

Assessing the Alignment of Indonesia's Green Sukuk with Maqasid Al-Shariah and ESG Principles

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ABSTRACT

Introduction: This study examines Indonesia's sovereign green sukuk issued between 2018 and 2023, focusing on their alignment with *Maqasid al-Shariah* and Environmental, Social, and Governance (ESG) principles. As the first sovereign issuer of green sukuk, Indonesia provides a unique case to explore the intersection between Islamic ethical finance and global sustainability frameworks.

Methodology: The research adopts a qualitative case study approach using secondary data, including Ministry of Finance allocation and impact reports, Shariah fatwas, sukuk frameworks, and third-party sustainability reviews. A hybrid analytical framework was applied, integrating *Maqasid al-Shariah*, ESG indicators, the Quadruple Bottom Line (QBL), and Sustainable Development Goals (SDGs).

Results: The findings reveal that Indonesia's green sukuk substantially align with Islamic ethical values and sustainability targets. Projects financed through these sukuk avoided an estimated 12.2 million tons of CO₂-equivalent emissions, added more than 15 MW of renewable energy capacity, and restored over 10,000 hectares of degraded land. Socially, the sukuk program benefited approximately 4.2 million people through access to clean water, disaster-resilient facilities, and sustainable transport. Governance mechanisms such as annual reporting and Second Party Opinions ensure transparency, while spiritual compliance is maintained through continuous supervision by DSN-MUI.

Conclusion: Indonesia's sovereign green sukuk demonstrate the potential of Shariah-compliant instruments in advancing climate finance. However, challenges remain in addressing regional equity, enhancing participatory governance, and integrating long-term spiritual and social indicators. Strengthening these aspects could position Indonesian green sukuk as a global model for Islamic sustainable finance.

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INTRODUCTION

The global community is facing the crisis of climate that has never been witnessed before, and the warming of the planet, the loss of biodiversity and the growth of extreme weather patterns are threatening the financial well-being and life of individuals (IPCC, 2023). The solution to this crisis should include new financial instruments that will be able to mobilize a vast amount of capital and not only make investments environmentally sustainable, socially responsible, and ethically acceptable. Traditional climate finance has been advancing with the help of green bonds, but in Muslim-majority settings, there is an increased demand to harmonize sustainability goals with Islamic moral and legal principles (UNEP, 2020; World Bank, 2021).

The fast-growing climate crisis requires that financial tools be used that not only can mobilize large resources but also comply with ethical and sustainable principles. Islamic finance is based on moral foundations of the Shariah law and can provide a strong platform upon which climate finance can be based since it incorporates ethical principles in any transactions that involve money (Al-Ghazali, 1997; Ibn Ashur, 2006). Green sukuk, Shariah-compliant bonds with the proceeds allocated to the financing of environmentally sustainable projects, have become one of the strategic solutions to finance green infrastructure and still remain committed to Islamic ethical values (Shaikh et al., 2020; Alam et al., 2022).

Then in 2018, Indonesia became the first sovereign issuer of a green sukuk and established a precedent of integrating Islamic finance and green sustainability (Ministry of Finance, 2022). The 2019 to 2023 issuance mobilized over USD 5 billion to fund renewable energy projects, disaster risk mitigation, sustainable transport and reforestation. These efforts are also in line with the commitments of Indonesia in the Paris Agreement, its Nationally Determined Contributions (NDCs), and Sustainable Development Goals (SDGs), especially SDG 7 (Affordable and Clean Energy), SDG 11 (Sustainable Cities), and SDG 13 (Climate Action) (UNFCCC, 2021; MOF, 2023).

Although it is well known that the green sukuk issued by Indonesia is transparent and environmentally oriented (CICERO, 2022), little information is available on how they meet the ethical and spiritual requirements of Islamic finance, specifically, Maqasid al-Shariah (higher objectives of Islamic law). Classical thinkers such as Al-Ghazali and Ibn Ashur emphasize that Maqasid is to safeguard religion (din), life (nafs), intellect (aql), progeny (nasl) and wealth (mal) that may be expanded to justice (adl) and mercy (rahmah) and the interest of the community (maslahah) (Lahsasna, 2018; Dusuki & Bouheraoua, 2011). With regard to sustainable finance, these goals demand that investments not only foster economic gains, but also long-term social, environmental and ethical prosperity (Ahmed, 2011).

Environmental, Social, and Governance (ESG) framework, which is currently an international standard of non-financial performance, provides quantifiable measures of environmental responsibility, social inclusion, and transparency of governance (Hassan et al., 2021). Though the ESG principles resonate with the Islamic beliefs of stewardship (khalifah), trust (amanah), and risk-sharing (musharakah) (Habib & Mirakhor, 2020), they do not mention the spiritual or metaphysical side of things. This deficiency indicates that hybrid evaluation systems that integrate ESG criteria and the

Islamic ethical approach are needed (Abdullah & Chew, 2022; Munir & Khadijah, 2023).

Sustainable Development Goals (SDGs) also offer a holistic developmental model that resonates with most of the Islamic teachings, such as poverty eradication, environmental conservation, and social justice (Alam et al., 2022). Nevertheless, the current literature hardly looks at the idea that SDG-related Islamic finance instruments, like green sukuk, are a true Maqasid alignment or just instrumental compliance (Ascarya & Yumanita, 2020; Mohieldin et al., 2021).

These include the Quadruple Bottom Line (QBL) which extends the Triple Bottom Line (People, Planet, Profit) to the fourth dimension, Prophet, the spiritual integrity and moral purpose (Mohammed et al., 2022). When the QBL is applied to the green sukuk evaluation, the financial success and impact on the environment are not only measured; the ethical intention (*niyyah*), distributive justice, and the intergenerational responsibility are also considered as they are stressed in the Islamic thinking.

In spite of such theoretical synergies, little empirical evidence appraises the sovereign green sukuk of Indonesia within an integrated Maqasid-ESG-SDG-QBL framework. The majority of assessments are limited to compliance with ESG (CICERO, 2022) or consider Shariah compliance as a binary legal situation without looking at its substantive ethical consequences (Thompson & McKenzie, 2023). This leaves a loophole on how Islamic ethical purposes can improve the governance, transparency, and social contribution of green sukuk. This study addresses this gap by applying a hybrid evaluation framework that combines Maqasid al-Shariah, ESG principles, SDG benchmarks, and QBL dimensions to Indonesia's sovereign green sukuk issued between 2018 and 2023. In line with the objectives above, the study addresses the following research questions:

- RQ 1. To what extent do Indonesia's sovereign green sukuk align with Maqasid al-Shariah and ESG principles?
- RQ 2. How can Islamic ethical values including spiritual accountability and intergenerational justice enhance the performance of green sukuk?
- RQ 3. What are the challenges and opportunities in applying an integrated Islamic-ESG framework to green sukuk evaluation?

METHODOLOGY, DATA, AND ANALYSIS

Research design

In this study, a qualitative case study design is used to evaluate the ethical and environmental compatibility of the sovereign green sukuk of Indonesia with the Islamic and global sustainability standards. The case study method can be appropriate to study modern phenomena in real-life settings, particularly when the object and the environment are complicated and porous (Yin, 2018). The Indonesian green sukuk is a peculiar example because it is both Shariah-compliant and promotes the global climate agenda in the form of the Sustainable Development Goals (SDGs).

Data sources

The proposed research is based on secondary data only, and it is appropriate to conduct a case-

based analysis of sovereign green sukuk. The information is based on the wide range of documents, such as official reports, regulatory guidelines, sustainability disclosures, fatwas, and academic literature. The sources enable the sukuk program to be considered in several aspects, both technical and ethical. **Table 1** presents an overview of the main data sources, their origins and purposes and provides triangulation of information to guarantee reliability of the findings. The study investigated the issue of how to recruit the best candidates in a timely and cost-effective manner (Alam et al., 2016).

Table 1. Overview of Key Data Sources

Source Type	Document Title / Dataset	Organization	Purpose
Primary Report	Green Sukuk Allocation & Impact Reports (2018–2023)	Ministry of Finance, Indonesia	Project data, fund allocation, impact indicators
Shariah Compliance	Fatwa DSN-MUI No. 110/DSN-MUI/IX/2017 on Green Sukuk	DSN-MUI (National Shariah Board)	Legal and ethical Shariah compliance
Sustainability Framework	Green Bond Principles	ICMA	ESG standards and reporting structure
Evaluation Framework	Climate Bonds Taxonomy & SDG Mapping Reports	Climate Bonds Initiative, UNDP	Green eligibility and SDG alignment
Academic Literature	Journal articles, books, working papers	Hamidi, Ascarya, Roncalli, et al.	Conceptual support (QBL, Maqasid, ESG critique)
Policy Reports	Islamic Green Finance Policy Briefs	UNDP, IsDB, UNESCAP	Broader context, regulatory comparison

Data triangulation is ensured by cross-verifying impact indicators, such as emissions reduction or renewable capacity added, with reports by third-party reviewers and independent global databases (e.g., IEA, World Bank's SDG dashboard).

Analytical framework

In order to assess the ethical and environmental impact of the sovereign green sukuk program in Indonesia (2018–2023), this paper uses a dual analytical framework that integrates both the conventional and Islamic models of sustainability. This strategy respects the fact that even though ESG and SDG models provide superior quantitative measurement, Islamic finance adds ethical and spiritual components to the equation, which also have to be taken into account, especially in the case of such instruments as sukuk.

The framework incorporates four lenses, which are interconnected, namely Environmental, Social, and Governance (ESG), Sustainable Development Goals (SDGs), Maqasid al-Shariah, and the Quadruple Bottom Line (QBL). These collectively offer an all-inclusive ethical and sustainability assessment. **Table 2** is the summary of the hybrid evaluation matrix utilized in the research and connects each dimension to definite indicators, sources of data and their Islamic ethical applicability. This matrix was used as the coding guide in qualitative analysis and ensured consistency in the

environmental, social, governance and spiritual aspects. This **Figure 1** illustrates the core evaluation structure applied in this study, integrating secular (ESG/SDGs) and Islamic (Maqasid/QBL) frameworks to assess four impact dimensions: environmental, social, financial, and spiritual.

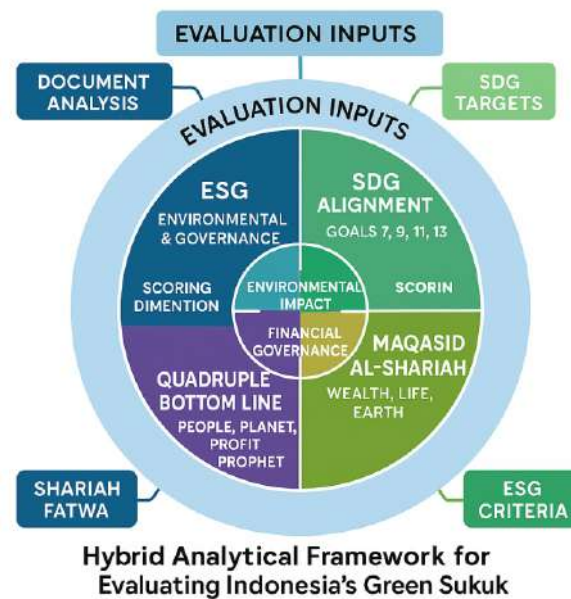


Figure1. Author's elaboration based on ICMA, UNDP, Hamidi & Worthington (2021), and DSN-MUI guidelines

Table 2. Hybrid Evaluation Matrix

Dimension	Indicators Used	Source	Islamic Link
Environmental	CO ₂ avoided, hectares reforested, renewable MW installed	MoF Reports, UNDP, IEA	Maqasid: Protection of life/environment
Social	Households benefited, disaster resilience, infrastructure	MoF, UNDP, SDG dashboards	Maqasid: Protection of lineage/wealth
Governance	Allocation transparency, reporting quality, SPOs	MoF, ICMA, CBI	Islamic ethics: <i>Amanah</i> , <i>Adl</i>
Spiritual (Prophet)	Fatwa process, contract structure, Maqasid fulfillment	DSN-MUI, AAOIFI, academic literature	QBL: Prophet dimension

Coding and matrix analysis

The qualitative content analysis was based on the structured method developed by Mayring (2014) and thus adjusted to the evaluation of financial sustainability:

Step 1: Code development

- A pre-determined codebook was developed on the basis of the four framework dimensions (Environmental, Social, Governance, Spiritual).
- Subcodes were established within each dimension (e.g. under Environmental: CO₂ avoided, hectares reforested, renewable MW installed).

- Additional emergent codes were permitted in case new themes emerged in the review of the documents (e.g., regional equity, ethical audit gaps).

Step 2: Document coding

- All documents were read in full and coded manually in Excel.
- Each segment of text or reported indicator was tagged with one or more codes.
- Example: “12.2 million tons CO₂ avoided” was coded under *Environmental – Emissions Reduction* and *Maqasid – Protection of Life*.

Step 3: Matrix construction

- An Excel matrix was created where rows represent sukuk issuances (2018–2023) and columns represent indicators from all four frameworks.
- Each cell contains both quantitative values (if available) and qualitative notes.
- Indicators were compared across years to detect trends and gaps.

Step 4: Indicator weighting

- No statistical weighting was done, rather frequency and depth of coverage was used as relative importance measures.
- The indicators of the environment were more pronounced in the evaluation of climate impact and governance and spiritual indicators were evaluated in qualitative detail.

Supplementary materials for transparency

In order to be transparent and reproducible, supplementary materials are attached in the appendix, such as the codebook, a sample coded document, the analytical workflow chart, and the summary evaluation matrix of all four analytical dimensions, the environmental, social, governance, and spiritual, in line with the Maqasid al-Shariah, ESG, SDG, and QBL frameworks.

Limitations

The research has a number of limitations. To begin with, it can only be based on secondary data which might not give a complete picture of the decision-making process or the unreported project level issues. Second, this study relies on a single-country case study, which restricts the transferability of the results to other situations; nevertheless, the Indonesian case provides useful information because of its leading position in Islamic green finance. Third, researcher interpretation can limit the qualitative design in thematic coding, but credibility was achieved by triangulating data and by using a framework to perform analysis. The future studies can be improved by primary data, cross-country analysis, or quantitative analysis of sukuk performance over the years.

Case background: indonesia's green sukuk (2018-2023)

Indonesia has become a global leader in Islamic sustainable financing especially with the

issuance of its sovereign green sukuk. Issued in 2018, it became the inaugural green sukuk by a sovereign government and a landmark on the way to the intersection of Shariah-compliant finance and environmental sustainability. The green sukuk program is an initiative of the Indonesian government as a larger commitment to the targets of the Paris Agreement and ensuring that its fiscal policies are consistent with the Sustainable Development Goals (SDGs).

In 2018 and 2023, Indonesia has issued a number of international and domestic green sukuk to both international and retail investors. They were issued in accordance with the CICERO-certified Green Sukuk Framework and in line with the Sustainable Development Goals. **Table 3** provides a summary of the key characteristics of these issuances such as size, tenor, investor demand, and projects that have been financed. This table demonstrates the regularity of the rate of oversubscription and variety of funded projects including renewable energy to sustainable transport. Every issuance is informed by the Green Sukuk Framework, which is formulated based on the ICMA Green Bond Principles and certified by CICERO as a Medium Green instrument. The framework also describes permissible use of proceeds; however, it is limited to environmentally beneficial projects. These comprise renewable energy investments, resilient infrastructure, sustainable transport, waste-to-energy and disaster risk reduction. They should also screen the projects to ensure that they do not cause social and environmental damage as required by the Shariah law.

The green sukuk are designed as wakalah-based sukuk whereby the proceeds are utilized to fund the government-owned assets or projects that satisfy the Islamic and environmental standards. Every issuance is assigned a Second Party Opinion (SPO) by an independent reviewer and these are supplemented by annual allocation and impact reports issued by the Directorate General of Budget Financing and Risk Management (DJPPR). The program is also accompanied with the supervision of the National Shariah Board (DSN-MUI) that has issued Fatwa No. 110/DSN-MUI/IX/2017 to declare that the green sukuk is compliant with Shariah. The fatwa makes sure that the instrument maintains Maqasid al-Shariah values such as the safeguarding of life, wealth, and environment. In the meantime, the Ministry of Finance has clearly aligned every sukuk series with corresponding SDGs, including SDG 7 (Affordable and Clean Energy), SDG 11 (Sustainable Cities), and SDG 13 (Climate Action).

Table 3. Sovereign Green Sukuk Issuances by Indonesia (2018–2023)

Year	Issuance Size	Tenor	Investor Demand	Key Projects Funded
2018	USD 1.25 billion	5 years	3.8x oversubscribed	Energy efficiency, flood mitigation, solar
2019	USD 750 million	5 years	3.2x oversubscribed	Waste-to-energy, green buildings
2020	USD 750 million	5 years	3.4x oversubscribed	Coastal protection, eco-tourism infrastructure
2021	USD 1.25 billion	5 years	3.7x oversubscribed	Renewable energy, MRT Jakarta
2022	USD 1.0 billion (domestic + global)	5-7 years	2.9x oversubscribed	Reforestation, smart cities
2023	USD 850 million	5 years	3.1x oversubscribed	Clean water, sustainable transport

Sources: Ministry of Finance Green Sukuk Reports (2018–2023); UNDP Indonesia (2022)

The green sukuk program has two functions: it raises climate finance and strengthens the Islamic finance system in Indonesia. Its blend of financial innovation, ethical governance and developmental impact has made it an appropriate case to assess how Shariah-compliant instruments can serve the parallel objectives of home-country development priorities and global sustainability goals.

Issuances were each followed by a Shariah review and backed by external Second Party Opinions (SPOs) by the world ESG ratings agencies (e.g., CICERO, Vigeo Eiris). The sukuk have been uniformly rated highly in both ESG and Shariah compliance and this has made them more attractive to not only faith-based but also sustainability-oriented investors. Besides the nature of issuance, it is also necessary to know how the proceeds of Indonesia sovereign green sukuk was distributed to various sectors. **Table 4** indicates cumulative distribution of funds by sector between 2018 and 2023 with the major section allocated to sustainable transport and other sections to renewable energy as well as disaster risk reduction. This distribution pattern portrays the twofold interests of the Indonesian urban mobility decarbonization and climate resilience.

Table 4. Sectoral Allocation of Green Sukuk Proceeds (Cumulative 2018–2023)

Sector	Cumulative Allocation (USD million)	Percentage of Total (%)	Example Projects
Sustainable Transport	1.150	23.00%	MRT Jakarta, bus rapid transit (BRT), low-emission rail
Renewable Energy	975	19.50%	Solar PV, mini-hydro, hybrid mini-grids
Disaster Risk Reduction & Resilience	785	15.70%	Flood barriers, drainage improvement, coastal dikes
Energy Efficiency	550	11.00%	LED retrofits, public building upgrades
Waste Management & Sanitation	480	9.60%	Waste-to-energy, landfill conversion
Reforestation & Biodiversity	390	7.80%	Mangrove planting, forest fire prevention
Water Resource Management	320	6.40%	Irrigation infrastructure, clean water access
Sustainable Agriculture & Land Use	200	4.00%	Terracing, agroforestry
Total	4.850	100%	

Source: Compiled from Green Sukuk Allocation and Impact Reports (2018–2023), Ministry of Finance Indonesia

The largest amount was devoted to sustainable transport, which indicates the approach of Indonesia to decrease carbon emissions of urban mobility, especially in Jakarta and other big cities. The disaster risk reduction and renewable energy also had substantial funding, underlining the two-pronged government agenda of decarbonization and climate adaptation. The reforestation and biodiversity initiatives, although smaller in nature (in terms of budget), are remarkable because they

serve the goals of SDG 15 (Life on Land) as well as Maqasid al-Shariah, especially the sustenance of life (nafs) and environment.

RESULTS AND DISCUSSION

Environmental impact: advancing climate action

Indonesia has already achieved measurable environmental results through the sovereign green sukuk program. In the Ministry of Finance Impact Reports (2018-2023) a total of 12.2 million tons of CO₂-equivalent emissions were avoided with sukuk-financed projects, over 15 MW of renewable energy capacity was added and over 10,000 hectares of degraded land was restored. The effects of the sovereign green sukuk in the 2018-2023 years can be measured in several aspects which are not restricted to financial mobilization. These are environmental performance, social benefits, governance practices and spiritual or ethical accountability. A summarized version of the major indicators in these four dimensions is given in **Table 5** and as such, it gives an integrated picture of the results of the sukuk program.

Table 5. Indicators of Indonesia's Sovereign Green Sukuk (2018–2023)

Dimension	Indicator	2018	2019	2020	2021	2022	2023	Total / Summary
Environmental	CO ₂ avoided (Mt)	2	2.1	2.3	2.4	2.2	1.2	12.2
	Renewable capacity installed (MW)	2.5	3	2.8	3.5	3.2	1.5	16.5
	Land reforested (ha)	1,500	1,800	2,000	2,200	2,500	0	10,000+
Social	Beneficiaries (millions)	0.6	0.7	0.9	1	0.8	0.2	4.2
	Clean water access (households)	10,000	12,500	15,000	18,000	20,000	5,000	80,500
	Disaster-resilient facilities	50	65	80	90	75	15	375
Governance	Annual allocation reports	—	—	—	—	—	—	Consistently published
	SPO obtained for each issuance	—	—	—	—	—	—	Yes
	Exclusion of harmful activities	—	—	—	—	—	—	Yes
	Disaster-risk criteria applied	—	—	—	—	—	—	Yes
Spiritual / Ethical	DSN-MUI fatwa approval	—	—	—	—	—	—	Yes
	Ethical intent in official documents	—	—	—	—	—	—	Yes
	Continuous Shariah supervision	—	—	—	—	—	—	Yes
	Post-issuance ethical audits	—	—	—	—	—	—	Limited

This integrated table substitutes the individual indicator tables in order to bring out the interrelationships between sustainability performance and Islamic ethical targets. These results correspond to the principle of *ḥifẓ al-naḥs* (protection of life) and *‘imārat al-arḍ* (preservation of the Earth) within Maqasid al-Shariah, and the environmental pillar and SDGs 7, 13 and 15 within ESG. Nonetheless, lifecycle emissions and fair regional allocation are some of the areas that need to be improved.

Social impact: infrastructure and welfare

Among the key social benefits of the green sukuk program in Indonesia are the reconstruction of infrastructure after the disasters, increased access to clean water, and better facilities of the populace. Overall, approximately 4.2 million individuals have gained through these programs, and large margins have been channeled towards community infrastructures, urban transport and disaster resiliency. The statistics indicate a gradual increase in the social outreach with a peak in 2021 when the work on the reconstruction after the disaster took place, but the involvement in the eastern provinces is comparatively low.

These results will help to achieve SDGs 6, 9, and 11 and Maqasid goals to safeguard life (*ḥifẓ al-naḥs*) and offspring (*ḥifẓ al-naḥs*). Nonetheless, the issue of provincial equity is an area of concern as Papua and Maluku are underrepresented in the project allocations.

Geographic distribution of projects

In addition to aggregate social benefits, the distribution of sukuk-funded projects across regions discloses the inequality in the distribution. Java has always enjoyed the heaviest allocation (38-43 percent a year) in part because of the infrastructure-heavy projects that it has undertaken like the MRT Jakarta and retrofitting public buildings (**Figure 2**). Sumatra and Kalimantan have moderate shares with reforestation and renewable energy project. Papua and Maluku are also underrepresented due to the logistical and infrastructure issues of project delivery. This tendency points out the need to introduce certain policy measures to eliminate regional differences.

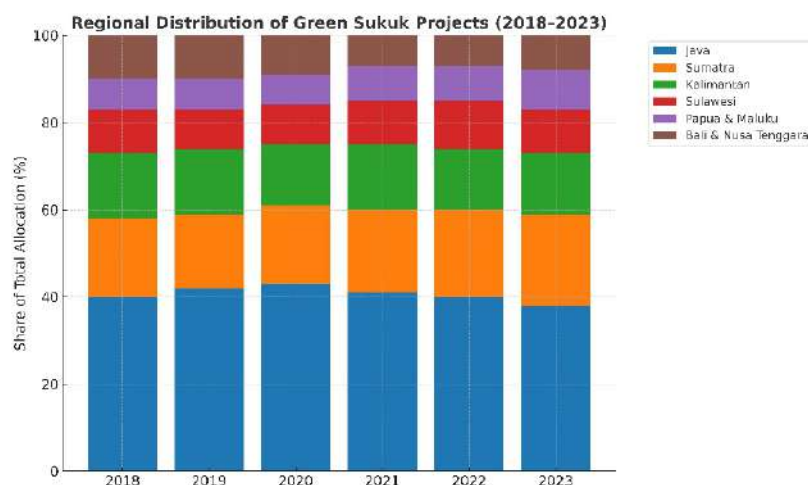


Figure 2. Regional Distribution of Green Sukuk Projects (2018–2023)

Spiritual and ethical dimensions

The sukuk program is officially Shariah compliant with all the issuances being reviewed and approved by DSN-MUI. Official documents mention also ethical intentions (niyyah) to protect life and the environment, which correspond to the Prophet dimension of the QBL. Table 5 shows the most important spiritual and ethical program indicators such as compliance with fatwas, ongoing Shariah oversight and clear articulation of moral purpose. Although these indicators demonstrate the high level of compliance with Islamic values, the table also indicates that the post-issuance ethical audits are still scarce. Such a gap indicates that participatory evaluations in future should be conducted to capture the spiritual and community level effects of sukuk financing. Spiritual effects that have not been tested empirically are to be handled with caution. Surveys or participatory evaluations may be used in future evaluations to gauge ethical and spiritual value creation.

CONCLUSION AND POLICY RECOMMENDATIONS

This study examined the extent to which Indonesia's sovereign green sukuk aligns with Maqasid al-Shariah, ESG principles, and the Quadruple Bottom Line, based on secondary data from Ministry of Finance reports (2018–2023). According to the sukuk, the benefits in the environmental sphere are impressive as they provide renewable energy, sustainable transport, and ecosystem restoration, and social dividends to clean water access, disaster-resilient facilities, and public infrastructure. These implications are in line with SDGs 7, 11, and 13, and they meet Maqasid goals, including hifz al-nafs (protection of life) and hifz al-nasl (protection of progeny).

The practice of governance is transparent, as there is annual reporting and independent verification, but equity disparities between regions are still present, with Java getting a disproportionately high share of allocations. In spiritual terms, the sukuk represents ethical guidance in financial policy, but a deeper integration of amanah (trustworthiness) and maslahah (public interest) into the project selection process would have the potential to build its status as a nascent source of guidance in Shariah-compliant climate financing. Three policy recommendations can be made to increase the impact: the introduction of regional equity standards, the expansion of participatory governance, and the integration of long-term social and spiritual indicators in impact measurement. Such actions could assist in establishing Indonesian green sukuk as an example that would become increasingly relevant to sustainable finance both at the Islamic and global levels.

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