



Jurnal Masharif al-Syariah: Jurnal Ekonomi dan Perbankan Syariah

ISSN: 2527 - 6344 (Printed), ISSN: 2580 - 5800 (Online)

Accredited No. 204/E/KPT/2022

DOI: <https://doi.org/10.30651/jms.v11i4.31893>

Volume 11, No. 1, 2026 (240 - 254)

Received 14 Apr 2025, Accepted 03 May 2026, Published Online: 08 May 2026

GREEN SUKUK MECHANISM: REVIEW OF REGULATIONS AND PRACTICES IN INDONESIA

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Abstract

Green sukuk is an Islamic financial instrument used to finance environmentally friendly projects in supporting sustainable development. Indonesia became a pioneer in issuing green sukuk in 2018, reflecting its commitment to integrating economic and environmental aspects. This study aims to analyze the mechanisms, regulations, and implementation of green sukuk in Indonesia. The method used is a literature study with a descriptive qualitative approach. The results show that green sukuk plays a strategic role in financing green infrastructure and supporting the achievement of sustainable development goals. However, its development still faces challenges such as limited human resources, low public literacy, and risks associated with environmental projects. Therefore, stronger regulations and increased education are needed to support the optimal development of green sukuk.

Keywords : *Green Sukuk, Sustainable Finance, Green Infrastructure*

1. Introduction

The development of Islamic finance in Indonesia has experienced rapid growth in recent years, particularly with the emergence of various financial products designed in accordance with Sharia principles. One instrument playing a crucial role in this development is sukuk, often referred to as Islamic bonds because they are backed by real assets and do not involve *riba*, *gharar*, or *maysir*. Sukuk not only serve as a standard investment instrument but also offer added value by prioritizing the principles of fairness, transparency, and Sharia compliance in every transaction.

In practice, sukuk utilizes various types of contracts such as *mudharabah*, *ijarah*, and *musyarakah*, which emphasize a fair profit-sharing and risk-sharing system among the parties involved. In Indonesia, the development of sukuk is supported by the government and relevant institutions such as the Financial Services Authority (OJK) and the National Sharia Council (DSN-MUI), thus increasing investor confidence in this instrument (Fitri et al., 2025). Since the issuance of Government Sharia Securities (SBSN) in 2008, sukuk have become a key instrument in financing national development, particularly in supporting infrastructure projects and the real sector. This demonstrates that sukuk play a role not only in the financial sector but also directly contribute to economic development.

However, sukuk development still faces challenges, such as low Islamic financial literacy and limited corporate sector participation, despite its significant potential (Febriyanti et al., 2026). With increasing global awareness of environmental issues, green sukuk has emerged as an innovation that integrates Islamic principles with the concept of environmental sustainability. The funds raised are used for environmentally friendly projects, making this instrument increasingly relevant in addressing climate change and degradation (Mar & Khayati, 2025).

Draft finance green and investment sustainable emphasize balance between aspect economic, social, and environmental. In matter this, green sukuk become instruments that are capable accommodate second draft (Rahmati, 2025). Indonesia has potential big in development of green sukuk, however Still face various constraint like low literacy finance, suboptimal regulations, and lack of standard project clear green so that potential cause greenwashing practices. (Mar & Khayati, 2025) On the other hand, the need funding For support development sustainable Keep going increase (Wulandari et al., 2025)

From the side implementation, adoption of green sukuk by institutions Islamic finance is still not optimal because limitations understanding and readiness system. In addition, the policy fiscal like incentive taxes also affect investor interest. Compared with countries like Malaysia, success green sukuk development influenced by more policies structured and supported clear incentives (Ihsan, 2025a)

ADDIN CSL_CITATION {"citationItems":[{"id":"ITEM-1","itemData":{"abstract":"This study analyzes the relationship between Islamic financial regulatory policies and the growth of Green Sukuk instruments in Islamic banking portfolios. Using a qualitative



descriptive approach through literature study, the research evaluates how existing regulatory frameworks affect the adoption and development of Green Sukuk as sustainable financing instruments within the Islamic banking system. The analysis results indicate that the implementation of policies supporting green investments, clarity of regulatory frameworks for sustainable financial instruments, and relevant fiscal incentives play significant roles in enhancing Green Sukuk portfolios in Islamic banking. This research contributes important insights for developing more effective policies to encourage sustainable financing through Islamic instrument", "author": [{"dropping-particle": "", "family": "Ihsan", "given": "Moh", "non-dropping-particle": "", "parse-names": false, "suffix": ""}], "container-title": "Journal of Islamic Finance and Syariah Banking", "id": "ITEM-1", "issue": "2", "issued": {"date-parts": [[2025]]}, "title": "Analisis dampak regulasi dan kebijakan terhadap pertumbuhan green sukuk dalam portofolio perbankan syariah", "type": "article-journal", "volume": "2"}, "uris": ["http://www.mendeley.com/documents/?uuid=6c2edf1f-a943-4f76-a2db-df7683565dd7"]], "mendeley": {"formattedCitation": "(Ihsan, 2025a)", "plainTextFormattedCitation": "(Ihsan, 2025a)", "previouslyFormattedCitation": "(Ihsan, 2025a)"}, "properties": {"noteIndex": 0}, "schema": "https://github.com/citation-style-language/schema/raw/master/csl-citation.json"}]

The existence of green sukuk related close with draft finance sustainable, which is currently This currently gaining momentum worldwide. Finance sustainable emphasize importance integrate aspect economic, social and environmental to in every decision investment. In context this, green sukuk can functioning as instruments that are capable bridge gap between need financing development and efforts preservation environment. This is because of the funds collected through green sukuk used For projects that provide impact positive for environment, such as energy renewable and management waste.

Indonesia's success in issuing green sukuk first in the world in 2018 shows that Indonesia holds position strategic in development global Islamic finance. Publishing This No only increase international investor confidence, but also opens up opportunity for development instrument finance sustainable others. However Thus, the development of green sukuk Still face quite a challenge complex, one of them is limited amount projects that meet criteria project green. This is resulting in funds from green sukuk Not yet utilized completely. In addition, the low literacy finance public related instrument Islamic finance, especially green sukuk, is also becoming obstacle in increase domestic investor participation (Maydina & Jannah, 2025)

From the aspect law, regulation related to green sukuk Still Not yet fully comprehensive, good in publication, supervision, and evaluation project (Yaniza et al., 2023) Globally, green sukuk is part from transformation system finance going to sustainability that is not only profit- oriented, but also impact -oriented term long to environment. (Maydina & Jannah, 2025)



In context Islamic finance, green sukuk are also in line with principles *maqashid al-syariah*, which emphasizes importance guard balance between interest economic, social, and environmental. With Thus, the development of green sukuk No only own mark economy, but also value social and spiritual harmony with Islamic principles. In addition, the comparison with other countries such as Kuwait shows that success sukuk development is greatly influenced by integration regulation national with standard international. This is become lesson important for Indonesia in increase quality system finance sharia (Fitri et al., 2025)

Therefore that, is necessary more effort Serious from various party including government, institutions finance, and society For increase understanding and utilization of green sukuk as instrument financing sustainable. (Ihsan, 2025a) . Strengthening green sukuk instrument very much important, no only For support development national but also for overcome related global challenges change climate and sustainability environment. (Maydina & Jannah, 2025)

Based on this description, the research problem is formulated as follows: The role of green sukuk in supporting sustainable financing and its compliance with the principles of *maqasid al-sharia*. The purpose of this research is to analyze the role of green sukuk as a sharia financial instrument in sustainable development and to assess the alignment of its implementation with Islamic principles. This research is expected to contribute both theoretically to the development of sharia finance and practically to the government and industry players in optimizing the use of green sukuk.

2. Literature review

2.1. The Concept of Sukuk in the Islamic Financial System

Sukuk are Islamic financial instruments that represent ownership of the underlying asset. Unlike conventional bonds, which are based on a debt-receivable relationship with interest, sukuk are structured according to Islamic contracts that emphasize profit-sharing, rental, or business partnership principles.

In In practice in Indonesia, sukuk are widely used published in in the form of State Sharia Securities (SBSN) with use contract such as *ijarah* and *wakalah*. Investors who buy sukuk basically own proportion ownership on benefit state assets or financed projects, so that reward results received originate from performance or benefit asset said, not from flowers. (Kasnelly, 2021)

Sukuk not only provides a sharia-compliant financing alternative but also serves as a strategic tool for the government to expand its investor base, including global investors who prefer halal instruments. (Ananda et al., 2024)

2.2. Concept and Characteristics of Green Sukuk

Green Sukuk is an innovative financial instrument to support Indonesia's commitment to reducing greenhouse gas emissions based on Islamic law. The issuance of this instrument is guided by the Green Bond and Green Sukuk framework, and reviewed by the international independent reviewer CICERO (Center for International Climate Research). To date, Indonesia is the first country in Southeast

Asia to issue green bonds, and this transaction marks the world's first sovereign green sukuk issuance, totaling US\$1.25 billion in March 2018. (Rahmat et al., 2025) This instrument integrates Islamic financial principles with the concept of sustainable finance that emphasizes environmental, social, and governance (ESG) aspects. (Ihsan, 2025b)

Green sukuk characteristically have two layers of compliance: compliance with sharia principles and compliance with international environmental standards, such as the Green Bond Principles. Therefore, green sukuk proceeds must be allocated specifically to projects categorized as green. (Kasnelly, 2021)

Globally, green sukuk are becoming an increasingly relevant instrument as awareness of climate change grows. Indonesia is a pioneer in developing this instrument, particularly through the issuance of sovereign green sukuk, which has attracted international investor interest. (Yaniza et al., 2023)

2.3. Regulatory Framework for Green Sukuk in Indonesia

Regulations related to green sukuk in Indonesia do not stand alone, but rather Sukuk is part of the broader framework of Islamic finance and sustainable financing. The primary legal basis stems from Law No. 19 of 2008 concerning State Sharia Securities (SBSN), which provides the legal basis for the government to issue sukuk. (Kurnia & Suwita, 2024)

In addition, the Financial Services Authority (OJK) regulates the issuance of Sharia-compliant securities through various regulations, including provisions related to green bonds and sustainable finance. The Ministry of Finance has also developed the Green Bond and Green Sukuk Framework, which serves as guidelines for determining green project criteria, selection mechanisms, fund management, and reporting.

In practice, this regulation demands a high level of transparency and accountability. The government is required to submit regular reports on the use of funds (allocation reports) and environmental impact (impact reports). This is the main difference between green sukuk and conventional sukuk.

2.4. Green Sukuk Issuance and Management Mechanism

The green sukuk issuance mechanism in Indonesia generally follows the structure of sovereign sukuk, but with the addition of an environmental verification process. This process begins with the identification and selection of projects that meet green criteria, such as renewable energy projects, low-emission transportation, and sustainable natural resource management.

Next, the government develops a green framework detailing project categories, fund management, and reporting methods. Sukuk are then issued on both domestic and international markets using appropriate contracts, such as wakalah.

In its implementation on the ground, the funds obtained are not immediately used freely, but are allocated specifically to a list of verified projects. Regular monitoring is conducted to ensure that the funds remain in line with their original purpose.



However, in practice, several challenges remain, such as a limited pipeline of green projects ready for funding, complex inter-agency coordination, and the need for increased capacity in environmental impact measurement. (Sustainable Finance Development Team in the Capital Markets Sector, 2016)

2.5. Implementation of Green Sukuk in Indonesia

Since its initial issuance in 2018, Indonesia has consistently utilized green sukuk as a financing instrument for sustainable development. The funds raised have been used for various strategic sectors, such as renewable energy development, forest rehabilitation, waste management, and the development of low-emission mass transportation.

In practice, green sukuk have proven to provide dual benefits. Economically, this instrument helps the government diversify its financing sources. Environmentally, the funded projects contribute to reducing carbon emissions and improving environmental quality. (Kurnia & Suwita, 2024)

However, several empirical studies show that the effectiveness of green sukuk still faces several challenges. These include limited quantitatively measurable environmental impact data, unequal stakeholder understanding of the concept of green finance, and challenges in maintaining consistent reporting in accordance with international standards. (Kurnia & Suwita, 2024)

Thus, although Indonesia is already quite advanced in developing green sukuk, regulatory strengthening, project quality improvement, and reporting system optimization are needed so that this instrument can function optimally in supporting sustainable development.

3. Research methods

Study This use approach qualitative with type study descriptive- analytical approach This chosen Because capable give deep understanding about green sukuk mechanism, in particular from aspect regulations as well as practice implementation in Indonesia. **Approach** This in line with study previously used method qualitative descriptive in reviewing green sukuk as instrument financing sustainable (Rosewanti & Yazid, 2026)

Type of data used in study This is secondary data. The data obtained from various relevant sources, such as regulation legislation regarding sukuk and green sukuk in Indonesia, the report official from the Ministry of Finance and the Financial Services Authority (OJK), as well as various publication scientific in the form of journals, books and articles that discuss Islamic finance and green finance. In addition, research this also uses document international as material comparison For enrich analysis. Data collection techniques are carried out through studies library research, namely with method study and examine various related literature with topic study in a way systematic. (Rosewanti & Yazid, 2026)

Research model used is descriptive-qualitative with approach normative and empirical. **Approach normative used** For study framework regulations governing green



sukuk in Indonesia, whereas approach empirical used For see practice implementation of green sukuk in financing sustainability - oriented projects environment. Through second approach this research make an effort identify suitability between existing regulations with its implementation in the field, as well as reveal various possible challenges appear in practice.

Data analysis methods are carried out in a way qualitative through stages data reduction, data presentation, and data extraction conclusion. Analysis This aim For get comprehensive understanding about mechanism as well as challenge green sukuk implementation. Approach analysis this is also used in other studies that examine the role of green sukuk in face change climate through studies bibliography (Rosewanti & Yazid, 2026)

4. Results and Discussion

4.1 The Role of Green Finance in Green Sukuk Mechanism

Green finance is approach in system financing that focuses on funding activity friendly economy environment as well as support development sustainable. In In practice, green finance does not only functioning as instrument finance, but also as framework policies that direct allocation of funds to sectors that have impact positive to environment and society. With Thus, green finance becomes base in development various instrument finance sustainable, including green sukuk. (Ridwansyah et al., 2025)

In context green sukuk mechanism, green finance plays a role as foundation main in determine direction and purpose financing. Green Sukuk is implementation concrete from green finance principles in system Islamic finance, where the funds collected must allocated in a way special For projects that meet criteria friendly environment. This process covers stages selection project, determination criteria green, and adjustment with standard sustainability in effect in a way national and international (Dhamayanti & Sarpini, 2025)

In mechanism operationally, green finance plays a role in ensure transparency and accountability use of green sukuk funds. Every fund collected through green sukuk issuance must used in accordance with objective beginning, namely finance projects like energy renewable, management waste, transportation sustainable, as well as development infrastructure friendly environment. In addition, sukuk issuers are also required to For do reporting in a way periodically related use of funds and impact the resulting environment, so increase investor confidence in instrument the. (Dhamayanti & Sarpini, 2025) (Mauliyah et al., 2023)

In Indonesia, the implementation of green finance in green sukuk mechanism start seen since issuance of green sukuk in 2018. Issuance This become milestone important in integration between policy fiscal and commitment to development sustainable. In in practice, the government through the Ministry of Finance has develop framework work (green framework) that regulates the selection process projects, fund management, and reporting impact environment. This is show that green finance plays



a role as guide in every stages green sukuk mechanism. (Mauliyah et al., 2023) (Novrizal et al., 2024)

However Thus, the implementation of green finance in green sukuk mechanism in Indonesia is still face various challenges. At this stage Initially, the implementation of green finance was still nature voluntary so that Not yet integrated in a way comprehensive in system finance national. In addition, the low level literacy finance public as well as limitations understanding to instrument finance green become constraint in optimization green sukuk mechanism. On the other hand, limitations projects that meet criteria green can also hinder distribution of funds effective. (Ridwansyah et al., 2025) (Novrizal et al., 2024)

During period 2019 to 2022, implementation of green finance in sector Islamic banking in Indonesia is still voluntary or voluntary, so that Not yet give optimal impact on finance sustainable. The absence of binding regulations cause the implementation of green finance has not yet integrated in a way comprehensive in policies and practices operational institution finance. However, entering In 2023, the Financial Services Authority (OJK) began strengthen framework regulations through Financial Roadmap Improvement Sustainable Phase II 2021–2025. This step aim For create balance between side supply and demand in national green finance ecosystem. (Ridwansyah et al., 2025)

In addition, from perspective Islamic finance, the application of green finance in green sukuk also reflects values maqashid al-shariah, in particular in guard sustainability environment (hifdz al- bi'ah). This is show that green sukuk mechanism No only aspect - oriented economy, but also integrates mark ethics, social, and spiritual in every the stages. With However, green finance is not only functioning as framework technical, but also as runway normative in management sustainable Islamic finance (Dhamayanti & Sarpini, 2025)

In a way Overall, green finance has a very important role in forming and strengthening green sukuk mechanism in Indonesia. The role covers determination direction financing, supervision use of funds, increase transparency, as well as strengthening supporting regulations sustainability. Success implementation green sukuk mechanism is highly dependent on synergy between policy government, readiness institution finance, as well as participation public in support financing based environment. Therefore that, green finance can viewed as element key in ensure that green sukuk walk in a way effective, accountable, and appropriate with principle development sustainable. (Ridwansyah et al., 2025)

4.2 Review Green sukuk regulations in Indonesia

Regulation is fundamental aspects in development of green sukuk in Indonesia, because functioning give certainty law, transparency, and protection for investors. In In practice, reporting and transparency of green sukuk are regulated by the Ministry of Finance. for sovereign sukuk and by the Financial Services Authority (OJK) for corporate sukuk. Reporting the become part important in the Green Sukuk Framework



which refers to the standards international, as well as involving institution independent in the verification process so that the results can accountable to public and investors. (Gunawan, 2023)

In its implementation, there are a number of principle main used in green sukuk reporting. First, the aspect coverage, namely reporting based on estimates impact environment since beginning project (ex-ante). Second, the aspect uncertainty, because calculation impact environment use rational assumptions according to the available data. Third, the aspect comparability, where each project own different methods and baselines so that need caution in comparison. Apart from that, there are principle eligibility project partial, negligence in measurement impact, as well as use data source originating from from internal government data and sources public. (Gunawan, 2023)

Apart from the aspect reporting, green sukuk regulations also regulate criteria projects that can funded projects the must fulfil category friendly environment, such as efficiency energy, energy renewable, transportation sustainable management waste, as well as protection diversity life. In matter This green sukuk has characteristics special compared to ordinary sukuk because of the funds collected must allocated For projects that provide impact environment positive in a way real. (Imanudin et al., 2025)

At least 75% of the funds obtained through mandatory green bond issuance allocated For finance projects green that has set previously. Management of proceeds issuance of green sukuk becomes not quite enough answer full party publisher. In addition, the publisher obliged convey report related use of the funds, including make account separated or recording specifically that includes the amount of green sukuk funds and details its utilization, which then must listed in report finance.

Required clear definition about benefit environment from every project, accompanied by involvement party the third independent For do verification. Parties independent This responsible answer monitor green bond performance and projects that are being run, then regularly every year convey report its performance to Authority. If found projects that are not fulfil provision as project green, publisher must compile plan action repair in time One year. If in period the project Still fail fulfil the established criteria, investors have the right request responsibility answer from publisher, okay through purchase return of the green bond by the issuer and with request improvement mark coupons. (Imanudin et al., 2025)

Projects funded through green sukuk from the World Bank has objective main For push growth economy at the level local at a time pressing number poverty. However, access against the green sukuk funds from the World Bank is not easy, because must go through a strict selection process and meet condition eligibility in accordance green bond standards that have been determined. (Imanudin et al., 2025)

In a way Overall, green sukuk regulations in Indonesia show existence effort Serious in build system transparent, accountable, and sustainability - oriented finance.

Regulation This No only arrange aspect technical publishing, but also ensuring that every funded projects truly give impact positive to environment and society.

4.3 Practice Implementation of Green Sukuk in Indonesia

The implementation of green sukuk in Indonesia is form real integration between Islamic finance and concepts development sustainable. Instrument This used For finance various project friendly purposeful environment support mitigation change climate as well as guard balance between aspect economic, social, and environmental. With Thus, green sukuk does not only functioning as instrument financing, but also as part from development strategy national sustainable. (Wati et al., 2025)

Indonesia is a pioneering country in issuance of global green sukuk with launched the world's first sovereign green sukuk in 2018. This move show commitment government in develop instrument finances that are not only in accordance with sharia principles, but also capable answer related global challenges change climate and damage environment. The existence of green sukuk strengthens Indonesia's position in the international Islamic financial market at a time become proof real state contribution in support the development agenda sustainable.

In In practice, green sukuk are issued by the government as source financing for various project friendly environment. Projects the covers development infrastructure green, development energy renewable like Solar Power Plant (PLTS), increase efficiency energy, management waste sustainable, conservation forests, as well as development transportation friendly environment such as MRT and LRT. Through financing this, green sukuk no only give benefit economy, but also provides impact positive to environment and society in a way area. (Wati et al., 2025)

The development of green sukuk in Indonesia shows positive trend from year to year. This is seen from increasing mark publishing as well as the more its area type financed projects. In addition, investor interest in instrument this also continues increased, good from domestically and internationally abroad. The height interest the No let go from increasing investor awareness of importance investments that are not only profitable in a way financial, but also has impact social and environmental sustainability.

Apart from that, green sukuk also works as instrument policy public in support achievement of the Sustainable Development Goals (SDGs). Through financing projects green, government can push further development inclusive and sustainable. This is show that green sukuk has role strategic in bridge need financing development with effort preservation environment (Wati et al., 2025)

However Thus, the implementation of green sukuk is still face various challenges, such as low literacy finance society, limitations incentive fiscal, as well as market liquidity is not optimal. In addition, the risk a relatively small project height and limitations amount project green also becomes obstacle in development instrument this. (Arifudin et al., 2024)



For overcome challenge said, the government has do various efforts, such as strengthening regulation, improvement socialization, development capacity source Power humans, as well as Work The same with various party good inside and abroad. This effort aim For create a green sukuk ecosystem that is more strong and sustainable. In overall, practice The implementation of green sukuk in Indonesia shows significant development and has very good prospects in the future. With support strong regulation and synergy between stakeholders interests, green sukuk have potential become instrument main in support development sustainable and equitable national development. (Arifudin et al., 2024)

In 2018, the Indonesian government succeeded issuing global green sukuk with mark reach 3 billion US dollar, which consists of from green sukuk amounting to 1.25 billion US dollar and regular global sukuk amounting to 1.75 billion US dollar. Issuance This get response positive from the international market, which shows height investor confidence in Indonesia's credibility in manage instrument finance based on sharia and sustainability. Apart from being instrument financing, green sukuk also works as tool diplomacy climate that shows Indonesia's commitment to global agreements such as the Paris Agreement. (Wati et al., 2025)

More Furthermore, the implementation of green sukuk also opens up opportunity for public For participate in financing development sustainable. Through instrument this, society can invest at a time contribute in guard sustainability environment. This is show that green sukuk does not only connect interest government and investors, but also involves public in effort sustainable development.

On the other hand, success implementation of green sukuk not let go from synergy with draft finance sustainable and Islamic finance. Islamic finance is system finance based on Islamic principles such as justice, transparency, responsibility answer social, as well as prohibition to *riba*, *gharar*, and *maysir*. The principles this is very much in line with draft finance sustainable which emphasizes importance balance between growth economy, conservation environment and welfare social. (Wati et al., 2025)

Synergy between Islamic finance and finance sustainable can seen in a way real in green sukuk instrument. Instrument This No only fulfil sharia principles through use contract such as *ijarah* and *wakalah*, but also accommodate global need for financing projects friendly environment. With Thus, green sukuk becomes bridge between Islamic values and goals development sustainable.

government has also utilizing green sukuk as part from strategy to achieving the Sustainable Development Goals (SDGs). This show that green sukuk does not only functioning as instrument finance, but also as tool policy public in push inclusive and sustainable development. In addition, increasing Investor participation in green sukuk shows existence improvement awareness to importance responsible investment answer in a way social and environmental. (Wati et al., 2025)



Although Thus, the implementation of green sukuk in Indonesia is still face a number of challenges, such as limitations literacy finance society, lack of incentive fiscal, as well as market liquidity is not optimal. Therefore that, is necessary ongoing efforts from government and regulators to strengthen ecosystem finance sustainable, through strengthening regulation, improvement education, as well as transparency in fund management.

In a way Overall, the implementation of green sukuk in Indonesia shows significant development and has excellent prospects in the future. Synergy between principle Islamic finance and concepts finance sustainable making green sukuk as instruments that are not only give benefit economy, but also contributes in guard sustainability environment and improve welfare society. With Thus, green sukuk can become solution innovative in support development sustainable and equitable national development. (Wati et al., 2025)

Infrastructure green refers to development and management infrastructure that prioritizes principle friendly environment and sustainability. Concept This emphasizes the use of energy renewable, efficiency source power, as well as effort conservation environment For minimize impact negative to ecosystem. Through green sukuk, the government can funding various project infrastructure green that is not only give benefit economy, but also maintain balance environment and support development sustainable. (Wati et al., 2025)

5. Conclusion and Suggestions

Based on the discussion, it can be concluded that green sukuk is a Sharia-compliant financial instrument that plays a strategic role in supporting sustainable development financing in Indonesia. Green sukuk not only serves as a source of state financing but also serves as a means of integrating Sharia financial principles with sustainable finance concepts that emphasize a balance between economic, social, and environmental aspects.

In terms of mechanism, green sukuk has unique characteristics compared to conventional sukuk, namely the obligation to use funds for environmentally friendly projects that meet certain criteria. This mechanism encompasses the stages of project determination, contract structuring, fund disbursement, and monitoring and reporting, all of which are conducted in a transparent and accountable manner. This demonstrates that green sukuk has a structured and sustainability-oriented system.

In terms of regulation, the Indonesian government has provided a robust legal framework through various regulations and guidelines, including the Green Sukuk Framework. This regulation governs the issuance, fund management, reporting, and verification of green projects, thereby boosting investor confidence and ensuring that the funds raised are used for their intended purpose.

Meanwhile, in practice, the implementation of green sukuk in Indonesia has shown positive progress. Indonesia has even become a pioneer in issuing sovereign green sukuk globally. The funds raised have been used for various strategic projects

such as renewable energy, environmentally friendly transportation, and waste management. However, several challenges remain, such as low financial literacy, limited green projects, and suboptimal fiscal incentives and investor participation.

Thus, green sukuk has great potential to be further developed as a key instrument in supporting sustainable national development, while simultaneously strengthening Indonesia's position in the global Islamic financial market.

5.1 Suggestion

Based on the research findings, it is recommended that the government continue to strengthen regulations and policies that support the development of green sukuk in Indonesia, including by improving green project standards and providing more attractive fiscal incentives for investors. Furthermore, Islamic financial institutions are expected to increase their capacity and understanding of green sukuk instruments and be more active in developing sustainability-based financial products. Furthermore, the public and investors need to improve Islamic financial literacy, particularly regarding green sukuk, to increase participation in sustainable investment. Future researchers are advised to conduct more in-depth studies, particularly using a quantitative approach, to more concretely measure the impact of green sukuk on the economy and the environment. With this synergy between various parties, it is hoped that the development of green sukuk in Indonesia can proceed more optimally and make a significant contribution to sustainable development.

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