Sharia compliance, environmental sustainability, and community

development. The analysis focuses on legal norms, regulatory instruments, fatwas, policy documents, and institutional reports that shape the governance of Sharia-based environmental financing.

The method is designed to assess not only the existence of legal rules, but also the coherence among them. Green Sukuk involves several normative orders at the same time, including state financial law, capital market regulation, Sharia norms, and environmental standards. For that reason, the research method is structured to identify legal foundations, examine regulatory gaps, compare institutional models, and evaluate whether the existing framework provides an integrated mechanism for ESG-Sharia verification and social impact reporting.

### **Research Approach**

This study applies three interrelated approaches. The normative juridical approach is used to examine the legal provisions governing Green Sukuk in Indonesia, particularly Law No. 19 of 2008 on State Sharia Securities, OJK Regulation No. 60/POJK.04/2017 on Green Bonds, and DSN-MUI Fatwa No. 117/DSN-MUI/II/2018 on Green Sukuk. These legal instruments are analyzed to determine how far they regulate issuance authority, green project criteria, Sharia compliance, reporting obligations, and institutional supervision.

The comparative approach is used to examine selected jurisdictions that have developed relevant models of sustainable Islamic finance governance. Malaysia, the United Arab Emirates, and the United Kingdom are selected because each represents a different regulatory experience. Malaysia provides an example of a more integrated SRI Sukuk framework that connects sustainability requirements with Sharia governance. The United Arab Emirates illustrates a model of multi-agency coordination involving financial regulators and Sharia advisory institutions. The United Kingdom represents a non-Muslim jurisdiction that emphasizes ethical finance, environmental accountability, and sustainable finance regulation. These comparisons are used to identify legal lessons that may be adapted to the Indonesian context.

The conceptual approach is used to connect legal norms with maqasid al-shariah, legal pluralism, and governance theory. This approach allows the analysis to move beyond formal compliance and examine whether Green Sukuk governance reflects public welfare, ecological protection, institutional coordination, and community-oriented development. The conceptual approach also supports the formulation of an integrated Sharia-environmental governance model.

### **Analytical Techniques**

Content analysis is applied to examine the substance of legislation, fatwas, regulatory guidelines, and institutional reports. The analysis focuses on the legal language used to define Green Sukuk, eligible green projects, Sharia compliance, verification mechanisms, reporting duties, and supervisory authority. This technique is also used to identify overlaps, gaps, and inconsistencies among legal instruments.

Qualitative descriptive analysis is used to construct an interpretive account of the findings. Legal provisions are not treated as isolated texts, but as part of a broader governance structure. This technique enables the study to explain how formal rules operate in relation to institutional practice, environmental verification, Sharia audit, and community development outcomes.

Legal consistency is assessed by examining the relationship among four elements: institutional authority, verification standards, enforcement mechanisms, and impact reporting. A legal framework is considered more coherent when regulatory authority is clearly distributed, verification standards are mutually connected, sanctions or compliance mechanisms are identifiable, and reporting requirements include both environmental and social indicators.

## **Data Sources**

The study uses primary and secondary legal materials. Primary materials include statutory regulations, OJK rules, DSN-MUI fatwas, official documents from the Ministry of Finance, and Green Sukuk Allocation and Impact Reports. Secondary materials include peer-reviewed journal articles, books on Islamic legal theory and maqasid al-shariah, institutional reports from international organizations, and publications on green finance and Islamic sustainable finance.

The legal sources are selected based on authority, relevance, and direct connection to Green Sukuk governance. Official regulations, fatwas, and institutional guidelines are prioritized because they provide binding or authoritative references for legal analysis. Academic sources are used to build theoretical arguments and evaluate scholarly debates on Islamic finance, legal pluralism, governance, and sustainable development.

## **Comparative Case Selection and Validation**

Malaysia is selected because its Sustainable and Responsible Investment Sukuk framework provides a strong example of regulatory integration between sustainability criteria and Sharia governance. The Malaysian model is relevant for this study because it shows how green project verification and Sharia review can be placed within a more coherent regulatory structure. This case helps identify whether Indonesia can develop a more unified ESG-Sharia audit mechanism.

The United Arab Emirates is selected because its sustainable finance framework demonstrates the importance of multi-agency coordination and the involvement of Sharia advisory institutions. The UAE experience is useful for examining how financial regulators, Sharia boards, and sustainability authorities can cooperate in setting standards for Islamic green finance. This case provides a comparative basis for evaluating Indonesia's institutional coordination among the Ministry of Finance, OJK, DSN-MUI, and environmental authorities.

The United Kingdom is selected as a non-Muslim jurisdiction that has developed a strong policy orientation toward ethical finance, green finance, and environmental accountability. Its relevance lies in showing how Green Sukuk and Islamic finance instruments can be adapted within a broader sustainable finance ecosystem without relying on a predominantly Islamic legal system. This comparison helps clarify which elements of Green Sukuk governance are specifically Sharia-based and which elements belong to general sustainable finance regulation.

Validation is conducted through normative triangulation. Legal texts are compared with institutional reports and academic literature to test whether the formal legal framework is consistent with implementation practices and scholarly interpretation. Regulatory consistency is assessed by examining whether legal authority, verification procedures, Sharia supervision, enforcement mechanisms, and impact reporting operate in an integrated manner. Institutional reports are validated by comparing their claims with regulatory requirements and peer-reviewed studies. This process strengthens the reliability of the analysis and reduces dependence on a single type of source.

## **Data Sources**

The study draws on two types of data: primary and secondary. Primary data include legislation, DSN-MUI fatwas, official documents from the Ministry of Finance, and OJK reports related to Green Sukuk issuance. Secondary data consist of academic journal articles, annual reports from the Islamic Development Bank (IDB), and publications by the Climate Bonds Initiative presenting global trends and evaluations of Sharia-based green finance. Data are analyzed triangulatively by comparing normative

findings, institutional policies, and empirical studies to produce a comprehensive understanding of the legal integration, Sharia compliance, and socio-environmental impact of Green Sukuk implementation in Indonesia (table 1).

**Table 1. Summary of Data Sources and Analytical Purposes**

Type of Data		Specific Sources	Analytical Purpose
Primary Documents	Legal	Law No. 19 of 2008 on State Sharia Securities, OJK Regulation No. 60/POJK.04/2017 on Green Bonds, DSN-MUI Fatwa No. 117/DSN-MUI/II/2018 on Green Sukuk	To examine the legal basis, regulatory structure, and normative framework governing Green Sukuk issuance in Indonesia.
Government and Institutional Reports		Ministry of Finance Green Sukuk Allocation and Impact Reports 2018-2024, OJK Sustainable Finance Roadmap, National SDGs Secretariat publications	To assess implementation practices, reporting mechanisms, and the alignment between Green Sukuk governance and sustainability objectives.
Scholarly Articles and Literature	Legal	Peer-reviewed journals and books on Islamic finance, environmental law, maqasid al-shariah, legal pluralism, and sustainable development	To build the theoretical foundation and identify academic debates related to Sharia-compliant environmental finance.
International Reports and Policy Papers		Climate Bonds Initiative reports, Islamic Development Bank sustainability reports, OECD green finance publications	To compare Indonesia's regulatory experience with international green finance standards and sustainable finance practices.
Comparative Legal Sources		Malaysia's SRI Sukuk Framework, UAE sustainable finance and Sharia governance documents, UK Green Finance Strategy and ethical finance materials	To conduct comparative legal analysis and identify governance elements that may be adapted to Indonesia's Green Sukuk framework.

## RESULTS AND DISCUSSION

### Current Legal Framework of Green Sukuk in Indonesia

Indonesia's Green Sukuk framework is built on three principal legal instruments: Law No. 19 of 2008 on State Sharia Securities, OJK Regulation No. 60/POJK.04/2017 on Green Bonds, and DSN-MUI Fatwa No. 117/DSN-MUI/II/2018 on Green Sukuk. These instruments provide a formal legal foundation for issuing, classifying, and legitimizing Green Sukuk as a Sharia-compliant sustainable finance instrument. Their existence shows that Indonesia has developed a relatively advanced regulatory basis for Islamic green finance. Yet the strength of this framework remains limited by the fact that each instrument regulates a different aspect of Green Sukuk without a fully integrated mechanism for environmental verification, Sharia audit, and community impact assessment.

Law No. 19 of 2008 provides the statutory basis for issuing State Sharia Securities. Its main contribution lies in giving the government legal authority to mobilize public financing through sukuk instruments. The law establishes the legitimacy of sukuk as part of state fiscal policy and provides the foundation for asset-based Sharia financing. This makes the SBSN Law essential for the existence of sovereign Green Sukuk. Its limitation lies in the absence of specific provisions on environmental and social indicators. The law was designed primarily to regulate sukuk issuance, asset structure, state obligations, and fiscal financing. It does not clearly define what makes a sukuk "green", how environmental benefits

should be verified, or how community development outcomes should be measured. Green Sukuk can rely on this law for issuance authority, but not for a complete sustainability governance framework.

OJK Regulation No. 60/POJK.04/2017 strengthens the environmental dimension by introducing criteria for green projects, disclosure obligations, and verification mechanisms. This regulation is important because it links Green Sukuk with the broader framework of sustainable finance and environmental accountability. It provides a basis for identifying eligible green sectors and assessing whether the proceeds are allocated to environmentally oriented projects. Its weakness lies in its limited connection with Sharia supervision. The regulation is primarily structured around green finance standards, not maqasid al-shariah or Islamic legal accountability. As a result, a project may satisfy environmental criteria under OJK standards without being evaluated through maqasid-based indicators such as public welfare, distributive justice, and protection of life, wealth, and the environment. The regulation strengthens green verification, but it does not automatically create an integrated ESG-Sharia audit system.

DSN-MUI Fatwa No. 117/DSN-MUI/II/2018 provides the Sharia foundation for Green Sukuk. The fatwa is significant because it affirms that Green Sukuk must comply with Sharia principles and must finance projects that support environmental preservation. This gives Green Sukuk moral and religious legitimacy beyond ordinary green finance instruments. The fatwa also connects Islamic finance with ecological responsibility by linking investment activity to the objectives of Sharia. Its weakness lies in enforcement. The fatwa has strong normative authority, but it is not fully embedded within the administrative sanction system of capital market regulation. Its implementation depends on institutional recognition, Sharia supervisory mechanisms, and the willingness of regulators and issuers to incorporate its principles into project verification and reporting. This creates a gap between Sharia legitimacy and regulatory enforceability.

The three instruments form a layered legal structure, but the relationship among them remains insufficiently coordinated. The Ministry of Finance acts as issuer and fund manager, OJK regulates capital market and sustainable finance standards, while DSN-MUI provides Sharia authority through fatwas. Each institution has a clear mandate, but their mandates do not automatically produce integrated governance. The Ministry of Finance may focus on issuance and allocation, OJK may focus on disclosure and green project eligibility, while DSN-MUI may focus on Sharia compliance. Without a formal mechanism for joint assessment, these institutions may operate in parallel rather than as a single supervisory system. This condition explains why Indonesia's Green Sukuk framework is legally strong at the level of formal foundation, but still weak at the level of integrated implementation.

The effectiveness of the current legal framework depends on whether these three legal sources can be connected into a coherent governance mechanism. A Green Sukuk project should not only be legally issued under the SBSN Law, environmentally classified under OJK Regulation No. 60/2017, and Sharia-approved under DSN-MUI Fatwa No. 117/2018. It should also be assessed through a unified verification process that measures environmental impact, Sharia compliance, and community development outcomes together. Without such integration, Green Sukuk risks becoming formally valid but substantively incomplete as an instrument of sustainable Islamic finance.

**Table 2. Critical Assessment of Legal Instruments Governing Green Sukuk in Indonesia**

Legal Instrument	Main Function	Strength	Limitation
Law No. 19 of 2008 on State Sharia Securities	Provides the statutory basis for sovereign sukuk issuance	Strong legal authority for issuing sukuk as a state financing instrument	Does not specifically regulate environmental indicators, social impact, or community development assessment
OJK Regulation No. 60/POJK.04/2017 on Green Bonds	Regulates green project criteria, disclosure, and verification	Strengthens environmental accountability and green finance standards	Does not automatically integrate Sharia audit or maqasid-based assessment
DSN-MUI Fatwa No. 117/DSN-MUI/II/2018 on Green Sukuk	Provides Sharia legitimacy and ethical guidance for Green Sukuk	Establishes the religious and normative foundation for Sharia-compliant green finance	Weak administrative enforcement because it is not fully integrated into the capital market sanction mechanism
Institutional Arrangement among Ministry of Finance, OJK, and DSN-MUI	Distributes authority among issuer, regulator, and Sharia authority	Provides multiple layers of supervision and legitimacy	Coordination remains fragmented because each institution operates under a different mandate and validation logic

Source: data proceed

The table shows that Indonesia's Green Sukuk framework already rests on a solid legal foundation, yet its effectiveness is constrained by the limited integration among issuance authority, environmental verification, Sharia supervision, and social impact assessment. Law No. 19 of 2008 gives the government a strong statutory basis to issue State Sharia Securities, including Green Sukuk. Its legal strength lies in its ability to legitimize sukuk as an instrument of public financing. The weakness appears when Green Sukuk is assessed as a sustainability instrument. The SBSN Law was not designed to regulate green taxonomy, environmental indicators, or community development outcomes. It provides legal authority for issuance, but it does not provide detailed standards for measuring whether the financed projects generate ecological and social benefits.

OJK Regulation No. 60/POJK.04/2017 fills part of this gap by introducing green project criteria, disclosure requirements, and verification mechanisms. This regulation strengthens environmental accountability because it requires issuers to justify the green character of the financed projects. Its contribution is important for aligning Green Sukuk with sustainable finance standards. The regulation still operates mainly within the logic of environmental finance. It does not directly integrate Sharia audit or maqasid-based assessment into the verification process. A project may meet green eligibility criteria under the OJK framework, but that does not automatically mean that it has been evaluated through maqasid principles such as public welfare, justice, protection of life, and protection of the environment.

DSN-MUI Fatwa No. 117/DSN-MUI/II/2018 provides the religious and ethical foundation for Green Sukuk. The fatwa strengthens the legitimacy of Green Sukuk by requiring compliance with Sharia principles and by connecting Islamic finance with environmental preservation. Its role is essential because Green Sukuk cannot rely only on environmental standards. It must also reflect Islamic legal values. The main limitation of the fatwa lies in its enforcement capacity. The fatwa has strong normative authority, but it is not fully embedded in the administrative supervision and sanctioning system of capital market regulation. This condition creates a gap between Sharia legitimacy and regulatory enforceability.

The institutional arrangement among the Ministry of Finance, OJK, and DSN-MUI shows the same pattern. Each institution performs an important function, but their mandates remain separated. The

Ministry of Finance manages issuance and allocation, OJK supervises capital market and green finance requirements, while DSN-MUI provides Sharia authority. This division of authority creates multiple layers of legitimacy, but it does not automatically produce integrated governance. Green Sukuk requires a mechanism that allows these institutions to jointly assess whether a project is legally valid, environmentally credible, Sharia-compliant, and socially beneficial. Without such coordination, the framework remains formally strong but operationally fragmented. This critical reading suggests that the main problem of Indonesia's Green Sukuk governance is not the absence of regulation. The more pressing issue is the absence of an integrated verification and supervision mechanism. The current framework recognizes Green Sukuk as a legal, environmental, and Sharia-based instrument, but these dimensions are still assessed through separate institutional channels. A more effective framework would require a unified ESG-Sharia audit mechanism, clearer maqasid-based indicators, stronger coordination among institutions, and more systematic reporting of community development impact.

The fragmented character of this legal framework affects the way Sharia and environmental objectives are translated into Green Sukuk implementation. The next section examines whether maqasid al-shariah and environmental sustainability are treated as integrated standards or merely as parallel forms of compliance.

### **Sharia and Environmental Alignment in Green Sukuk Implementation**

The implementation of Green Sukuk in Indonesia demonstrates a tangible intersection between *Islamic ethical finance* and *environmental sustainability*. The Sharia foundation of these instruments emphasizes not only compliance with religious jurisprudence but also alignment with broader ecological stewardship. This integration reflects the operationalization of *Maqasid al-Shariah*-the higher objectives of Islamic law-as a guiding philosophy in sustainable financial governance.

#### ***Operationalization of Maqasid al-Shariah***

The role of maqasid al-shariah in Green Sukuk governance should not stop at providing ethical justification. Maqasid must also function as an operational standard for assessing whether a green project is legally credible, Sharia-compliant, environmentally measurable, and socially beneficial. A project cannot be considered fully aligned with Sharia merely because its financing contract avoids *riba*, *gharar*, and *maysir*. The project must also demonstrate that it protects life, preserves wealth, safeguards the environment, promotes public welfare, and distributes benefits fairly. This approach shifts maqasid from a normative doctrine into a practical audit framework.

A maqasid-based audit framework allows Green Sukuk verification to move beyond formal contract compliance. Sharia supervision should examine not only the validity of the sukuk structure, but also the substantive outcomes of the financed project. Environmental verification should also be connected to social welfare and distributive justice. This connection is necessary because Green Sukuk is designed to serve both sustainability objectives and Islamic legal values. The following table translates key maqasid principles into audit indicators that can be used in project screening, verification, monitoring, and impact reporting.

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**Table 3. Maqasid-Based Audit Indicators for Green Sukuk Verification**

Maqasid Principle	Legal Meaning in Green Sukuk Governance	Green Sukuk Audit Indicators	Possible Verification Evidence	Governance Relevance
Hifz al-nafs	Protection of life, health, and public safety	Reduction of flood risk, improved access to clean water, reduced exposure to pollution, safer public infrastructure, climate disaster mitigation	Environmental impact reports, disaster risk assessment, public health data, water access records, safety compliance reports	Ensures that Green Sukuk projects protect communities from ecological and climate-related harm
Hifz al-mal	Protection of wealth, assets, and economic sustainability	Transparent use of proceeds, efficient public spending, protection of public assets, long-term economic resilience, reduced financial loss from environmental damage	Allocation reports, audited financial statements, cost-benefit analysis, asset protection records, public expenditure reports	Prevents misuse of sukuk proceeds and strengthens accountability in public financing reports
Hifz al-bi'ah	Protection of the environment as part of Sharia-based stewardship	Emission reduction, renewable energy output, waste reduction, land conservation, water and air quality improvement, biodiversity protection	Carbon reduction data, renewable energy generation records, waste management reports, conservation reports, environmental quality measurements	Connects Sharia compliance with measurable environmental performance
Maslahah	Promotion of public benefit and community welfare	Direct benefits for local communities, improved access to basic services, job creation, inclusive infrastructure, long-term social benefit	Social impact assessment, beneficiary data, employment records, access-to-service indicators, community development reports	Measures whether Green Sukuk produces substantive welfare beyond formal project completion
'Adl	Justice, fairness, and equitable distribution of benefits	Fair distribution of project benefits, protection of vulnerable groups, inclusive access to project outcomes, avoidance of unequal environmental burdens	Distributional impact analysis, stakeholder consultation records, gender and vulnerable group data, grievance records	Ensures that Green Sukuk does not only produce green outcomes, but also just and inclusive outcomes

Source: data proceed

The table demonstrates that maqasid al-shariah can serve as a bridge between Sharia audit and environmental verification. Hifz al-nafs requires Green Sukuk projects to be assessed through their ability to reduce risks to human life and public safety. Flood control, clean water access, pollution reduction, and climate-resilient infrastructure are not only environmental goals. They also represent the legal protection

of life under *maqasid*. *Hifz al-mal* strengthens the financial accountability of Green Sukuk by requiring transparent allocation, efficient public spending, and protection of public assets. This principle is especially relevant because Green Sukuk uses public financing mechanisms that must be accountable to both investors and society.

*Hifz al-bi'ah* gives environmental preservation a direct Sharia basis. Emission reduction, renewable energy output, waste management, conservation, and improvements in air or water quality should be treated as part of Sharia compliance, not merely as technical environmental indicators. *Maslahah* expands the assessment by asking whether the project produces real benefits for communities. A Green Sukuk project should be evaluated through access to public services, local employment, social resilience, and long-term welfare outcomes. *'Adl* adds a distributive dimension by requiring that the benefits of Green Sukuk are not concentrated among certain groups while vulnerable communities bear environmental or social burdens.

This *maqasid*-based audit framework can improve Green Sukuk governance in three ways. It provides clearer indicators for Sharia authorities when reviewing green projects. It helps environmental verifiers connect ecological outcomes with social welfare. It gives regulators a stronger basis for requiring impact reports that measure not only physical outputs, but also community benefits. Green Sukuk will become more credible when *maqasid* is operationalized through audit indicators, verification evidence, and reporting standards, this approach also reduces the gap between formal Sharia approval and substantive sustainability performance.

### ***Mechanisms of Sharia Compliance***

The compliance mechanism begins at the *structuring phase*, where the Ministry of Finance collaborates with the DSN-MUI and OJK to certify that the Sukuk structure aligns with both fiscal policy and Sharia principles. The Fatwa No.117/2018 explicitly requires that proceeds from Green Sukuk be allocated only to environmentally sustainable projects validated under the Green Bond and Green Sukuk Framework (Ministry of Finance, 2018).

Sharia supervision is embedded in two layers:

1. Pre-issuance verification, where project eligibility and Sukuk structure are reviewed against *Sharia contracts* and environmental standards.
2. Post-issuance reporting, where annual impact reports disclose measurable environmental outcomes such as CO<sub>2</sub> reduction, energy efficiency gains, or sustainable infrastructure metrics.

This dual-layer supervision enhances transparency and investor trust, creating a moral-financial accountability loop consistent with Islamic ethical principles.

### ***Environmental Dimensions in Project Implementation***

Indonesia's Green Sukuk projects have predominantly targeted renewable energy, reforestation, waste-to-energy programs, and climate-resilient infrastructure. The allocation reports from the Ministry of Finance (2021–2023) indicate that approximately 38% of Green Sukuk proceeds were directed to *climate adaptation and mitigation projects*, while another 27% supported *sustainable transport and energy efficiency*.

Such projects align with the Islamic moral imperative of *ihsan* (doing good) toward nature and society. By channeling Sukuk proceeds into environmental programs, the state embodies the Sharia command to maintain ecological balance (*mizan*), as referenced in Qur'an 55:7–9. This reinforces the idea that environmental sustainability is not an external agenda but a core component of Islamic jurisprudence.

### ***Comparative Perspective: Lessons from Malaysia and GCC***

Comparatively, Malaysia's Green Sukuk framework demonstrates a more institutionalized integration between Sharia governance and environmental standards through the Securities Commission's *Sustainable and Responsible Investment (SRI) Sukuk Framework*. Similarly, GCC countries-particularly the UAE-embed *Sharia advisory boards* within financial institutions to continuously monitor compliance.

Indonesia's model, while robust at the regulatory level, still exhibits a *sequential rather than integrated* coordination. The Sharia evaluation process often occurs after environmental eligibility is determined by secular criteria. A more synchronized governance model-where Sharia experts and environmental assessors jointly evaluate project viability-could enhance coherence between ethical finance and sustainability outcomes.

### ***Analytical Interpretation***

The alignment between Sharia principles and environmental policy in Green Sukuk represents a significant step in transforming Islamic finance into a tool for *sustainable development governance*. Yet, it also reveals a conceptual gap: the existing legal instruments treat Sharia compliance and environmental performance as parallel validations rather than as interdependent ethical constructs. For Green Sukuk to fully embody *Maqasid al-Shariah*, environmental protection must be reinterpreted not merely as a policy goal but as an *act of worship and communal obligation (fard kifayah)*. Embedding this ethical dimension into regulatory and project assessment procedures could elevate Green Sukuk from being a "financial product with green attributes" into a "moral institution for ecological justice."

Indonesia's Green Sukuk serves as a pioneering case of how Islamic jurisprudence can harmonize with global sustainability frameworks. The country's experience underscores that achieving full *Sharia-environmental integration* requires not only compliance with formal legal structures but also an ethical reinterpretation of sustainability as part of divine stewardship. This evolving paradigm positions Green Sukuk not merely as a financial instrument but as an embodiment of Islamic environmental ethics in practice.

### ***Legal Gaps and Overlaps***

The legal gaps in Indonesia's Green Sukuk framework do not arise from the absence of regulation. Indonesia already has a statutory basis for sukuk issuance, green finance regulation, and Sharia guidance. The deeper problem lies in the way these legal instruments are distributed across different institutions without a unified mechanism for joint verification and supervision. Law No. 19 of 2008 gives the Ministry of Finance the authority to issue State Sharia Securities. OJK Regulation No. 60/POJK.04/2017 provides standards for green finance and environmental disclosure. DSN-MUI Fatwa No. 117/DSN-MUI/II/2018 gives religious legitimacy and Sharia guidance for Green Sukuk. These instruments support the same financing scheme, but they operate through different institutional mandates and different standards of validation.

Fragmentation persists because each institution evaluates Green Sukuk from a different legal perspective. The Ministry of Finance acts as issuer and fund manager, with a primary concern for fiscal financing, allocation of proceeds, and accountability to investors. OJK acts as capital market regulator, with emphasis on disclosure, green eligibility, and market supervision. DSN-MUI acts as Sharia authority, with focus on contract validity, avoidance of prohibited elements, and conformity with Islamic legal principles. These roles are individually important, yet they do not automatically produce an integrated governance process. A project can pass financial and environmental assessment without a detailed maqasid-based

evaluation, while Sharia approval can be granted without a full assessment of long-term community impact.

The difference in validation logic also creates a structural gap. OJK evaluates whether a project qualifies as green based on environmental criteria, use of proceeds, reporting, and verification. DSN-MUI evaluates whether the sukuk structure and the financed activity comply with Sharia principles. Environmental assessment tends to measure technical outcomes such as emission reduction, renewable energy output, energy efficiency, or waste management. Sharia assessment tends to focus on contract structure, asset permissibility, and compliance with Islamic finance rules. These two forms of assessment are related, but they are not yet combined into a single ESG-Sharia audit framework. As a result, environmental sustainability and Sharia compliance remain parallel standards rather than mutually reinforcing legal requirements.

The absence of a joint audit forum makes this fragmentation more difficult to resolve. Indonesia does not yet have a formal body or procedure that requires the Ministry of Finance, OJK, DSN-MUI, environmental authorities, and independent verifiers to conduct integrated assessment from project selection to post-issuance reporting. Project verification is still divided into separate channels. Green eligibility is assessed through environmental finance standards, Sharia compliance is assessed through religious-normative review, and community impact is reported mainly through allocation and impact reports. This separation weakens the ability of the legal framework to identify conflicts between environmental criteria, Sharia principles, and social welfare objectives at an early stage.

The legal status of the fatwa also creates an enforcement gap. DSN-MUI Fatwa No. 117/2018 has strong moral and religious authority because it defines the Sharia legitimacy of Green Sukuk. Its authority is essential for investor trust and Islamic legal validity. The fatwa does not always operate with the same administrative force as state regulation. Its implementation depends on recognition by regulators, adoption by issuers, and incorporation into supervisory mechanisms. When a Sharia requirement is not directly connected to administrative sanctions, the enforcement of maqasid-based obligations becomes weaker. This condition may reduce Sharia review to formal contract compliance rather than substantive assessment of environmental and social outcomes.

Fragmented supervision also creates legal risks. The first risk is normative inconsistency, where a project may be considered green under environmental standards but lacks clear evidence of maqasid-based public benefit. The second risk is jurisdictional overlap, where different institutions supervise related aspects of the same instrument without a clear mechanism for resolving conflicting assessments. The third risk is accountability gap, where no single institution is responsible for ensuring that Green Sukuk simultaneously satisfies legal validity, environmental credibility, Sharia compliance, and community development objectives. These risks can weaken the credibility of Green Sukuk as an integrated Islamic sustainable finance instrument.

The weakness is also visible in impact reporting. Current reporting practices tend to emphasize project allocation and physical outputs, such as funded sectors, infrastructure development, energy generation, emission reduction, or environmental project categories. These indicators are useful, but they do not fully capture maqasid-based and community-oriented outcomes. Green Sukuk reporting still needs stronger indicators on public welfare, benefit distribution, access to basic services, livelihood improvement, protection of vulnerable groups, grievance mechanisms, and long-term community resilience. Without these indicators, the social function of Green Sukuk remains difficult to verify, these gaps show that Indonesia's Green Sukuk framework is formally strong but institutionally fragmented. The main challenge is not to create entirely new legal foundations, but to connect existing instruments through an integrated verification and supervision mechanism. A more coherent framework would require a joint

ESG-Sharia audit process, maqasid-based impact indicators, clearer coordination among the Ministry of Finance, OJK, DSN-MUI, and environmental authorities, and reporting standards that measure both environmental outputs and community outcomes, such integration is necessary to ensure that Green Sukuk functions not only as a legally valid financing instrument, but also as a credible mechanism for sustainable Islamic finance and community development.

### **Comparative Analysis: Lessons from Other Jurisdictions**

Comparative analysis is useful not only to describe how other jurisdictions regulate Green Sukuk, but also to identify which institutional features can realistically strengthen Indonesia's legal framework. Malaysia and the United Arab Emirates offer two different models. Malaysia represents a regulatory integration model through its Sustainable and Responsible Investment Sukuk framework, while the United Arab Emirates represents a coordination-based model through multi-agency cooperation and Sharia advisory involvement. These models are relevant for Indonesia because its Green Sukuk framework already has strong legal foundations, but still lacks an integrated mechanism for ESG verification, Sharia audit, and community impact assessment.

### ***Malaysia: Regulatory Integration through the SRI Sukuk Framework***

Malaysia's Green Sukuk governance is often considered more effective because sustainability requirements and Sharia governance are placed within a more unified regulatory structure. The Sustainable and Responsible Investment Sukuk framework developed by the Securities Commission Malaysia does not treat environmental assessment and Sharia compliance as entirely separate processes. It requires issuers to demonstrate the sustainability purpose of the sukuk while maintaining compliance with Sharia principles. This structure reduces the risk of audit duplication and strengthens the credibility of Green Sukuk because project eligibility, use of proceeds, disclosure, and Sharia review are connected within one regulatory environment.

The most relevant lesson for Indonesia is the need to develop an integrated ESG-Sharia audit guideline. Indonesia already has Law No. 19 of 2008, OJK Regulation No. 60/2017, and DSN-MUI Fatwa No. 117/2018, but these instruments still operate through different institutional channels. Malaysia shows that Green Sukuk governance becomes stronger when sustainability criteria and Sharia requirements are assessed in a coordinated manner. Indonesia could adapt this lesson by formulating a joint technical guideline that connects green project eligibility, maqasid-based indicators, Sharia audit, and social impact reporting.

The Malaysian model cannot be transferred mechanically because Indonesia has a different institutional structure. Malaysia's Securities Commission has a more centralized role in Islamic capital market regulation, while Indonesia's Green Sukuk governance involves separate authorities such as the Ministry of Finance, OJK, and DSN-MUI. DSN-MUI also does not have the same institutional position as the Securities Commission Malaysia. This means that Indonesia cannot simply copy Malaysia's centralized model. The more realistic option is to adopt the logic of integration by creating a coordinated ESG-Sharia verification mechanism among existing institutions.

### ***United Arab Emirates: Multi-Agency Coordination and Sharia Advisory Governance***

The United Arab Emirates offers a different lesson. Its strength lies not only in the existence of sustainable finance policies, but also in coordination among financial regulators, Sharia advisory institutions, and sustainability-related authorities. The UAE model shows that Green Sukuk governance can be strengthened through inter-institutional cooperation, especially when Islamic finance is linked to

broader national strategies on sustainable finance and climate policy. Sharia advisory involvement also helps ensure that sustainable finance instruments remain aligned with Islamic legal principles while meeting investor expectations for transparency and accountability.

The relevance for Indonesia lies in the possibility of establishing a joint committee for Green Sukuk governance. Such a committee could involve the Ministry of Finance, OJK, DSN-MUI, and the Ministry of Environment and Forestry. Its function would be to coordinate project screening, ESG-Sharia verification, impact reporting, and conflict resolution when environmental standards and Sharia assessments produce different conclusions. This type of coordination would reduce institutional fragmentation and create a clearer pathway from issuance approval to post-issuance monitoring.

The UAE model also has limits when applied to Indonesia. Indonesia's legal system gives different forms of authority to state regulations, OJK rules, and DSN-MUI fatwas. Fatwas carry strong religious and normative authority, but they require regulatory recognition to become fully effective within administrative supervision. The UAE experience can inspire Indonesia to strengthen Sharia advisory coordination, but the mechanism must be adapted to Indonesia's constitutional, regulatory, and institutional framework. A joint committee in Indonesia should not replace the mandates of existing institutions, it should connect them through shared verification standards and coordinated reporting obligations.

### **Implications for Indonesia's Green Sukuk Governance**

The comparison shows that Malaysia and the United Arab Emirates offer different but complementary lessons. Malaysia demonstrates the importance of regulatory integration, while the United Arab Emirates demonstrates the importance of institutional coordination. Indonesia needs both elements. Regulatory integration is needed to connect environmental criteria, maqasid-based Sharia assessment, and social impact indicators. Institutional coordination is needed to ensure that the Ministry of Finance, OJK, DSN-MUI, and environmental authorities do not work in parallel without a shared verification framework.

The most realistic reform for Indonesia is not to import one foreign model as a whole. Indonesia should develop its own integrated Green Sukuk governance model based on its plural legal structure. This model could take the form of an ESG-Sharia technical guideline supported by a cross-institutional coordination forum. The guideline would define eligible green projects, maqasid-based audit indicators, verification evidence, reporting standards, and community impact measures. The coordination forum would ensure that legal, environmental, and Sharia assessments are conducted through a coherent process. This comparative analysis strengthens the argument that Indonesia's main problem is not the absence of legal foundations. The deeper problem is the lack of integration among existing legal and institutional mechanisms. Malaysia and the United Arab Emirates show that Green Sukuk governance becomes more effective when Sharia compliance, environmental accountability, and institutional supervision are connected from the beginning of the issuance process to the final stage of impact reporting.

The comparison confirms that Indonesia should not rely only on formal legal instruments. The Malaysian experience highlights the need for integrated standards, while the UAE experience highlights the need for coordinated institutions. Indonesia can combine these lessons by developing an ESG-Sharia audit guideline supported by a joint institutional mechanism. Such a model would allow Green Sukuk projects to be assessed through environmental performance, Sharia compliance, maqasid-based welfare indicators, and community development outcomes in one connected governance process.

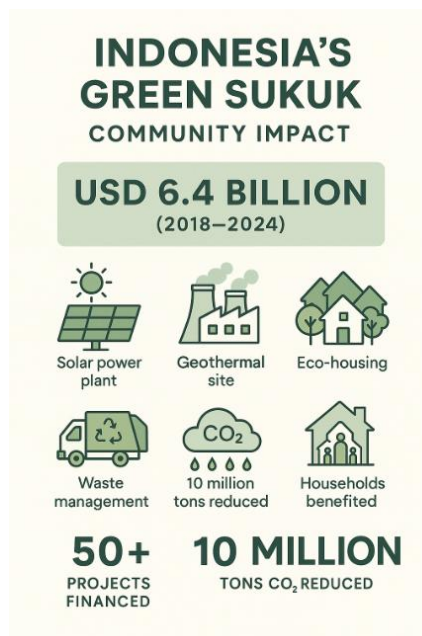
**Table 4. Comparative Lessons for Indonesia’s Green Sukuk Governance**

Jurisdiction	Main Strength	Legal Lesson for Indonesia	Limitation of Transfer
Malaysia	Unified regulatory approach through the SRI Sukuk Framework and stronger integration between sustainability requirements and Sharia governance	Indonesia can develop an integrated ESG-Sharia audit guideline that connects green project eligibility, maqasid indicators, Sharia review, and impact reporting	Indonesia has a more plural institutional structure because the Ministry of Finance, OJK, and DSN-MUI hold separate mandates
United Arab Emirates	Multi-agency coordination and stronger Sharia advisory involvement in sustainable finance	Indonesia can establish a joint committee involving the Ministry of Finance, OJK, DSN-MUI, and environmental authorities	The model must be adjusted to Indonesia’s legal system because DSN-MUI fatwas require regulatory recognition for stronger administrative enforceability

Source: data proceed

**Community Development Impact**

Green Sukuk, a sharia-compliant financing instrument that supports the national sustainability agenda, has had a tangible impact on community development and environmental preservation. Since its first issuance by the Indonesian government in 2018, Green Sukuk funds have been allocated to support green projects with high social and ecological value. This approach focuses not only on profitability but also strengthens the maqasid sharia in terms of *hifz al-bi'ah* (environmental preservation) and *hifz al-nafs* (protection of life).



**Figure 3. Community Impact**

Source: data proceed

According to the annual Green Sukuk report published by the Ministry of Finance, the projects financed include renewable energy, water resources management, energy efficiency, waste management, and environmentally friendly housing development, this multi-sectoral approach demonstrates that

Green Sukuk serves as a catalyst in accelerating the transition to a green and inclusive economy. From a community development perspective, the primary benefits of Green Sukuk are seen in the creation of new jobs in the clean energy sector, increased access to electricity in remote areas, and a reduction in carbon emissions nationally, and this data demonstrates that the application of Islamic financial principles can directly contribute to the Sustainable Development Goals (SDGs), particularly goals 7 (affordable and clean energy) and 13 (addressing climate change).

**Table 5. Summary of Green Sukuk Projects and Their Community Impact**

Sector	Type of Project	Examples	Social and Environmental Impact
Renewable Energy	Solar Power Plants, Geothermal Development	Cirata Floating Solar, Ulubelu Geothermal	Increase access to clean energy, reduce fossil dependency
Energy Efficiency	Government Building Retrofit	Energy-saving LED installations in ministries	Reduced electricity consumption and public cost efficiency
Waste Management	Solid Waste Treatment & Landfill Gas Recovery	Waste-to-Energy in Surabaya	Reduce greenhouse gas emissions and improve sanitation
Water Resources	Irrigation and Flood Control	Ciliwung River Basin Improvement	Strengthen disaster resilience and water access
Eco-Housing	Green Public Housing Initiatives	Eco-friendly housing in West Java	Enhance livability and energy efficiency for low-income groups

Source: data proceed

The analysis shows that Green Sukuk projects not only aim to preserve the environment but also foster sustainable social value, this implementation model demonstrates the alignment between the maqasid sharia and the principles of sustainable development, but a more integrated social monitoring and environmental audit mechanism is still needed to allow for longitudinal measurement of impact. The government's approach demonstrates a systematic effort to build an impact-oriented Islamic finance ecosystem. These results confirm that Green Sukuk has the potential to be a strategic instrument in balancing economic growth, social justice, and environmental sustainability.

### Discussion

The research findings indicate that Indonesia's Green Sukuk legal framework reflects a serious effort to integrate Sharia principles with the sustainable development agenda. Regulations such as Law No. 19 of 2008 on *State Sharia Securities (SBSN)*, OJK Regulation No. 60/2017 on the Issuance and Requirements of *Green Bonds and Green Sukuk*, and DSN-MUI Fatwa No. 117/2018 have collectively established a solid legal foundation. Analysis of the regulatory content and its implementation reveals that the integration between environmental principles and Sharia compliance remains only partially harmonized. Oversight processes are still administrative and operate in parallel, with no unified audit mechanism combining environmental criteria and Sharia compliance (Ezzuddin, 2024). This creates a substantive gap between positive legal norms and the maqasid al-shariah principles that serve as the philosophical foundation of Islamic finance.

From the perspective of maqasid al-shariah theory, as articulated by *Al-Ghazali* and later expanded by (Adzimatinur et al., 2024), the objectives of Islamic law encompass the protection of religion, life, intellect, lineage, and property, and in the modern context extend to environmental preservation (*hifz al-bi'ah*). This principle directly aligns with the goals of sustainable development, balancing moral, social, and ecological dimensions. (Mohd Zain et al., 2024) emphasize that Islamic finance can serve as the driving

force of ethical finance when *maqasid* principles are embedded in regulatory design. The present study supports this view: Indonesia's Green Sukuk framework normatively embodies the spirit of sustainability, yet its implementation still emphasizes formal regulatory compliance rather than the substantive realization of *maqasid* values within green project execution.

The Integrated Sharia-Environmental Governance Model is designed to address the fragmented supervision of Green Sukuk in Indonesia. The model does not merely place legal authorities, Sharia supervisory bodies, and community development mechanisms in separate layers. It arranges them into a coordinated workflow that links project selection, Sharia-environmental verification, issuance approval, post-issuance monitoring, community feedback, and conflict resolution. This structure is intended to ensure that Green Sukuk projects are not only legally valid and environmentally eligible, but also Sharia-compliant and socially beneficial.

The model begins with project screening by the Ministry of Finance and OJK. At this stage, proposed projects are assessed against eligible green project categories, fiscal priorities, and sustainable finance requirements. Projects that pass the initial screening move to a joint Sharia-environmental assessment involving DSN-MUI, OJK, and independent environmental verifiers. This joint assessment is important because Green Sukuk requires two forms of legitimacy at the same time: environmental credibility and Sharia validity. A project should not be approved only because it meets green criteria. It must also be assessed through *maqasid al-shariah* to determine whether it protects life, preserves wealth, safeguards the environment, and promotes public benefit.

The core instrument of this model is the *Maqasid-ESG Audit Matrix*. This matrix connects ESG indicators with *maqasid* principles such as *hifz al-nafs*, *hifz al-mal*, *hifz al-bi'ah*, *maslahah*, and *'adl*. Environmental indicators may include emission reduction, renewable energy output, waste reduction, water quality, and climate resilience. Sharia-based indicators may include welfare protection, fair distribution of benefits, avoidance of harm, transparency of fund allocation, and community benefit. By combining these indicators, the audit process can evaluate whether a Green Sukuk project satisfies both sustainability standards and Islamic legal objectives.

Issuance approval should be granted only after the project satisfies both standards. The Ministry of Finance may proceed with issuance when the project has passed green eligibility screening, Sharia assessment, and *maqasid*-based impact review. After issuance, monitoring must continue through annual Green Sukuk Allocation and Impact Reports. These reports should not be limited to financial allocation and physical project outputs. They should also include environmental results, Sharia compliance updates, *maqasid*-based indicators, and social impact data. This approach would strengthen public accountability and make the reporting system more responsive to the objectives of sustainable Islamic finance.

The community development mechanism forms the feedback layer of the model. Social impact assessment, grievance mechanisms, and SDG-based impact reporting should be integrated into the monitoring process. Communities affected by or benefiting from Green Sukuk projects should have a channel to report problems, evaluate project benefits, and provide feedback on social outcomes. This feedback is important because *maqasid al-shariah* cannot be measured only through regulatory documents or technical reports. It must also be reflected in the lived impact of projects on community welfare, access to services, livelihood improvement, and protection from environmental harm.

The model also requires a conflict resolution mechanism. Differences may arise between environmental verifiers and Sharia authorities. A project may be considered environmentally eligible but questioned from a *maqasid* perspective because its benefits are unevenly distributed or its social risks are not properly addressed. A project may also be Sharia-compliant in contractual form but weak in environmental impact. When such differences occur, a joint review forum involving the Ministry of

Finance, OJK, DSN-MUI, environmental authorities, and independent experts should be used to reconcile the assessment. The forum should determine whether the project needs revision, additional safeguards, stronger reporting obligations, or rejection from the Green Sukuk portfolio.

Malaysia's Securities Commission applies integrated *Sukuk Guidelines* that unify environmental and Sharia audit criteria under one regulatory system. Similarly, the United Arab Emirates (UAE), through the *Dubai Green Finance Strategy*, established a joint supervisory committee between regulators and national Sharia boards to ensure dual compliance with Sharia and environmental sustainability standards (Balative et al., 2025; Kunhibava et al., 2024; Seth & Pathan, 2025).

Based on these findings, this study proposes an Integrated Sharia-Environmental Governance Model to address legal and institutional fragmentation. The model establishes three coordination layers: (1) Legal authorities (OJK and the Ministry of Finance) as primary regulators and supervisors; (2) Sharia boards (DSN-MUI and Sharia Supervisory Boards) as guardians of *maqasid* values, and (3) Community development mechanisms as the linkage between macro-level policy and micro-level social impacts.

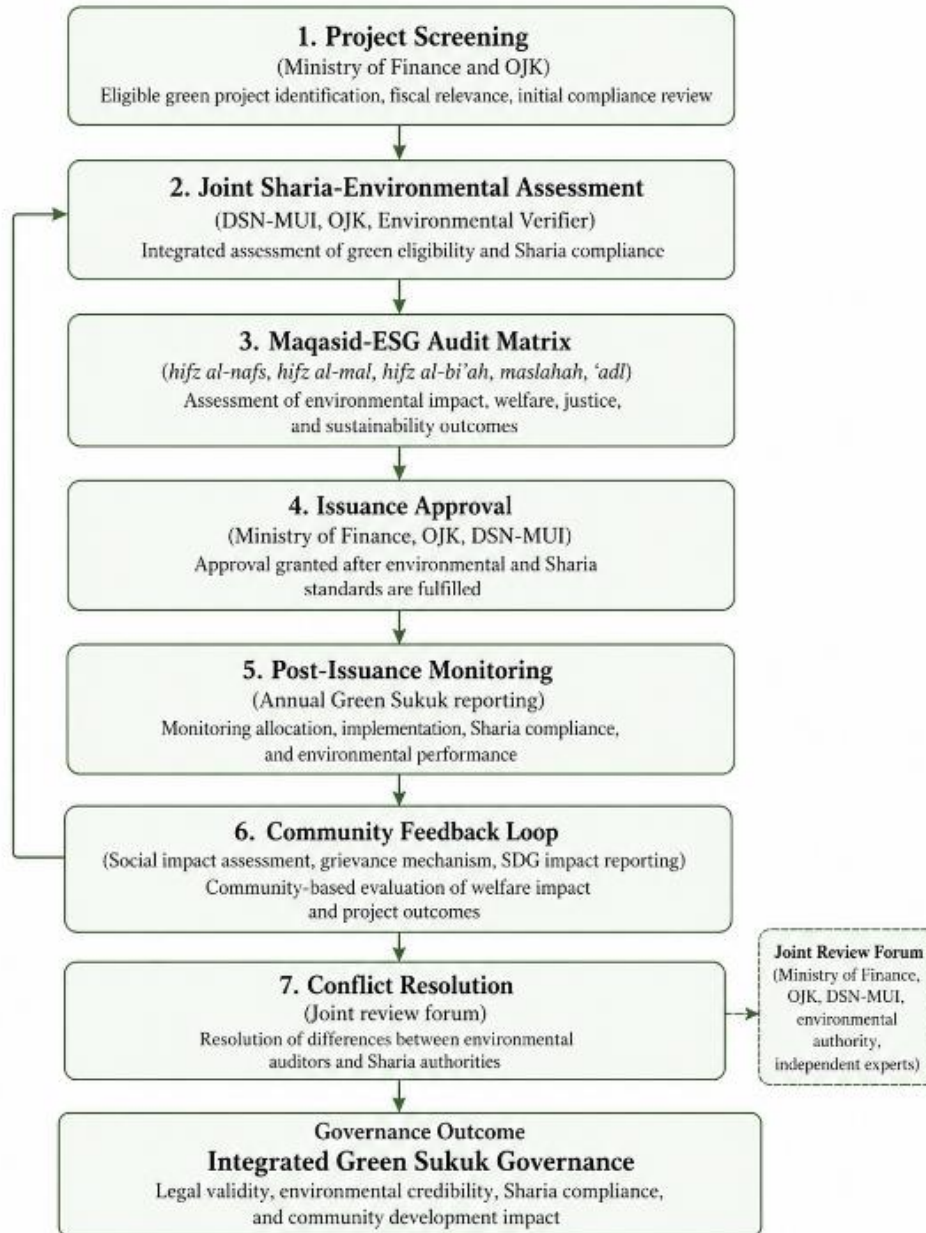
Vertical and horizontal coordination among these layers becomes the key to achieving functional legal integration. The proposed model functions not merely as an administrative framework but as an ethical governance system that unites the logic of finance, law, and public welfare (*maslahah*). This model's structure is built on three main layers:

1. Legal Authority Layer - involving the Financial Services Authority (OJK) and the Ministry of Finance as the primary regulators, overseeing the issuance, supervision, and reporting of Green Sukuk.
2. Sharia Supervisory Layer - represented by the National Sharia Council (DSN-MUI) and the Sharia Supervisory Board (DPS) at financial institutions, which plays a role in conducting ex-ante and ex-post audits of Sharia and Maqasid compliance.
3. Community Development Mechanism - encompassing project implementing agencies, beneficiary communities, and independent audit institutions that assess the social and environmental impacts of each funded project.

Figure 4 presents the Integrated Sharia-Environmental Governance Model as an operational framework for Green Sukuk governance in Indonesia. The model shows that Green Sukuk supervision should proceed through a sequential process, beginning with project screening and continuing through joint Sharia-environmental assessment, maqasid-ESG auditing, issuance approval, post-issuance monitoring, and community-based evaluation. This sequence is important because Green Sukuk cannot be treated only as a financing instrument. It must also be assessed as a legal, environmental, and Sharia-based governance mechanism.

The figure also emphasizes that effective Green Sukuk governance depends on institutional coordination. The Ministry of Finance and OJK play a central role in project screening and issuance, while DSN-MUI and environmental verifiers contribute to the assessment of Sharia compliance and environmental credibility. The Maqasid-ESG Audit Matrix functions as the core evaluative instrument by connecting welfare, justice, and ecological protection with measurable ESG outcomes. Post-issuance monitoring and the community feedback loop ensure that the assessment does not stop at formal approval, but extends to the actual social and environmental effects of the financed projects. The conflict resolution component strengthens the model by addressing the possibility of divergent assessments between Sharia authorities and environmental auditors. Through a joint review forum, differences in legal interpretation, sustainability standards, or impact evaluation can be resolved within a coordinated framework. Taken together, the model demonstrates that Green Sukuk governance becomes more

credible when legal validity, environmental accountability, Sharia supervision, and community development impact are integrated into one continuous process.



**Figure 4. Integrated Sharia-Environmental Governance Model**

From the perspective of the legal pluralism theory analyzed previously, the interaction between national law, sharia law, and environmental norms illustrates a dynamic form of legal plurality. (Sakdiyah, 2025; Thomas, 2025) emphasized that legal pluralism is not simply the existence of different legal systems, but rather a process of interaction between systems that creates a new order. The implementation of Green Sukuk in Indonesia demonstrates this process concretely-state law and Islamic law are adapting to meet the challenges of a globalized green economy. For this integration to function effectively, a harmonization of norms is required that connects the maqasid of sharia with environmental principles through concrete legal instruments, such as integrated audit guidelines or cross-institutional committees.

This discussion confirms that Green Sukuk is not merely a fiscal innovation but also represents a new legal paradigm: law that acts as a means of social engineering toward ecological and social justice. The integration of maqasid of sharia and environmental law will strengthen Indonesia's position as a pioneer in sharia-compliant green finance globally, while expanding Islamic law's contribution to the global sustainability agenda.

## **CONCLUSION**

This study concludes that Indonesia's Green Sukuk framework has a strong legal foundation, but its governance remains only partially integrated. Law No. 19 of 2008 on State Sharia Securities provides the statutory basis for sukuk issuance, OJK Regulation No. 60/POJK.04/2017 strengthens the environmental finance dimension, and DSN-MUI Fatwa No. 117/DSN-MUI/II/2018 provides Sharia legitimacy for Green Sukuk. These instruments show that Indonesia has established the main legal components for Sharia-compliant green finance. The problem lies in the limited integration among ESG verification, Sharia audit, and community impact assessment. Environmental eligibility, Sharia compliance, and social benefit reporting still tend to operate through separate institutional channels, which reduces the ability of Green Sukuk to function as a fully integrated instrument of sustainable Islamic finance.

This article contributes to Islamic financial law by examining Green Sukuk through the combined lens of legal pluralism, Maqasid al-Shariah, and governance theory. Legal pluralism helps explain the interaction between state law, Sharia norms, and environmental standards within one financial instrument. Maqasid al-Shariah provides a substantive basis for assessing whether Green Sukuk protects life, preserves wealth, safeguards the environment, promotes public welfare, and distributes benefits fairly. Governance theory clarifies why institutional coordination is necessary to translate these norms into effective legal practice. Through this theoretical combination, the study moves the discussion of Green Sukuk beyond formal legality and financial performance toward a broader analysis of normative integration, institutional accountability, and socio-environmental outcomes.

The legal implication of this study is that Indonesia needs a more integrated Green Sukuk governance mechanism. A unified ESG-Sharia audit guideline should be developed to connect green project eligibility, Sharia compliance, maqasid-based indicators, and community development reporting. Coordination among OJK, the Ministry of Finance, DSN-MUI, and the Ministry of Environment and Forestry should also be strengthened through a joint assessment or review mechanism. Such coordination would allow Green Sukuk projects to be evaluated not only through issuance legality and environmental classification, but also through their contribution to welfare, ecological protection, and distributive justice. The Maqasid-ESG Audit Matrix proposed in this study may serve as a practical tool for linking Sharia principles with measurable sustainability indicators.

This study has limitations because it is based on normative doctrinal analysis and relies on legal texts, fatwas, policy documents, institutional reports, and comparative legal materials. It does not include field-based empirical data from regulators, investors, Sharia auditors, environmental verifiers, project implementers, or affected communities. Future research should examine how Green Sukuk governance operates in practice through interviews, case studies, and empirical assessment of funded projects. Further comparative legal research may also explore how Indonesia can adapt elements from Malaysia, the United Arab Emirates, and other jurisdictions without disregarding its own plural legal and institutional structure. Such research would strengthen understanding of how Green Sukuk can become a more accountable instrument for sustainable finance, Islamic legal development, and community-oriented environmental governance.

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